

This document (the “**Prospectus**”) comprises a prospectus relating to Bank of Cyprus Holdings Public Limited Company (“**BOCH**”) and has been prepared in accordance with the provisions of the Commission Regulation (EC) No 809/2004 (as amended) of the European Union, Council Directive 2003/71/EC of 4 November 2003 (as amended) of the European Union (the “**Prospectus Directive**”), the Public Offer and Prospectus Law of 2005 (as amended) of the Republic of Cyprus (“**Cyprus**”) (the “**Prospectus Law**”) and approved by the Cyprus Securities and Exchange Commission (“**CySEC**”) (which has been transferred the function of approving the prospectus by the Central Bank of Ireland, as competent authority under the Prospectus Directive). BOCH intends to request that CySEC notify the European Securities and Markets Authority and provide a certificate of approval and a copy of this Prospectus to the relevant competent authorities in Greece (in connection with the Scheme) and the United Kingdom (in connection with the admission to trading of the BOCH Shares on the London Stock Exchange’s (the “**LSE**”) main market for listed securities (the “**LSE Main Market**”)) for the purposes of the Prospectus Directive.

The BOCH Directors, whose names appear on page 55 of this Prospectus, and BOCH accept responsibility for the information contained in this document. To the best of the knowledge of BOCH and the BOCH Directors (who have taken due care so as to form a responsible opinion), the information contained in this document is true and complete and contains no omission likely to affect the content of this document and/or mislead investors.

Application will be made to: (i) the FCA in its capacity as the UK Listing Authority (the “**UKLA**”) for all of the ordinary share capital of BOCH to be admitted to the standard listing segment of the Official List of the FCA (the “**Official List**”); (ii) the LSE for such shares to be admitted to trading on the LSE Main Market (the (i) and (ii) together, the “**London Listing**”); and (iii) the Cyprus Stock Exchange (the “**CSE**”) for such shares to be admitted to listing on the CSE and to trading on the Main Market of the CSE (the “**CSE Main Market**”) (the successful completion of such applications, “**Admission**”). In the event the relevant applications to the UKLA, the LSE and the CSE are successfully completed and the Scheme becomes Effective, the earliest date by which Admission is expected to become effective is 13 January 2017 and it is also expected that dealings in the BOCH Shares will commence on the CSE and LSE at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively, or as soon as practicable thereafter on that date.

Bank of Cyprus Holdings



BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY (“**BOCH**”)

(incorporated and registered in Ireland under the Companies Act 2014 of Ireland with registered number 585903)

Prospectus relating to
proposed issue of BOCH shares of 10 Euro cents each in connection with the insertion of a new parent company for Bank of Cyprus Public Company Limited by means of scheme of arrangement under sections 198 to 200 of the Cyprus Companies Law

and

admission to the standard listing segment of the Official List, to trading on the London Stock Exchange, to listing on the CSE and to trading on the CSE Main Market, of up to 700,000,000 BOCH Shares of 10 Euro cents each (the exact number of BOCH Shares to be confirmed following Admission and calculated in accordance with the Consolidation Basis, see “*The Scheme of Arrangement—Consolidation Basis*” herein)

HSBC

(Adviser to the London Listing)

The Cyprus Investment and Securities Corporation Limited (“**CISCO**”)

(“*Lead Manager—Investment Firm Responsible for drawing up the Prospectus in accordance with Article 23 of the Prospectus Law*”)

This document does not constitute an invitation or offer to sell or exchange, or the solicitation of an invitation or offer to buy or exchange, any security or to become a member of BOCH in any jurisdiction in which such an action is unlawful. The distribution of this document in certain jurisdictions may be restricted by law and, accordingly, persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdiction. No action has been, or will be, taken by BOCH to permit a public offering of the ordinary shares in BOCH (the “**BOCH Shares**”), which term shall also, where the context requires, include Depositary Interests that represent BOCH Shares), or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials relating to the BOCH Shares) in any jurisdiction where any action that has not been taken by BOCH, may be required for that purpose.

A shareholder’s circular (the “**Circular**”) has also been issued to shareholders (“**BOC Shareholders**”) of Bank of Cyprus Public Company Limited (“**BOC**” or the “**Bank**”) on 21 November 2016 in connection with the convening of an extraordinary general meeting of the Bank to be held for the purposes of considering and, if thought fit, approving the Scheme Resolutions in connection with the Scheme (each as defined herein and described in full in the Circular) (the “**EGM**”). The EGM is to be held at 10:00 a.m. (Cyprus time) on 13 December 2016 at 51 Stassinou Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus. Notice of the EGM was given to BOC Shareholders by way of publication of a notice of meeting on the website of BOC at www.bankofcyprus.com on 21 November 2016 (the “**Notice of Meeting**”).

BOC Shareholders who do not plan to personally attend the EGM, are requested to return a completed form of proxy (in the form attached to the Circular) (a “**Form of Proxy**”) to the Shares & Loan Stock Department of BOC at the address indicated therein before 10:00 a.m. (Cyprus time) on 11 December 2016. If the EGM is adjourned, the Form of Proxy must be returned not later than 48 hours before the time fixed for the holding of the adjourned EGM. The Form of Proxy is also separately available on BOC’s website at www.bankofcyprus.com (please select the Investor Relations Link). BOC Shareholders who have any difficulties accessing the Form of Proxy should contact the Shareholder Helpline set out in the Circular.

The Scheme is subject to certain conditions, which are fully set out in the Circular, and include: (i) the passing of all of the Scheme Resolutions; (ii) Admission becoming effective; (iii) the sanctioning of the Scheme by the District Court of Nicosia (the “**Cyprus Court**”); (iv) the order of the Cyprus Court relating to the Scheme being delivered to the Registrar of Companies in Cyprus and registered by him; (v) all regulatory approvals having been obtained, including from the European Central Bank (the “**ECB**”) and the Central Bank of Cyprus (the “**CBC**”) in respect of any change in control requirements with respect to the insertion of BOCH as the ultimate parent of BOC; and (vi) no third party having taken any action which would or might reasonably be expected to: (a) effect the implementation of the Scheme; (b) effect the relationship between BOC and BOCH and any other material relationships between companies in the BOC Group; (c) require, prevent or delay the divestiture by any member of the BOC Group any material asset; or (d) have a material adverse effect on the BOC Group.

HSBC Bank plc (“**HSBC**”), which is authorised by the Prudential Regulation Authority of the Bank of England (the “**PRA**”) and regulated in the United Kingdom by the PRA and the FCA, is acting exclusively for the Bank and BOCH and no one else in connection with the London Listing and will not be responsible to anyone other than the Bank and BOCH for providing the protections afforded to its clients, for the contents of this document, or for providing any advice in relation to this document or the London Listing. Apart from the responsibilities and liabilities, if any, which may be imposed on HSBC by the FSMA or by the regulatory regime established thereunder, neither HSBC nor any of its affiliates accept any responsibility whatsoever for the contents of this document including its accuracy, completeness or for any other statement made or purported to be made by or on behalf of HSBC or any of its affiliates in connection with BOCH, the Bank or the BOCH Shares. HSBC and each of its affiliates accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement(s) and no representation or warranty, express or implied, is made by HSBC or any of its affiliates as to the accuracy, completeness or sufficiency of the information set out in this document. The contents of this document should not be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal, financial or tax adviser for legal, financial or tax advice.

HSBC and its affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to the Bank and BOCH, for which they would have received customary fees. HSBC and its affiliates may provide such services to the Bank and BOCH and any of their affiliates in the future.

The Cyprus Investment and Securities Corporation Limited is acting as the Lead Manager—Investment Firm Responsible for drawing up the Prospectus in accordance with Article 23 of the Prospectus Law. The Cyprus Investment and Securities Corporation Limited declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

Other than in the sections entitled “*Accountant’s Report and Historical Financial Information*” and “*Q3 Review Report and Interim Condensed Consolidated Financial Statements of the BOC Group as at and for the Nine-Month Period Ended 30 September 2016*” (in respect of which capitalised terms used therein have the meanings given to them therein), capitalised terms used in this Prospectus are defined in “*Definitions*” (unless otherwise defined herein).

In particular, in this prospectus “**BOC Group**” means before the Effective Date, BOC and its subsidiaries and subsidiary undertakings, and, where the context requires, its associated undertakings and, after the Effective Date, BOCH and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings;

Dated 30 November 2016

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

In relation to each member state (each, a “**Member State**”) of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive was implemented in that Relevant Member State (the “**relevant implementation date**”), no BOCH Shares have been offered or will be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the BOCH Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State in which the offer to the public is to take place, all in accordance with the Prospectus Directive, except that with effect from and including the relevant implementation date, offers of BOCH Shares may be made to the public in that Relevant Member State at any time:

- (i) to any legal entity which is a “**qualified investor**”, within the meaning of Article 2(1)(e) of the Prospectus Directive, including any relevant implementing directive measure in that relevant member state;
- (ii) to fewer than, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of BOCH Shares shall result in a requirement for the publication by BOCH, the Bank or the Adviser to the London Listing of a prospectus pursuant to Article 3 of the Prospectus Directive or supplemental prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expression an “offer to the public” in relation to any BOCH Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of offer and any BOCH Shares to be offered so as to enable an investor to decide to acquire the BOCH Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

NOTICE TO INVESTORS IN THE RUSSIAN FEDERATION

Information contained in this document is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer securities in the Russian Federation or to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. The BOCH Shares have not been and will not be registered in Russia and are not intended for “offering”, “placement” or “circulation” in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law. Information contained in this document is not intended for any persons in the Russian Federation who are not “qualified investors” within the meaning of Article 51.2 of the Russian Federal Law no. 39-FZ “On the Securities Market” dated 22 April 1996, as amended (the “**Russian QIs**”) and must not be distributed or circulated or re-distributed into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. This document has been prepared in respect of the Scheme which is being effected outside the Russian Federation in accordance with Cypriot Companies Law and, if approved by the requisite shareholders’ majority and the competent Cypriot court, shall be binding by operation of law on all BOC Shareholders irrespective of whether or not they attended or voted at the EGM (and, if they attended and voted, whether or not they voted in favour). The BOCH Shares, if any, will be delivered to shareholders’ securities accounts opened and maintained outside the Russian Federation. In order to participate in the Scheme, a BOC Shareholder should be incorporated, located, resident or otherwise act outside the Russian Federation in participating in the Scheme (including the submission of all relevant communications and acceptance of delivery of the BOCH Shares).

NOTICE TO INVESTORS IN THE UNITED STATES

The BOCH Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”) or under the securities laws of any state, district or other jurisdiction of the United States, and may not be offered, sold, delivered or transferred except pursuant to an available exemption from or in a transaction not subject to the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. It is expected that the BOCH Shares will be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) of the U.S. Securities Act. Neither the U.S. Securities and Exchange Commission (the “**SEC**”) nor any U.S. state securities commission has reviewed or approved this Prospectus or any accompanying documents. Any representation to the contrary is a criminal offence in the United States.

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SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These elements are numbered in Sections A–E (A.1–E.7).

This summary contains all the Elements required to be included in a summary for the type of securities and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of “not applicable.”

Section A—Introduction and warnings		
Element		
A.1	Warning	This summary should be read as an introduction to this document. Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the EU Member States, have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in such securities.
A.2	Consent by the issuer	Not applicable. No consent has been given by BOCH or any person responsible for drawing up this document to use this document for subsequent sale or final placement of securities by financial intermediaries.

Section B—Issuer		
Element		
B.1	Legal and Commercial name of the issuer	Bank of Cyprus Holdings Public Limited Company.
B.2	Domicile and legal form of the issuer, the legislation under which the issuer operates and its country of incorporation	BOCH is a public limited company, incorporated in Ireland with its registered office situated at Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland. The principal legislation under which BOCH operates, and under which the BOCH Shares will be issued, is the Companies Act.
B.3	Nature of the issuer’s current operations and its principal activities	BOCH has been incorporated to be the holding company of the Bank. The BOC Group provides a wide range of financial products and services which include consumer and SME banking, corporate banking, international banking services and wealth, brokerage and asset management services, life assurance and general insurance. The BOC Group operates primarily in Cyprus with limited operations abroad. As at 30 June 2016 it had a total of 131 branches (of which 125 are located in Cyprus, one in Romania, four in the United Kingdom and one in the Channel Islands) and provides 24-hour online, mobile and telephone banking. The BOC Group has representative offices in Russia, Ukraine and China. As at 30 June 2016, the BOC Group employed 4,279 staff worldwide.

Section B—Issuer

Element		
B.4a	<p>The most significant recent trends affecting the issuer and the industries in which it operates</p>	<p>Capital Resources and Liquidity</p> <p><i>Capital</i></p> <p>In the third quarter of 2016, the BOC Group’s capital position remained strong and the BOC Group continued the trend of reducing its level of delinquent loans and normalising its funding structure, while positioning itself to grow and support the recovering Cypriot economy.</p> <p>The BOC Group’s CET 1 ratio (transitional basis) improved to 14.6% at 30 September 2016, compared to 14.4% at 30 June 2016 and to 14.0% at 31 December 2015, mainly as a result of lower risk-weighted assets. Additionally, the BOC Group’s capital position at 30 September 2016 exceeded its Pillar I and its Pillar II add-on capital requirements.</p> <p>Following the SREP performed by the ECB in 2016, based on the pre-notification received in September 2016, the BOC Group’s minimum phased-in CET1 ratio was set at 10.75%, which includes a 4.5% Pillar I requirement, a 3.75% Pillar II requirement and a fully phased-in capital conservation buffer of 2.5% (in accordance with the prevailing CRD IV legislation in Cyprus). The ECB also provided non-public guidance for an additional Pillar II CET1 buffer.</p> <p>The overall total capital requirement was set at 14.25%, which includes a 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% can be in the form of Tier 2 capital), a 3.75% Pillar II requirement (in the form of CET1), as well as the fully phased-in capital conservation buffer of 2.5%, which has been set for all credit institutions through the requirements of CRD IV/CRR.</p> <p>The SREP 2016 requirements will be effective as from 1 January 2017, but at the date of the publication of this Prospectus, these requirements remain subject to final confirmation from the ECB, which currently is expected by the end of 2016.</p> <p><i>Liquidity</i></p> <p>The BOC Group’s main sources of funding and liquidity continues to be its customer deposits and central bank funding, either through the ECB Eurosystem monetary policy operations or through ELA. The BOC Group continues to have limited access to interbank and wholesale funding markets. During 2015 and the nine months ended 30 September 2016, the Bank substantially reduced its reliance on ELA funding while the loan portfolio continued to be deleveraged and the trend in declining deposits was reversed. The Cyprus deposit base started to stabilise during the first half of 2015 and improved in the second half of 2015 and in the nine months ended 30 September 2016, mainly as a result of increasing customer confidence towards the Bank, improving market conditions and the Bank’s intensive marketing efforts.</p>

Section B—Issuer

Element	
	<p>At 30 September 2016, the BOC Group’s central bank funding totaled €2.0 billion, which represented 10.1% of total liabilities. At 30 September 2016, the BOC Group had €650 million of ECB funding. The level of ELA funding at 30 September 2016 amounted to €1.3 billion, reduced from €3.8 billion at 31 December 2015 and €7.4 billion at 31 December 2014, which reflects an overall reduction of 88.6% from its peak of €11.4 billion in April 2013. Since 30 September 2016, the BOC Group repaid a further €0.7 billion of ELA funding, reducing the level to €0.6 billion. The BOC Group intends to continue with further ELA repayments, the pace of which will be dependent both on the level of customer deposits and the prevailing market conditions. During the nine months ended 30 September 2016, the BOC Group’s deposits increased by €1.5 billion to €15.6 billion at 30 September 2016, as compared to €14.2 billion at 31 December 2015, part of which is related to an increase in government deposits.</p> <p>Trends and Prospects</p> <p><i>Trends</i></p> <p>The BOC Group maintains a leading position in Cyprus for lending and aims to provide lending to the more promising sectors of the recovering Cypriot economy as well as to viable businesses and consumers. New lending provided by the BOC Group in Cyprus for the nine months ended 30 September 2016 was €667.2 million and the BOC Group’s market share for loans in Cyprus was 41.1% at 30 September 2016. The Cypriot economy continued to improve during the third quarter of 2016. Real GDP in the third quarter of 2016 grew 0.7% quarter-on-quarter (seasonally adjusted) as compared to growth of 0.8% quarter-on-quarter (seasonally adjusted) in the second quarter of 2016 (source: Cyprus Statistical Service, flash estimate dated 15 November 2016). The overall improvement of the Cypriot economy during the first three quarters of 2016 was reflected in ratings upgrades by the credit ratings agencies. In August 2016, Moody’s affirmed its Cyprus government bond rating of ‘B1’ to reflect Cyprus’ economic recovery and the expectation of continued economic growth and maintained its credit outlook at ‘stable’ to reflect balanced upside and downside risks. On 16 September 2016, S&P raised Cyprus’ long-term sovereign credit rating to ‘BB’ to reflect Cyprus’ economic growth and debt reduction as well as improvement in the banking sector’s asset quality. S&P maintained their ‘positive’ outlook to reflect the view that Cyprus could be further upgraded within the next twelve months if the reduction of non-performing loans accelerates or if net government debt drops below 80% of GDP. On 21 October 2016, Fitch upgraded its Cyprus long-term issuer default rating to ‘BB–’ to reflect continuing progress in economic adjustment particularly in terms of the economic recovery, the strengthening of the banking sector and fiscal management. Fitch maintained a ‘positive’ outlook to reflect the view that Cyprus could be further upgraded in the next twelve months if the economic recovery continues, overall asset quality improves, the government debt to GDP ratio declines and the current account deficit narrows with a sustained track record of access to capital markets at affordable rates. In November 2016, Moody’s revised their outlook from ‘stable’ to ‘positive’.</p>

Section B—Issuer

Element	
	<p>The BOC Group continues to focus on its core operations in Cyprus as well as pursue a focused growth strategy in the UK, targeting entrepreneurs and the ‘buy-to-let’ market. For the nine months ended 30 September 2016, BOC UK has provided new lending of €327.6 million. In line with the BOC Group’s strategy to dispose non-core assets, the BOC Group has decided to wind down the operations of BOC CI and to relocate its business to other BOC Group locations.</p> <p><i>Prospects</i></p> <p>The BOC Group’s business and performance will materially depend on, and reflect, the economic conditions in Cyprus and, to a more limited extent, the UK. In particular:</p> <ul style="list-style-type: none"> • While the Cypriot economy is recovering, global growth remains uneven and modest, reflecting a high degree of uncertainty after a long period of unconventional monetary policies, the build-up of high debt positions and persisting deflationary pressures in addition to the uncertainties brought about by the UK Referendum. • Given that tourists from the UK account for the largest share of Cyprus’ total tourist arrivals, there is uncertainty as to the impact of the UK’s exit from the EU. • Inflation in the Eurozone remains low despite the monetary easing measures that continue to be employed by central banks. These measures have resulted in further reductions in policy and market interest rates which may continue to adversely affect the interest rate margins and profitability of banks, including the Bank. • The persisting low levels in global oil prices is continuing to affect the Russian economy negatively and, consequently, the financial investment flowing from Russia to Cyprus. • Political and security developments in Syria and other Middle-East regions have contributed to a major shift in the destination of Russian tourist flows, which has benefitted Cyprus. As a result, total tourist arrivals in Cyprus increased in 2015 and the first three quarters of 2016. The tourism sector is a key driver of the Cypriot economy’s recovery and its ability to continue doing so may depend on the evolution of these political and security developments. • The adoption in 2015 and early 2016 of key reform measures, including a new legal framework for foreclosure and insolvency as well as tax incentives for property sales, have facilitated the BOC Group’s employment of debt for asset and equity swaps and other loan restructuring options to reduce its level of delinquent loans. However, the new foreclosure and insolvency regimes are not fully tested and the ability of the BOC Group to maintain the increased pace of loan restructurings in the first three quarters of 2016 remains dependent on the effective enforcement of these regimes and the continuation of the Government’s reform agenda.

Section B—Issuer

Element					
B.5	Group Description	BOCH has been incorporated to be the holding company of the Bank. At 30 June 2016, the Bank has the following significant subsidiaries, associates and branches:			
		Percentage holding (%)			
		Company	Country	Activities	
		Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
		The Cyprus Investment and Securities Corporation Limited (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
		General Insurance of Cyprus Ltd	Cyprus	General insurance	100
		EuroLife Ltd	Cyprus	Life insurance	100
		JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
		Kermia Ltd	Cyprus	Property trading and development	100
		Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
		Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53
		LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
		CLR Investment Fund Public Ltd	Cyprus	Investment banking asset management and brokerage	20
		Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	N/A
		Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
		Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	N/A
		Cyprus Leasing Romania IFN SA	Romania	Leasing	100
		MC Investment Assets Management LLC	Russia	Distressed asset management company	100
		CNP Cyprus Insurance Holdings Ltd	Cyprus	General Insurance	49.9
		Interfund Investments Plc	Cyprus	Closed-end investment company	23.1

Section B—Issuer

Element																
B.6	Major Shareholders	<p>Insofar as is known to the Bank and BOCH, as at 31 October 2016 (being the last practicable date before the publication of this Prospectus) the following persons were interested, directly or indirectly, in 3% or more of the Bank’s voting share capital and the amount of such person’s holding of the total voting rights in respect of the BOCH Shares following the issuance of the BOCH Shares pursuant to the Scheme is expected to be as follows:</p> <table border="0"> <thead> <tr> <th style="text-align: left;"><u>Name</u></th> <th style="text-align: right;"><u>Percentage of issued ordinary shares (%)</u></th> </tr> </thead> <tbody> <tr> <td>Cyprus Popular Bank Public Co Ltd</td> <td style="text-align: right;">9.62</td> </tr> <tr> <td>Lamesa Holding S.A. (an affiliate of the Renova Group) .</td> <td style="text-align: right;">9.88</td> </tr> <tr> <td>TD Asset Management Inc.</td> <td style="text-align: right;">5.24</td> </tr> <tr> <td>European Bank of Reconstruction and Development</td> <td style="text-align: right;">5.02</td> </tr> <tr> <td>Tyrus Capital Group</td> <td style="text-align: right;">3.92</td> </tr> <tr> <td>Senvest Cyprus Recovery Investment Fund, L.P.</td> <td style="text-align: right;">3.22</td> </tr> </tbody> </table> <p>The above table does not include the 25,000 deferred ordinary shares of €1.00 each in the capital of BOCH in issue which were issued for the purposes of capitalising BOCH to the minimum level required by Irish company law. The deferred ordinary shares do not carry voting rights, and were issued to provide the minimum statutory capitalisation of BOCH, and will be acquired and cancelled by BOCH on the date on which the BOCH Shares are issued pursuant to the Scheme.</p> <p>There is no differentiation in the voting rights attributable to BOCH’s voting capital. Each BOCH Share carries one vote at shareholder meetings and the BOCH Shares issued pursuant to the Scheme will carry the same voting rights as the existing BOCH Shares.</p> <p>The BOCH Directors are not aware of any person who, immediately after Admission will directly or indirectly, jointly or severally, own or could exercise control over BOCH.</p>	<u>Name</u>	<u>Percentage of issued ordinary shares (%)</u>	Cyprus Popular Bank Public Co Ltd	9.62	Lamesa Holding S.A. (an affiliate of the Renova Group) .	9.88	TD Asset Management Inc.	5.24	European Bank of Reconstruction and Development	5.02	Tyrus Capital Group	3.92	Senvest Cyprus Recovery Investment Fund, L.P.	3.22
<u>Name</u>	<u>Percentage of issued ordinary shares (%)</u>															
Cyprus Popular Bank Public Co Ltd	9.62															
Lamesa Holding S.A. (an affiliate of the Renova Group) .	9.88															
TD Asset Management Inc.	5.24															
European Bank of Reconstruction and Development	5.02															
Tyrus Capital Group	3.92															
Senvest Cyprus Recovery Investment Fund, L.P.	3.22															
B.7	Historical key financial information accompanied by a narrative description of significant change to the issuer’s financial condition and operating results during or subsequent to the period covered by the historical key financial information.	<p>Not applicable for BOCH. BOCH has not traded since its date of incorporation and as such, there is no historical key financial information on BOCH.</p> <p>The tables below set out summary financial information for the BOC Group for the periods indicated. The data below has been extracted from the BOC Group’s Historical Financial Information and Third Quarter Financial Information.</p> <p>Upon the Scheme becoming Effective, BOCH will become the new parent company of BOC and its assets, liabilities and earnings on a consolidated basis will be those of the BOC Group.</p>														

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Element

**Consolidated Income Statement for the Nine Month Periods ended
30 September 2016 and 2015 and for the Six Month Periods ended
30 June 2016 and 2015**

	Nine months ended 30 September		Six months ended 30 June	
	2016 (unaudited)	2015 (unaudited)	2016 (€'000)	2015 (€'000)
Continuing operations				
Interest income	680,323	863,416	467,658	591,115
Interest expense	(155,836)	(219,068)	(107,196)	(152,529)
Net interest income	524,487	644,348	360,462	438,586
Fee and commission income	118,908	121,783	78,412	83,258
Fee and commission expense	(6,877)	(6,746)	(4,544)	(4,141)
Net foreign exchange gains	27,904	30,963	16,313	23,292
Net gains on financial instrument transactions	65,727	28,254	57,389	28,717
Insurance income net of claims and commissions	34,672	31,818	24,633	20,269
Gains/(losses) from revaluation and disposal of investment properties	5,649	(36,128)	5,806	(23,384)
(Losses)/gains on disposal of stock of property	(3,042)	647	(3,533)	243
Other income	10,421	12,045	7,577	8,846
Total income	777,849	826,984	542,515	575,686
Staff costs	(233,558)	(176,599)	(179,279)	(118,017)
Other operating expenses	(163,747)	(146,585)	(109,556)	(97,401)
	380,544	503,800	253,680	360,268
Gain on derecognition of loans and advances to customers and changes in expected cash flows	37,994	263,392	22,166	230,039
Provisions for impairment of loans and advances to customers and other customer credit losses	(304,876)	(592,764)	(179,925)	(463,926)
Impairment of other financial instruments	(11,822)	(37,105)	(12,228)	(31,168)
Impairment of non-financial instruments	(22,012)	—	(9,362)	—
Profit before share of profit from associates and joint ventures	79,828	137,323	74,331	95,213
Share of profit from associates and joint ventures	3,189	3,641	1,606	3,438
Profit before tax from continuing operations	83,017	140,964	75,937	98,651
Income tax	(17,839)	(17,631)	(13,695)	(10,475)
Profit after tax from continuing operations	65,178	123,333	62,242	88,176
Discontinued operations				
Loss after tax from discontinued operations	—	(65,107)	—	(36,267)
Profit for the period	65,178	58,226	62,242	51,909
Attributable to:				
Owners of the Bank—continuing operations	61,627	129,048	56,372	89,325
Owners of the Bank—discontinued operations	—	(55,839)	—	(29,105)
Total profit attributable to the owners of the Bank	61,627	73,209	56,372	60,220
Non-controlling interests—continuing operations	3,551	(5,715)	5,870	(1,149)
Non-controlling interests—discontinued operations	—	(9,268)	—	(7,162)
Total profit/(loss) attributable to non-controlling interests	3,551	(14,983)	5,870	(8,311)
Profit for the period	65,178	58,226	62,242	51,909

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Element	Consolidated Income Statement for the Years ended 31 December 2015, 2014 and 2013		
	Year ended 31 December		
	2015	2014	2013
	(€'000)	(€'000)	(€'000)
Continuing operations			
Interest income	1,122,105	1,343,014	1,421,505
Interest expense	(279,665)	(373,345)	(536,310)
Net interest income	842,440	969,669	885,195
Fee and commission income	162,557	159,827	159,120
Fee and commission expense	(9,100)	(7,960)	(19,481)
Net foreign exchange gains/(losses)	38,367	(14,793)	(9,808)
Net gains on financial instrument transactions	47,129	176,850	7,174
Insurance income net of claims and commissions	47,905	45,610	64,956
Losses from revaluation and disposal of investment properties	(53,080)	(12,021)	(75,428)
Gains on disposal of stock of property	882	126	85
Other income	16,725	11,942	12,268
Total income	1,093,825	1,329,250	1,024,081
Staff costs	(233,631)	(234,424)	(385,293)
Other operating expenses	(225,038)	(228,482)	(208,050)
	<u>635,156</u>	<u>866,344</u>	<u>430,738</u>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	305,089	47,338	26,643
Provisions for impairment of loans and advances to customers and other customer credit losses	(1,264,554)	(816,983)	(945,048)
Impairment of other financial instruments	(43,503)	(56,540)	(22,525)
Impairment of non-financial instruments	(18,103)	(33,295)	(410)
(Loss)/profit before share of profit from associates and joint ventures	(385,915)	6,864	(510,602)
Share of profit/(loss) from associates and joint ventures	5,923	4,852	(4,702)
(Loss)/profit before tax from continuing operations	(379,992)	11,716	(515,304)
Income tax	(9,203)	(10,877)	(1,778)
(Loss)/profit after tax from continuing operations	(389,195)	839	(517,082)
Discontinued operations			
Loss after tax from discontinued operations	(65,107)	(322,216)	(1,551,013)
Loss for the year	(454,302)	(321,377)	(2,068,095)
Attributable to:			
Owners of the Bank—continuing operations	(382,513)	19,162	(513,962)
Owners of the Bank—discontinued operations	(55,839)	(280,319)	(1,542,127)
Total loss attributable to the owners of the Bank	(438,352)	(261,157)	(2,056,089)
Non-controlling interests—continuing operations	(6,682)	(18,323)	(3,120)
Non-controlling interests—discontinued operations	(9,268)	(41,897)	(8,886)
Total loss attributable to non-controlling interests	(15,950)	(60,220)	(12,006)
Loss for the year	(454,302)	(321,377)	(2,068,095)

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Element		Consolidated Balance Sheet as at 30 September 2016 and 30 June 2016 and as at 31 December 2015, 2014 and 2013				
		30 September 2016	30 June 2016	31 December		
		(unaudited)		2015	2014	2013
		(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Assets						
	Cash and balances with central banks	1,587,386	1,518,663	1,422,602	1,139,465	1,240,043
	Loans and advances to banks	1,183,579	1,174,123	1,314,380	1,646,886	1,290,102
	Derivative financial assets	11,965	14,303	14,023	62,598	28,765
	Investments	193,308	316,357	588,255	1,871,136	2,759,855
	Investments pledged as collateral Loans and advances to customers	401,914	523,386	421,032	669,786	672,809
	Life insurance business assets attributable to policyholders	15,939,593	16,253,237	17,191,632	18,168,323	21,764,338
	Prepayments, accrued income and other assets	490,503	481,409	475,403	472,992	443,579
	Stock of property	232,731	238,118	281,780	322,832	413,005
	Investment properties	1,304,628	1,128,793	515,858	12,662	14,110
	Property and equipment	37,519	37,505	34,628	488,598	495,658
	Intangible assets	282,127	282,640	264,333	290,420	414,404
	Investments in associates and joint ventures	142,297	138,537	133,788	127,402	130,580
	Deferred tax assets	112,582	110,009	107,753	116,776	203,131
	Non-current assets and disposal groups held for sale	450,397	451,126	456,531	456,871	479,060
	Total assets	22,382,098	22,679,666	23,270,501	26,789,402	30,349,439
Liabilities						
	Deposits by banks	371,378	342,762	242,137	162,388	196,914
	Funding from central banks	1,950,045	3,100,667	4,452,850	8,283,773	10,956,277
	Repurchase agreements	329,325	398,408	368,151	579,682	594,004
	Derivative financial liabilities	50,460	59,037	54,399	71,967	83,894
	Customer deposits	15,642,924	14,746,473	14,180,681	12,623,558	14,971,167
	Insurance liabilities	574,586	569,681	566,925	576,701	551,829
	Accruals, deferred income and other liabilities	315,576	321,435	282,831	350,431	202,042
	Debt securities in issue	—	—	712	693	1,023
	Subordinated loan stock	—	—	—	—	4,676
	Deferred tax liabilities	45,140	45,211	40,807	44,741	49,937
	Non-current liabilities and disposal groups held for sale	—	—	3,677	614,421	—
	Total liabilities	19,279,434	19,583,674	20,193,170	23,308,355	27,611,763
Equity						
	Share capital	892,294	892,294	892,294	892,238	4,683,985
	Share premium	552,618	552,618	552,618	552,539	—
	Capital reduction reserve	1,952,486	1,952,486	1,952,486	1,952,486	—
	Shares subject to interim orders	—	—	—	441	58,922
	Revaluation and other reserves	240,647	240,004	258,709	146,809	72,251
	Accumulated losses	(575,442)	(583,710)	(601,152)	(79,021)	(2,151,835)
	Equity attributable to the owners of the Bank	3,062,603	3,053,692	3,054,955	3,465,492	2,663,323
	Non-controlling interests	40,061	42,300	22,376	15,555	74,353
	Total equity	3,102,664	3,095,992	3,077,331	3,481,047	2,737,676
	Total liabilities and equity	22,382,098	22,679,666	23,270,501	26,789,402	30,349,439

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<p>Significant Changes in Financial Condition and Operating Results</p> <p>A series of key events have occurred during the periods under review which impacted the BOC Group’s results of operations.</p> <p>BOC Group restructuring and discontinued operations</p> <p>The BOC Group underwent significant restructuring in order to meet the conditions for the implementation of the Memorandum of Understanding between Cyprus and the EC, the ECB and the IMF.</p> <p><i>Bail-in</i></p> <p>The Resolution Authority effected the Recapitalisation in which the claims of uninsured depositors, holders of debt securities and other creditors, were converted into equity.</p> <p><i>Acquisitions</i></p> <p>During the financial periods under review, the BOC Group acquired certain operations, including the following:</p> <p>In March 2013, the BOC Group acquired the insured deposits and the majority of the assets and liabilities of Laiki Bank pursuant to a series of decrees issued by the Resolution Authority. In connection with the acquisition, the Resolution Authority appointed an international firm to carry out a valuation of the assets and liabilities transferred to BOC Group. The fair value of the assets transferred was €15.1 billion, including €8.7 billion of loans and advances to customers and €2.4 billion of investments. The fair value of the liabilities transferred included €4.2 billion of customer deposits and €9.1 billion of ELA funding. Pursuant to the provisions of the Bail-in Decrees, the Resolution Authority was required to perform a valuation of the transferred assets and liabilities of Laiki Bank and to determine a fair compensation for Laiki Bank. By a further decree issued on 30 July 2013, the Resolution Authority required the Bank to issue to Laiki Bank a number of Class A shares, to compensate Laiki Bank, with no right of further compensation. These Class A shares were subsequently converted into ordinary shares. The decree issued by the Resolution Authority required that the shares issued to Laiki Bank should constitute 18.1% of the issued share capital of the Bank after the Recapitalisation. Accordingly, 845,758,000 shares were issued to Laiki Bank.</p> <p>On 1 April 2013, £718.4 million customer loans and advances as well as the premises of the United Kingdom branch of Laiki Bank were transferred to the BOC Group pursuant to the Laiki Transfer Decrees.</p> <p>On 29 January 2015, the Extraordinary General Meeting of the shareholders of LFS approved the disposal of the shares of LFS to the Bank for a consideration of €3 million. Previously, LFS was 100% owned by LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd), a subsidiary of the Bank. As a result, the increase of the Bank’s holding from 67% to 100% in LFS was accounted for as an equity transaction.</p>

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<p>In November 2015, CISCO, a subsidiary of the Bank, issued 1 million shares of a nominal value of €1.71 each, at a total premium of €534 thousand, for the transfer of the Bank’s investment in LFS to CISCO. Following the transfer of shares, LFS was dissolved, without liquidation, under the Cyprus Companies Law and its net assets were transferred to CISCO in accordance with a court order.</p> <p><i>Disposals</i></p> <p>During the financial periods under review, the BOC Group disposed of certain assets, liabilities and international operations, including the following:</p> <p>In March 2013, the loans, fixed assets and deposits of the banking and leasing operations of the BOC Group in Greece were sold to Piraeus Bank for a total cash consideration paid by the BOC Group to Piraeus Bank of €1.2 billion. The loans and fixed assets sold amounted to €7.9 billion and the deposits sold amounted to €7.7 billion. The loss on the disposal was €1.4 billion.</p> <p>In April 2013, in accordance with a relevant decree issued by the Resolution Authority, the BOC Group disposed of certain assets of its Romanian branch (including customer loans and related collateral, cash and other liquid assets) amounting to €82.0 million and liabilities including customer deposits amounting to €77.0 million, to Marfin Bank Romania. The loss on disposal was €4.5 million.</p> <p>In April 2014, the BOC Group sold its Ukrainian business comprising its 99.8% holding in PJSC Bank of Cyprus, the funding provided by the BOC Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, a Russian banking group. The total consideration was €198.9 million, comprising €98.9 million received and €100.0 million deferred until 31 March 2015. On 30 May 2015 the settlement terms of the deferred consideration and the related interest rate were amended. The deferred consideration will be paid to the BOC Group under a repayment programme which extends until 1 June 2019. The loss resulting from the sale was €114.2 million.</p> <p>In April 2014, the BOC Group sold its 9.99% equity stake in Banca Transilvania, in Romania, for approximately €82 million. The transaction resulted in a gain on disposal of €47.5 million.</p> <p>In May 2014, the BOC Group sold loans extended to a Serbian real estate management company, which represented one of the BOC Group’s largest concentration of NPLs, to Piraeus Bank for approximately €165.0 million. The transaction resulted in a gain on disposal of €27.2 million.</p> <p>On 11 September 2014, the BOC Group disposed of its interest in GHES, a company incorporated in Romania and the owner of the JW Marriott Bucharest Grand Hotel, consisting of a facility agreement between GHES and the Bank’s Romanian Branch, the BOC Group’s 35.3% shareholding in GHES and a subordinated loan agreement between GHES and an associate of the BOC Group. The sale consideration was €95.0 million. The loss on disposal was approximately €1.4 million.</p>

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	<p>On 31 October 2014, the Bank sold the UK Loan Portfolio owned by the BOC Group, largely comprised of residential and commercial real estate-backed facilities, to purchasers selected through a competitive process. The nominal value of the loan portfolio, as at the cut-off date for the transaction, was £289 million. The loan portfolio was not related to the BOC Group’s wholly-owned subsidiary, Bank of Cyprus UK Ltd, but was part of the wider UK loan portfolio transferred to the BOC Group pursuant to the Laiki Transfer Decrees.</p> <p>In April and August 2015, the Bank completed the sale of its investments in Marfin Diversified Strategy Fund and Byron Capital Partners Ltd. The aggregate total amount of the sales were approximately €89.0 million.</p> <p>In September 2015, the Bank completed the sale of the majority of its Russian operations, comprising its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC, and certain other Russian loan exposures. The transaction resulted in an aggregate loss on disposal of €23.0 million.</p> <p>In June 2016, the BOC Group completed the sale of Kermia Hotels Ltd and adjacent land for €26.5 million and a profit on disposal of €2.5 million.</p> <p>Capital Raising. The Bank was recapitalised in 2014 through a €1.0 billion Capital Raising from international private investors.</p> <p>The insolvency and foreclosure framework. The insolvency framework enacted in May 2015 brought into force the foreclosure law enacted by the House of Representatives of Cyprus in September 2014. It is expected that the implementation of the foreclosure law will assist the BOC Group in negotiating with defaulted customers by providing for, among other things, the economic rehabilitation of bankrupt individuals where possible and introducing a new mechanism for the relief of individual debtors with no income or assets and low total debt. It is also expected to lead to a reduction of the recovery period in the case of asset repossession from defaulted customers. Proceeds from a shortened repayment period and/or an improved realisation rate on the repayment of loans should facilitate the BOC Group’s management of its assets, liabilities and liquidity.</p> <p>Improved ratings. Cyprus exited its economic adjustment programme in March 2016. The credit ratings of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million, which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer.</p>

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<p>Financial Review of the nine month period ended 30 September 2016</p> <p>The Bank further reduced the level of ELA funding from €2.4 billion at 30 June 2016 to €1.3 billion at 30 September 2016 (€3.8 billion at 31 December 2015). At the date of this Prospectus, the level of ELA funding was €0.6 billion. At the same time, the BOC Group’s customer deposits increased from €14.7 billion at 30 June 2016 to €15.6 billion at 30 September 2016, a 6.1% increase comprised of €831.6 million in Cypriot resident deposits (a significant proportion of which were Government deposits) and €65.1 million in non-Cypriot resident deposits. The BOC Group’s customer deposits increased by €1.5 billion, or 10.3%, from 31 December 2015 to 30 September 2016. The BOC Group’s market share for Cypriot resident deposits also increased from 27.2% at 30 June 2016 to 28.8% at 30 September 2016.</p> <p>BOC Group’s gross loans totalled €20,596 million at 30 September 2016, compared to €21,083 million at 30 June 2016 and €22,592 million at 31 December 2015. The reduction in gross loans is, to a large extent, driven by the restructuring activity, including debt for property and debt for equity swaps. Gross loans in Cyprus totalled €18,773 million at 30 September 2016 and accounted for 91% of Group gross loans. Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (which is the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €989 million at 30 September 2016 (compared to €1,043 million at 30 June 2016). At 30 September 2016, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures, totalled €4,702.6 million, compared to €4,874.7 million at 30 June 2016, and accounted for 22.8% of gross loans, compared to 23.1% at 30 June 2016.</p> <p>At 30 September 2016, 90+DPD loans decreased by 5.4% to €8.8 billion from €9.3 billion at 30 June 2016 and by 22.6% from €11.3 billion at 31 December 2015. At 30 September 2016, the 90+DPD ratio decreased by 1.4 percentage points to 42.6% from 44.0% at 30 June 2016 and by 7.5 percentage points from 50.1% at 31 December 2015. The provisioning coverage ratio for 90+DPD loans increased from 52.6% at 30 June 2016 to 53.6% at 30 September 2016. The improvement in 90+DPD loans is due to the slower formation of new 90+DPD loans across all banking business lines in Cyprus and the continued acceleration in loan restructurings. At 30 September 2016, NPEs decreased by 4.7% to €11.9 billion from €12.5 billion at 30 June 2016 and by 14.8% from €14.0 billion at 31 December 2015. For the first time, the reduction of NPEs during the three months ended 30 September 2016 exceeded the reduction of 90+DPD loans mainly as a result of restructured loans meeting the NPE exit criteria following satisfactory performance for the duration of the 12 month cure period. At 30 September 2016, the NPE ratio decreased to 57.8% from 59.3% at 30 June 2016 and 61.8% at 31 December 2015. The provisioning coverage ratio for NPEs increased from 39.0% at 30 June 2016 to 39.5% at 30 September 2016.</p> <p>During the nine months ended 30 September 2016, REMU acquired €893.9 million of assets through the execution of debt for property swaps and disposed of real estate assets amounting to €109.8 million. At 30 September 2016, REMU had properties under management with a total carrying value of €1.3 billion.</p>

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	<p>Net interest income decreased from €175.7 million to €164.0 million for the three months ended 30 June 2016 and 30 September 2016, respectively, a decrease of €11.7 million which is primarily the result of lower loan volumes in Cyprus which, in turn, is mainly the result of the Bank's employment of debt for assets and equity swaps and other loan restructuring activity. Net interest margin decreased to 3.3% for the third quarter of 2016, compared to 3.6% for the second quarter of 2016. Net interest margin stood at 3.5% for the nine months ended 30 September 2016.</p> <p>Profit before provisions increased from €125.5 million to €126.9 million for the three months ended 30 June 2016 and 30 September 2016, respectively, an increase of €1.4 million which is primarily the net result of lower net interest income which was more than fully offset by gains from financial instruments (mainly due to a gain of €9.0 million from the repurchase of Cyprus Government Bonds held by the Bank) and by 5.1% quarter-on-quarter lower total expenses (excluding one-off VEP costs and restructuring expenses), primarily driven by 7% lower staff costs (excluding one-off VEP costs), primarily driven by lower headcount in Cyprus, reflecting the effect of the VEP completed during the second quarter of 2016.</p> <p>The cost to income ratio for the nine months ended 30 September 2016 stood at 42% and for the third quarter of 2016 was 41%, compared to 43% for the second quarter of 2016.</p> <p>The BOC Group's underlying operating profitability continued in the third quarter at €126.9 million and was directed at improving its ability to absorb losses on its balance sheet through increased provisions, a trend which the BOC Group expects to continue into 2017. Provisions for impairment of customer loans (net of gains/(losses) on derecognition of loans and changes in expected cash flows) was €266.9 million for the nine months ended 30 September 2016 and increased from €95.4 million to €109.1 million for the three months ended 30 June 2016 and 30 September 2016, respectively. The annualised provisioning charge for the nine months ended 30 September 2016 accounted for 1.6% of gross loans, compared to 1.4% for the six months ended 30 June 2016.</p> <p>BOC Group's impairments of other financial and non-financial assets for the nine months ended 30 September 2016 totalled €33.8 million, compared to €37.1 million for the nine months ended 30 September 2015. Impairments of other financial and non-financial assets for the third quarter of 2016 totalled €12.2 million, compared to €13.6 million for the second quarter of 2016, including impairment losses of stock of properties in Cyprus, Greece and in Romania.</p> <p>Profit after tax attributable to the owners of the Bank was €61.6 million for the nine months ended 30 September 2016 and decreased from €6.1 million to €5.3 million for the three months ended 30 June 2016 and 30 September 2016, respectively.</p>

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B.8	Selected key pro forma financial information	Not applicable. BOCH is a newly incorporated company and has not traded since its incorporation and, prior to the Scheme becoming Effective, will not own any assets or have any liabilities. Upon the Scheme becoming Effective, BOCH will become the new parent company of BOC and its assets, liabilities and earnings on a consolidated basis will be those of the BOC Group.
B.9	Profit forecast / estimate	Not applicable. There is no profit forecast or estimate.
B.10	Audit Report qualifications	<p>The Accountant's Report given in relation to the Historical Financial Information contains a qualification with respect to the financial period ended 31 December 2013.</p> <p>The qualification relates to the inability of the Bank to measure the shares issued (a) in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority in 2013; and (b) in consideration for the acquisition of certain assets and liabilities of Laiki Bank in 2013, pursuant to the provisions of the relevant Decree issued and enforced by the Resolution Authority, at their fair value as required by IFRS.</p> <p>The Accountant's Report also includes an emphasis of matter with respect to the Bank's ability to continue as a going concern, and the fact that the BOC Group is currently in breach of the regulatory liquidity ratios in Cyprus. The Bank has disclosed this uncertainty in Note 4 to the Historical Financial Information. The Accountant's Report is not qualified in this respect.</p> <p>The Q3 Review Report also includes an emphasis of matter with respect to the Bank's ability to continue as a going concern, and the fact that the BOC Group is currently in breach of the regulatory liquidity ratios in Cyprus. The Bank has disclosed this uncertainty in Note 5 to the Third Quarter Financial Information. The Q3 Review Report is not qualified in this respect.</p>
B.11	Working capital	<p>BOCH is of the opinion that the BOC Group does not have sufficient working capital for its present requirements, that is, for the twelve months from the date of this Prospectus, for the following reasons.</p> <p>The capital requirements of the BOC Group are highly sensitive to the economic conditions in Cyprus. Although the Cypriot economy has been in recovery since the beginning of 2015, its continuing recovery could be negatively affected by a number of different factors and risks. Accordingly, there can be no assurance that the Cypriot economy will not be adversely affected within the next twelve months.</p>

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	<p>A deterioration in the Cypriot economy which precipitates a significant outflow of deposits from the Cypriot banking system (including the Bank) could result in the Bank having to rely on ELA funding of up to €2.8 billion under a reasonable worst case scenario in the Bank’s working capital assessment. This is based on a detailed analysis of the BOC Group’s projected profit and loss, capital and liquidity reserves under both a base case scenario and a reasonable worst case scenario and an assessment of the current macro-economic and regulatory position of the BOC Group. The reasonable worst case scenario was formulated using, amongst other things, macro-economic assumptions which simulate a recessionary environment in Cyprus.</p> <p>As a consequence of the potential reliance on ELA funding, certain requirements may be imposed on the Bank by the CBC and/or the ECB.</p> <p>The implications of the Bank’s failure to obtain ELA funding or any requirements imposed by the regulators as a condition to receiving ELA will be highly dependent on the causes of such an event and could include having to dispose of a number of the BOC Group’s assets, having to raise additional capital and/or the imposition of restrictive measures and capital controls by the Government and/or other measures taken with respect to the Bank under the BRRD regime and SRM Regulation.</p> <p>The Directors are of the opinion that ELA funding should be available to the Bank because it is available to all solvent Euro area credit institutions and the Bank is expected to remain both solvent and to have sufficient eligible collateral to meet the ELA funding eligibility requirements under both the base case and reasonable worst case scenarios. However, because ELA funding is short term in nature (typically provided for a period of two to four weeks) and its provision is subject to approval by the ECB Governing Council, the Directors do not regard it as a committed liquidity facility for the purposes of the working capital statement and, therefore, the working capital statement provided above is qualified in this respect.</p> <p>However, in order to address the risk of requiring ELA funding under a reasonable worst case scenario, the Bank is actively working towards the full repayment of the existing ELA funding before the end of the first half of 2017. Subsequent to such repayment, the Bank will continue to seek to build its liquidity reserves, through increasing deposits and/or wholesale funding in order to reduce and eventually eliminate any potential future reliance on ELA under a reasonable worst case scenario. Although this is subject to the future performance of the BOC Group, BOCH is confident that the Bank will be able to build sufficient liquidity reserves.</p>

Section C—Securities

Element		
C.1	Type and class of securities and/or to be admitted for trading, including any security identification number	<p>The securities in respect of which Admission is being sought are ordinary shares of €0.10 each in the capital of BOCH. There will be no application for any other class of share of BOCH to be admitted.</p> <p>Applications will be made to: (i) the UKLA for all the ordinary share capital of BOCH to be admitted to listing on the standard listing segment of the Official List of the FCA; (ii) the LSE for all the ordinary share capital of BOCH to be admitted to trading on the LSE Main Market; and (iii) the CSE for all the ordinary share capital of BOCH to be admitted to listing on the CSE and trading on the CSE Main Market.</p> <p>When admitted to trading, the BOCH Shares will be registered with ISIN IE00BD5B1Y92.</p>
C.2	Currency of the securities issue	Euro. Following Admission to the LSE, the price of the BOCH Shares will be quoted on the LSE in euro. Following Admission to the CSE, the price of the BOCH Shares will be quoted on the CSE in euro.
C.3	Number of shares issued and par value per share	The aggregate nominal value of the issued ordinary share capital of BOCH immediately following Admission is expected to be approximately €45,000,000, divided into approximately 450,000,000 ordinary shares of €0.10 each, to be calculated in accordance with the Calculation Basis, all of which will be issued fully paid. As part of the Scheme, BOCH will issue up to 700,000,000 ordinary shares.
C.4	Rights attached to the securities	The BOCH Shares will rank <i>pari passu</i> in all respects with each other, including for voting purposes and in full for all dividends and distributions on the BOCH Shares declared, made or paid after their issue and for any distributions made on a winding up of BOCH.
C.5	Restrictions on the free transferability of the securities	<p>The BOCH Shares are freely transferable and there are no restrictions on transfer save as follows:</p> <p>Under the BOCH Articles, the BOCH Board of Directors may, in its absolute discretion and without assigning any reason therefore, decline to register:</p> <ul style="list-style-type: none"> (i) any transfer of a share which is not fully paid; or (ii) any transfer to or by a minor or person of unsound mind, <p>but this shall not apply to a transfer of such a share resulting from a sale of the share through a stock exchange on which the share is listed.</p> <p>Under the BOCH Articles, the BOCH Board of Directors may decline to recognise any instrument of transfer unless:</p> <ul style="list-style-type: none"> (i) save for transfers effected in a manner permitted under the 1996 Regulations, the Companies Act or any applicable regulations made thereunder, the instrument is accompanied by the certificate of the shares to which it relates and such other evidence as the BOCH Board of Directors may reasonably require to show the right of the transferor to make the transfer; (ii) it is for a share which is fully paid-up; (iii) it is for a share upon which BOCH has no lien; (iv) it is for one class of share only; (v) it is duly stamped or is duly certificated or otherwise show to the satisfaction of the BOCH Board of Directors to be exempt from stamp duty (if this is required);

Section C—Securities

Element		
		<p>(vi) it is in favour of not more than six transferees; and</p> <p>(vii) it is lodged at the registered office of BOCH or at such other place as the BOCH Board of Directors may appoint.</p> <p>The BOCH Board of Directors may decline to register any transfer of shares in uncertificated form only in such circumstances as may be permitted or required by the 1996 Regulations.</p> <p>In addition to any other right or power of BOCH under the Companies Act or under the BOCH Articles, the BOCH Board of Directors may at any time give a shareholder a notice requiring that shareholder to notify BOCH of his interest in any share in BOCH and where a shareholder fails to comply such notice or any notice served under the Companies Act, the BOCH Board of Directors may serve a further notice on the relevant shareholder directing that, amongst other things where the relevant shares represent at least 0.25% of the nominal value of issued share capital of that class, save in specified circumstances, no transfer of any such shares shall be registered.</p>
C.6	Admission	<p>Application will be made to the UKLA and to the LSE for the BOCH Shares to be admitted to listing on the standard listing segment of the Official List and to trading on the Main Market, as well as to the CSE for the BOCH Shares to be admitted to listing on the CSE and trading on the CSE Main Market. In the event the relevant applications to the UKLA, the LSE and the CSE are successfully completed, and the Scheme becomes Effective, the earliest date by which Admission is expected to become effective is 13 January 2017 and it is also expected that dealings in the BOCH Shares will commence on the CSE and LSE at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively, or as soon as practicable thereafter on that date.</p>
C.7	Dividend Policy	<p>BOCH is a newly incorporated company and has not traded since its incorporation and, prior to the Scheme becoming Effective, will not own any assets or have any liabilities. Following the Scheme becoming Effective, BOCH will be the sole owner of the share capital in the Bank. It is not intended that BOCH will trade independently and as such, it is not expected that BOCH will generate any profits with which to pay dividends other than through the dividends it receives from the Bank.</p> <p>The ECB has imposed a number of restrictions on the BOC Group, including a prohibition on the distribution of dividends by the Bank and providing variable remuneration to BOC Group employees and a requirement to obtain the prior approval of the ECB before providing capital or funding to any subsidiary. Following SREP 2016, based on the pre-notification received in September 2016 and subject to final confirmation which is expected by the end of 2016, the BOC Group expects the ECB's prohibition on variable pay to be lifted and replaced with a limitation on variable remuneration to 10% of net revenues.</p> <p>In addition, even in the event that the restrictions described above are waived and/or are no longer applicable, under Irish law BOCH may only make distributions out of distributable reserves (determined by reference to its relevant financial statements) and no distribution or dividend may be made unless the net assets of BOCH are equal to, or in excess of, the aggregate of BOCH's called-up share capital plus undistributable reserves and the distribution does not reduce BOCH's called-up share capital below such aggregate.</p>

Section C—Securities	
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	Immediately after Admission, BOCH will not have any distributable reserves from which distributions could be made and there is no guarantee that such reserves will be generated or created.

Section D—Risks	
Element	
D.1	<p>Key information on the key risks that are specific to the issuer or its industry</p> <ul style="list-style-type: none"> • Economic conditions in Cyprus have had, and may continue to have, a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects. • Economic and political developments in Europe and globally could have a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects. • The Bank has been and could in the future be materially adversely affected by the weakness or the perceived weakness of other financial institutions. • The BOC Group’s financial condition and prospects are materially affected by its ability to reduce the high level of NPEs in its existing portfolio and the price at which it is able to dispose of these NPEs. • As a significant proportion of the BOC Group’s loan portfolio is secured primarily by Cypriot real estate and the BOC Group has a significant portfolio of real estate in Cyprus, mainly as a result of the enforcement of loan collateral, the BOC Group’s business, financial condition, results of operations and prospects are materially affected by changes in the demand for, and prices of, Cypriot real estate. • Increases in new provisions could materially adversely affect the BOC Group’s financial condition and results of operations. • The BOC Group is subject to ECB supervision which may result in requests that it increase its loan provisions or raise additional capital, or increased costs. • Changes in financial reporting standards or policies could materially adversely affect the BOC Group’s reported results of operations and financial condition and may have a material adverse effect on capital ratios. • If the BOC Group does not generate sufficient taxable profits to utilise its deferred tax assets, it could result in a material reduction in the BOC Group’s net profit and capital. • The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group’s business, financial condition, results of operations and prospects. • Government and ECB actions intended to support liquidity may be insufficient or discontinued, thus the BOC Group may be unable to obtain the required liquidity.

Section D—Risks

Element	
	<ul style="list-style-type: none"> • The Bank’s wholesale borrowing costs and access to liquidity and capital have been adversely affected by a series of downgrades during the economic recession in Cyprus of the credit ratings of Cyprus and the Bank. • The BOC Group’s ability to enter into transactions with other financial institutions may be limited by its current credit rating and risk profile. • A prolonged period of low or negative market interest rates or changes in interest rates may negatively affect the BOC Group’s net interest income and have other adverse consequences. • Changes in currency exchange rates may materially adversely affect the BOC Group. • Risk of fluctuation of prevailing share and other securities prices. • The BOC Group’s businesses are conducted in a highly competitive environment. • The BOC Group’s ability to grow its business and maintain its competitive position depends, in part, on the success of new operations, products and services, including the newly established REMU, its strategy to expand the BOC UK operations and proposed digitalisation and paperless banking. • The BOC Group is exposed to insurance and reinsurance risks. • The BOC Group could fail to attract or retain senior management or other key employees. • Staff rationalisation measures and a failure to manage trade union relationships effectively could have a material adverse effect on the BOC Group’s business, operations, financial condition and results of operations. • The proper functioning of the BOC Group’s business requires precise documentation, recordkeeping and archiving, the lack of which could have a material adverse effect on the BOC Group’s reputation, business, results of operations and financial condition and prospects. • Failure to effectively improve or upgrade the BOC Group’s information technology infrastructure and management information systems in a timely manner could have a material adverse effect on its operations. • The Bank’s information systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cyber security or other technological risks. • The BOC Group uses internal risk management methodologies and models which incorporate assumptions, judgements and estimates that may change over time or that may ultimately turn out not to be accurate, which could materially and adversely affect the BOC Group’s business, results of operations, financial condition and prospects.

Section D—Risks

Section D—Risks		
Element		
		<ul style="list-style-type: none"> • The BOC Group is exposed to conduct risk and, on Admission, BOCH’s conduct risks will increase as a result of its dual listing in London and Cyprus. • The BOC Group is subject to reputational risk. • The BOC Group is exposed to the risk of fraud and illegal activities. • The BOC Group is exposed to various forms of legal risk, particularly in relation to the alleged misselling of securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its Recapitalisation from March 2013 to July 2013 and regulatory investigations. • The BOC Group’s business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments. • Legislative action and regulatory measures in response to the global financial crisis may materially adversely affect the BOC Group and the financial and economic environment in which it operates. • As a result of the implementation of the BRRD and SRM Regulation in Cyprus and the United Kingdom, the relevant authorities have wide powers to impose resolution measures on BOCH and the Bank which could materially adversely affect the BOC Group, as well as the BOCH Shareholders and unsecured creditors of the Bank. • The BOC Group is subject to minimum requirements for own funds and eligible liabilities. • Certain actions of the BOC Group are restricted by its regulators. • The BOC Group is exposed to risks in relation to compliance with anti-corruption laws and the imposition of economic sanctions programmes against certain countries, citizens and entities. • Changes in consumer protection laws might limit the fees that the BOC Group charges and increase costs in certain banking transactions. • The BOC Group must comply with data protection and privacy laws and failure to do so could have a material adverse effect on the BOC Group’s business, financial condition and reputation. • The BOC Group is exposed to tax risk and the failure to manage this risk may have an adverse effect on the BOC Group.
D.3	Key information on the key risks that are specific to the securities.	<ul style="list-style-type: none"> • An active market for the BOCH Shares may fail to develop. • The price of the BOCH Shares could be highly volatile and investors may lose all or part of their investment. • The acquisition of shares in BOCH may require regulatory approval and failure to obtain such approval could result in the suspension of voting rights.

Section D—Risks		
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		<ul style="list-style-type: none"> • BOCH does not expect to pay dividends on the BOCH Shares for so long as the ECB imposes a prohibition on the Bank from making any distributions to its shareholders and even if that prohibition is lifted, BOCH may not have any profits that are available for distribution and there is no guarantee that such profits will be generated or created in the future. • BOCH Shareholders whose principal currency is not euro may be subject to exchange rate risk. • Transfers of BOCH Shares, other than transfers of DIs representing BOCH Shares, will generally be subject to Irish stamp duty.

Section E—Offer		
Element		
E.1	Total net proceeds and an estimate of the total expenses of the issue/ offer, including estimated expenses charged to the investor by the issuer or the offeror	<p>BOCH is not seeking to raise any capital from shareholders so there will be no proceeds in respect of the BOCH Shares issued in connection with the Scheme.</p> <p>The total costs, charges and expenses payable by BOCH and the Bank in connection with the Scheme are estimated to be approximately €12.5 million (exclusive of VAT). No expenses will be charged to the BOC Shareholders.</p>
E.2a	Reasons for the offer, use of proceeds and estimated net amount of the proceeds	<p>The Scheme will create a new parent company for BOC, incorporated in Ireland. As a company incorporated in Ireland, the new holding company of the BOC Group will, following Admission, be incorporated in a Eurozone jurisdiction eligible for inclusion in the FTSE UK index series. The BOCH Directors believe that any eventual inclusion of BOCH Shares in the FTSE UK index series should lead to a broader investor base and greater liquidity in the BOCH Shares.</p>
E.3	A description of the terms and conditions of the offer	<p>The Scheme is subject to the Scheme Conditions. If the Scheme Conditions have been satisfied (or waived), and the Scheme becomes Effective, the earliest date by which dealings in BOCH Shares are expected to commence on the CSE and LSE, at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively is 13 January 2017. In the event any of the Scheme Conditions are not satisfied (or waived) prior to 31 March 2017 (or such later date as BOC and BOCH may jointly agree and (if required) the Cyprus Court), the Scheme will be cancelled and will not become Effective. If the Scheme does not become Effective, the current listings of the BOC Shares on the CSE and on the ATHEX will continue and BOC Shareholders will retain their current holdings of BOC Shares.</p> <p>The Scheme Conditions are fully set out in the Circular, and include:</p> <ul style="list-style-type: none"> (i) the passing of all of the Scheme Resolutions; (ii) Admission becoming effective; (iii) the sanctioning of the Scheme by the Cyprus Court; (iv) the order of the Cyprus Court relating to the Scheme being delivered to the Cyprus Registrar of Companies and registered by him;

Section E—Offer

Element																											
	<p>(v) all regulatory approvals having been obtained, including from the ECB and the CBC in respect of any change in control requirements with respect to the insertion of BOCH as the parent of BOC. The Scheme is yet to be approved by BOC Shareholders at the EGM and by the Cyprus Court; and</p> <p>(vi) no third party having taken any action which would or might reasonably be expected to: (a) effect the implementation of the Scheme; (b) effect the relationship between BOC and BOCH and any other material relationships between companies in the BOC Group; (c) require, prevent or delay the divestiture by any member of the BOC Group any material asset; or (d) have a material adverse affect on the BOC Group.</p> <p align="center">Expected Timetable of Principal Events</p> <table border="0"> <thead> <tr> <th align="left"><u>Event</u></th> <th align="left"><u>Time and/or date</u></th> </tr> </thead> <tbody> <tr> <td>Record Date for the EGM</td> <td>5 December 2016</td> </tr> <tr> <td>Latest time for return of Form of Proxy</td> <td>10:00 a.m. on 11 December 2016</td> </tr> <tr> <td>EGM</td> <td>10:00 a.m. on 13 December 2016</td> </tr> <tr> <td>Cyprus Court hearing to sanction the Scheme</td> <td>9:00 a.m. on 21 December 2016*</td> </tr> <tr> <td align="center" colspan="2"><i>The following dates are indicative only and remain subject to the decision of the Cyprus Court, and will be announced by BOC</i></td> </tr> <tr> <td>Announcement made by BOC of the issuance of the Court Order</td> <td>Upon Court Order being issued</td> </tr> <tr> <td>Last day of trading of BOC Shares</td> <td>D (being at least 2 business days after announcement by BOC of the Court Order</td> </tr> <tr> <td>Scheme Record Time</td> <td>5:30 p.m. on D</td> </tr> <tr> <td>Effective Date of the Scheme (including issue of BOCH Shares)</td> <td>D+7 business days</td> </tr> <tr> <td>Commencement of trading in BOCH Shares on the CSE Main Market</td> <td>D+8 business days**</td> </tr> <tr> <td>Commencement of trading in BOCH Shares on the LSE Main Market</td> <td>D+8 business days**</td> </tr> <tr> <td>Long Stop Date</td> <td>31 March 2017 (being the latest date by which the Scheme may become Effective, unless the Bank and BOCH agree a later date and (if appropriate) the Court so allows)</td> </tr> </tbody> </table> <p>* The Court hearing will take place at the District Court of Nicosia in Cyprus at the Courts of Justice Complex, Charalambos Mouskos Street 1405 Nicosia, Cyprus.</p> <p>** Subject to the Scheme becoming Effective and the applications to the UKLA, the LSE and the CSE being successful, it is expected that the earliest date on which the Admission of the BOCH Shares will become effective is 13 January 2017 and that dealings in the BOCH Shares will commence on the CSE and LSE at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively or as soon as practicable thereafter on that date.</p>	<u>Event</u>	<u>Time and/or date</u>	Record Date for the EGM	5 December 2016	Latest time for return of Form of Proxy	10:00 a.m. on 11 December 2016	EGM	10:00 a.m. on 13 December 2016	Cyprus Court hearing to sanction the Scheme	9:00 a.m. on 21 December 2016*	<i>The following dates are indicative only and remain subject to the decision of the Cyprus Court, and will be announced by BOC</i>		Announcement made by BOC of the issuance of the Court Order	Upon Court Order being issued	Last day of trading of BOC Shares	D (being at least 2 business days after announcement by BOC of the Court Order	Scheme Record Time	5:30 p.m. on D	Effective Date of the Scheme (including issue of BOCH Shares)	D+7 business days	Commencement of trading in BOCH Shares on the CSE Main Market	D+8 business days**	Commencement of trading in BOCH Shares on the LSE Main Market	D+8 business days**	Long Stop Date	31 March 2017 (being the latest date by which the Scheme may become Effective, unless the Bank and BOCH agree a later date and (if appropriate) the Court so allows)
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Section E—Offer

Element		
		<p>Unless otherwise stated, all references in this Prospectus to times are to Cyprus times. The dates given in this expected timetable that follow the date of this Prospectus are based on BOCH's current expectations and may be subject to change.</p> <p>The Scheme is subject to the Scheme Conditions. In the event the Scheme Conditions are not satisfied (or waived) prior to the Long Stop Date, the Scheme will be cancelled.</p>
E.4	Description of any interest that is material to the issue/ offer including conflicting interests	Not applicable—there are no interests (including conflicts of interest) which are material to the issue.
E.5	Name of the person or entity offering to sell the security	Not applicable—there are no persons offering to sell the BOCH Shares and there are no lock up arrangements.
E.6	The amount and percentage of immediate dilution resulting from the offer	Not applicable. If the Scheme becomes effective, each BOC Shareholder at the Scheme Record Time will receive the same proportion of BOCH Shares under the Scheme when compared to their current respective holdings of BOC Shares (subject only to the minor rounding in favour of such BOC Shareholders).
E.7	Estimated expenses charged to the investor by the issuer or the offeror	Not applicable. There are no commissions, fees or expenses to be charged to BOC Shareholders.

RISK FACTORS

Any investment in BOCH Shares is subject to a number of risks. Accordingly, any prospective BOCH Shareholder should carefully consider the following risks and uncertainties together with all other information set out in this Prospectus prior to making any decision relating to the BOCH Shares.

Prospective BOCH Shareholders should note that the risks relating to the BOC Group, its industry and the BOCH Shares summarised in “Summary” are the risks that the BOCH Directors believe to be the most relevant to an assessment by a prospective BOCH Shareholder of whether to consider an investment in the BOCH Shares. However, the risks which the Bank and the BOC Group face relate to events and depend on circumstances that may or may not occur in the future, are based on assumptions that could turn out to be incorrect and are risks and uncertainties that may occur simultaneously or may be interdependent. Consequently, prospective BOCH Shareholders should consider not only the information on the key risks summarised in “Summary” but also, among other things, the risks and uncertainties described below. The order in which the risks are presented below is not necessarily an indication of the likelihood of the risks actually materialising, of the potential significance of the risks or of the scope of any potential harm to the business, results of operations, financial condition and prospects of the Bank or the BOC Group.

The following is not an exhaustive list or explanation of all risks which BOCH Shareholders may face when making an investment in the BOCH Shares and should be used as guidance only. Additional risks and uncertainties relating to the BOC Group that are not currently known to the Bank, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the BOC Group’s business, results of operations, financial condition and prospects and, if any such risk should occur, the price of the BOCH Shares may decline and BOCH Shareholders could lose all or part of their investment. Prospective BOCH Shareholders should consider carefully whether an investment in the BOCH Shares is suitable for them in light of the information in this Prospectus and their personal circumstances and should consult their own stockbroker, lawyer, auditor or other financial, legal and/or tax advisers prior to making an investment decision.

The risk factors set out below relate to the Bank and the BOC Group as at the date of this Prospectus. If the Scheme becomes Effective, BOCH will become the parent company of BOC on the Effective Date and the risk factors will relate to BOCH and the BOC Group.

Risks Relating to the Cypriot, European and Global Economies and the Financial Markets

Economic conditions in Cyprus have had, and may continue to have, a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects.

The BOC Group’s business and performance are materially dependent on the economic conditions in, and future economic prospects of, Cyprus where the BOC Group’s operations and earnings are predominantly based and generated. As at 31 December 2015, 93.1% and 92.4% of the BOC Group’s total assets and total liabilities, respectively, and 98.0% of the BOC Group’s total revenue from continuing operations in 2015, were derived from operations in Cyprus. As at 30 June 2016, 93.8% and 92.9% of the BOC Group’s total assets and total liabilities, respectively, and 92.9% of the BOC Group’s total income from continuing operations for the first half of 2016 were derived from operations in Cyprus. As one of the largest deposit-taking institutions and providers of loans in Cyprus, the BOC Group’s assets and liabilities are mostly comprised of loans to, and deposits from, Cypriot businesses and households which, in turn, are materially affected by economic conditions in Cyprus. As at 30 June 2016, the BOC Group accounted for approximately 29.0% of total deposits and 41.4% of gross loans in the Cypriot banking system (source: CBC data 30 June 2016).

The Cypriot economy has faced, and continues to face, substantial macroeconomic pressures as a result of the recession from the second half of 2011 until the end of 2014 that followed the global financial crisis. The recession resulted in an overall reduction in private consumer spending and household purchasing power and business investment, as well as a significant rise in unemployment. These factors resulted in reduced demand for financial products and services from the BOC Group, a deterioration in its asset quality, a reduction in deposits from 2013 to 2014 and increases in loan impairment charges from 2013 to 2015. For a discussion on the current and historical economic environment in Cyprus, see “*The Macroeconomic Environment in Cyprus*”. While the Cypriot economy began to show signs of recovery in 2015, the economic outlook remains challenging, mainly as a result of high levels of NPEs and relatively high unemployment rates compared to other EU countries. The Cypriot economy is also vulnerable to any volatility in the economic conditions in Europe and globally (see “*—Economic and political developments in Europe and globally could have a material adverse effect the BOC Group’s business, financial condition, results*

of operations and prospects” below). In a statement issued in January 2016, the International Monetary Fund (the “IMF”) stated that there was a need to re-energise reform implementation in Cyprus to protect confidence and longer-term growth and that the accelerated workout of NPLs was critical to reviving lending and improving growth prospects. However, with Cyprus’ exit from the Cyprus Economic Adjustment Programme (“EAP”) in March 2016, Cyprus will no longer have access to financial assistance from the European Stability Mechanism (the “ESM”) or IMF in order to stabilise the economy if it deteriorates. Cyprus may also become less responsive to the need for further fiscal and other structural reforms required for sustained, long term growth in public finances. Gross domestic product (“GDP”) growth was 2.8% year-on-year seasonally adjusted in January - September 2016 and is expected to remain between 1.9% to 2.5% over the period from 2017 to 2021 according to the IMF (source: World Economic Outlook Database October 2016). This is significantly below pre-recession levels, reflecting the IMF’s expectation of subdued private consumption and investment volumes.

Should the recovery of the Cypriot economy falter or decline as a result of any of the above or other factors, this could have a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects. In particular, the value of the BOC Group’s assets (a significant proportion of which forms part of the Bank’s domestic loan portfolio), and the ability of its clients and counterparties to meet their financial obligations could be adversely affected and could cause loan impairment charges to rise and fee and commission income to reduce or cause the BOC Group to incur further mark-to-market losses.

Economic and political developments in Europe and globally could have a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects.

Following a lengthy period of recession in many economies around the world, including Europe, in the wake of the global financial crisis, global economic growth has returned, although at a relatively modest pace and unevenly across countries. The current outlook for the global economy and financial markets has been shaped by deteriorations in emerging market economies which have been particularly affected by a combination of recent economic events, including a significant drop in oil and other commodity prices in 2015, tighter external financial conditions, China’s economic slowdown, and other economic distresses related to geopolitical factors, which have continued to affect the stability of global financial markets. In addition, on 23 June 2016, the United Kingdom held a referendum on its continued membership of the EU (the “UK Referendum”) in which a majority of voters voted for the United Kingdom to leave the EU. The result of the UK Referendum has also had an effect on global and European financial markets and may have an effect on the European or global economy (see below). Many European economies also continue to face significant economic challenges stemming from weak GDP growth, high levels of private or public debt and elevated unemployment rates. Increasing downside risks on the back of a weaker external environment and heightened geopolitical risks may restrict economic recovery in Europe, which remains greatly dependent on accommodative monetary policy, with a corresponding material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects.

Key external economic factors which both affect and indicate the economic condition and prospects of Europe and other regions include unemployment levels, consumer and government spending levels, government monetary and fiscal policies, inflation rates, credit spreads, currency exchange rates, the availability and cost of capital and funding, market indices, investor sentiment and confidence in the financial markets, consumer confidence, the liquidity in financial markets, the level and volatility of equity prices, commodity prices and interest rates, real estate prices, and changes in customer behaviour. In particular, any period of unpredictable movements, severe dislocations and liquidity disruptions in the financial markets in the Eurozone or elsewhere, as a result of the UK Referendum or otherwise, could lead to a reduction in the demand for some of the BOC Group’s banking services and products and may also impede the BOC Group’s ability to raise capital. This could result in, among other things, the issuance of capital and funding of different types or under different terms than otherwise would have been issued or realised, or the incurrence of additional or increased funding and capital costs compared to the costs borne in a more stable market environment. Furthermore, some of the BOC Group’s risk management strategies may not be as effective at mitigating risks as such strategies would be under more normal market conditions. This could potentially have a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects.

Furthermore, political or other factors and events outside of the BOC Group’s control, such as heightened geopolitical tensions, war, acts of terrorism, pandemic or other natural disasters or other similar events, may have an adverse affect on European and global economic conditions which could, in turn, have a

material adverse effect on the BOC Group's business, financial condition, results of operations and prospects. The particular examples of these factors include, but are not limited to:

- Changes in the level of interest rates imposed by the ECB;
- The passing and implementation of an increasing number of EU regulations and directives relating to the banking, financial services and insurance sectors;
- Political instability or military conflict that impacts Europe and/or other regions;
- Potential further deterioration in the economic, social and political conditions in Greece and the fiscal position of Greece. Although the BOC Group has exited its operations in Greece, the BOC Group remains exposed to Greece, mainly as a result of a legacy foreclosed property portfolio. There are also close geographical, political and social ties between Greece and Cyprus. As at 30 June 2016, the net exposure ("**Net Exposure**")[†] of the BOC Group to Greece comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €12.8 million which was principally comprised of funding exposures to the subsidiaries of Cyprus Popular Bank Public Co Ltd ("**Laiki Bank**") in Greece, (b) 639 foreclosed properties with a book value of €164.2 million, (c) off-balance sheet exposures totalling €118.6 million (primarily due to financial and other guarantees) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €81.4 million and lending exposures in Cyprus with collaterals in Greece totalling €144.3 million;
- Any significant change to, or volatility in, the general economic or political conditions in central and eastern European countries, particularly Russia, Ukraine, Romania and Serbia. Central and eastern European countries share a common history of volatile capital markets and exchange rates, political, economic and financial instability and, in many cases, underdeveloped political, financial and legal systems and infrastructures. A significant proportion of BOC Group's deposits and other business in Cyprus are dependent on expatriate businesses and persons from these countries, particularly Russia and Ukraine. In addition, a material deterioration in political and/or economic conditions in Russia, Romania, Ukraine and Serbia could adversely affect the BOC Group's liquidity and capital because of its exposure to these countries. The BOC Group's Net Exposure to Russia as at 30 June 2016 was €45.3 million, comprised primarily of NPEs. The BOC Group's Net Exposure to Romania as at 30 June 2016 was €262.3 million, comprised primarily of loans and real property and a funding exposure to Laiki Bank's Romanian bank and financial services subsidiaries which were inherited by the Bank in 2013. As at 30 June 2016, the BOC Group had a Net Exposure to Ukraine of €59.5 million in relation to deferred consideration to be paid to it under a repayment programme extended until June 2019 with respect to the sale of its Ukrainian operations. The BOC Group's Net Exposure to Serbia as at 30 June 2016 was €41.5 million, comprised primarily of a funding exposure to Laiki Bank's Serbian bank which were inherited by the Bank in 2013;
- Taxation and other political, economic or social developments affecting Cyprus, Russia, the United Kingdom or the EU;
- Adverse public perception of low tax jurisdictions which has increased following heightened international focus on global tax scandals, including the leak of papers from a Panamanian law firm in early 2016, may result in a material adverse effect on the BOC Group's deposits and business from international customers. The International Banking Services division ("**IBS**") was responsible for 26.5% of the BOC Group's deposits as at 30 June 2016 and 30.6% and 33.8% of the BOC Group's net fee and commission income for 2015 and the first half of 2016, respectively;
- Any material adverse effect on the financial and political resources of the EU as a result of the continuing Syrian war and the related refugee crisis, the resolution of which remains subject to divergent political debate between the member states of the EU ("**EU Member States**");
- A continuation or worsening of the significant volatility in global stock and currency exchange rate markets that has resulted from the announcement of the result of the UK Referendum. There is also considerable uncertainty as to the impact of the result of the UK Referendum on the general economic conditions in the UK, the EU, the financial services industry and the legal and regulatory environment. Such volatility and uncertainty may persist or worsen throughout the process of

[†] "Net Exposure" means, in relation to a country, loans to entities incorporated or resident in such country, minus liabilities to entities incorporated or resident in such country, plus any off-balance sheet exposures to entities incorporated or resident in such country and properties in such country.

negotiation that may be required to determine the future terms of the UK's relationship with the EU; and

- A recurrence of the EU sovereign debt and banking stress triggered by political and fiscal uncertainty associated with Greece, Spain, Italy and the result of the UK Referendum, stalling reform efforts in EU periphery economies.

The Bank has been and could in the future be materially adversely affected by the weakness or the perceived weakness of other financial institutions.

Financial institutions have a high level of interdependence as a result of credit, trading, clearing and other relationships between them. As a result, a default or threatened default or concerns about a default or threatened default by one institution could affect other institutions and lead to significant market-wide liquidity problems and financial losses for other financial institutions. It may even lead to defaults of other financial institutions, which is a risk, sometimes referred to as “systemic risk”. A systemic risk event may also have a material adverse effect on financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, to which the BOC Group is exposed.

Systemic risk in the global financial industry is still at an elevated level. High sovereign indebtedness, low capital levels at many banks and the high interconnectivity between the largest banks and certain economies are important factors that contribute to this systemic risk. Against the backdrop of the global financial crisis, during which the lack of liquidity and high costs of funding relative to official rates in the interbank lending market reached unprecedented levels, the BOC Group is subject to the risk of deterioration of the commercial weakness or perceived weakness of other financial institutions within and outside Cyprus, particularly those within the EU. These risks could have a material adverse effect on the BOC Group's business, financial condition, results of operations and prospects.

Risks Relating to Asset Quality, Provisions and Capital

The BOC Group's financial condition and prospects are materially affected by its ability to reduce the high level of NPEs in its existing portfolio and the price at which it is able to dispose of these NPEs.

The BOC Group's loans and advances to customers (net of provisions and fair value adjustment on initial recognition and excluding held for sale loans and advances) declined from €18.2 billion at 31 December 2014 to €17.2 billion at 31 December 2015 and to €16.3 billion at 30 June 2016. The 90+DPD Ratio has remained relatively high compared with other European banks. 90+DPD loans were 44.0% of the BOC Group's gross loan exposure as at 30 June 2016, compared to 50.1% as at 31 December 2015. At 30 June 2016, the BOC Group held a 90+DPD portfolio of €9.3 billion, reflecting an 18.1% reduction from €11.3 billion at 31 December 2015. A significant proportion of the BOC Group's NPEs are comprised of loans to borrowers in the Cypriot real estate and construction sectors, where asset prices continued to decline and have only begun to stabilise in the first half of 2016. At 31 December 2015 and 30 June 2016, loans to borrowers in the Cypriot real estate and construction sectors which were classified as 90+DPD were 40.3% and 37.1%, respectively, of the BOC Group's portfolio of 90+DPD loans in Cyprus.

As the BOC Group's NPEs comprise a significant proportion of its loan portfolio and require a significant portion of the Bank's capital to be held against them, the BOC Group's ability to provide new loans and resume the growth of its loan portfolio remains constrained and there can be no assurance that the BOC Group will be able to continue the reduction in the level of its NPEs at the current rate. In particular, the BOC Group's ability to reduce the level of its NPEs is significantly dependant on its ability to restructure and/or rehabilitate these loans. A significant proportion of the BOC Group's NPEs are loans to borrowers in the real estate and construction sectors in Cyprus, and the willingness and ability of delinquent or defaulting borrowers to agree to a voluntary restructuring of their loans is materially dependent on the continuing recovery of the Cypriot economy, particularly the Cypriot real estate market (see “—As a significant proportion of the BOC Group's loan portfolio is secured primarily by Cypriot real estate and the BOC Group has a significant portfolio of real estate in Cyprus mainly as a result of the enforcement of loan collateral, the BOC Group's business, financial condition, results of operations and prospects are materially affected by changes in the demand for, and prices of, Cypriot real estate.” below), and the implementation of an effective and efficient insolvency and foreclosure process in Cyprus, none of which are factors within the BOC Group's control. While the Bank believes that the implementation of the New Foreclosure Laws and the Insolvency Framework Laws (as defined and discussed in “Financial Services Regulation and Supervision”) is likely to improve its ability to recover from borrowers who have defaulted on their loans and shorten the recovery period, these laws remain unsettled and it is unclear as to how certain provisions

within these laws will work, or work together, in practice. A number of cases have been presented to the Cypriot District Courts in connection with the New Foreclosure Laws. The majority have resulted in positive outcomes for the Bank, as mortgagee, and a few concluded against the Bank. As at the date of this Prospectus, however, there are a number of further cases pending in the courts, the outcome of which remains unknown. While the judgment of one District Court is not binding on another, any discrepancy in court findings creates uncertainty, which in turn can lead to delays in the legal process as a result of similar challenges being made and thereby, delays in recovery periods (see “*Financial Services Regulation and Supervision—Laws relating to Foreclosure*”). Moreover, the significant guarantor and debtor protections that exist under the Insolvency Framework Laws could make it difficult for the Bank to recover from delinquent or defaulting borrowers and, as applicable, guarantors. Accordingly, there can be no assurance that the reforms implemented by the New Foreclosure Laws and the Insolvency Framework Laws will be effective in improving the Bank’s ability to reduce the Bank’s portfolio of NPEs.

While any sale of NPEs or portfolios of NPEs by the BOC Group would reduce the level of its NPEs and release the provisions held against them, the sale could result in a loss being recorded, which could have a material adverse effect on the BOC Group’s income for the relevant financial period and the BOC Group’s capital position in the longer term. Further, the Sale of Credit Facilities Law relating to the sale of loans which became effective on 25 November 2015 imposed a new process to sales of NPEs which remains untested and includes certain provisions which could potentially restrict the BOC Group’s ability to sell delinquent loans (see “*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—Sale of Credit Facilities Law*”).

As a significant proportion of the BOC Group’s loan portfolio is secured primarily by Cypriot real estate and the BOC Group has a significant portfolio of real estate in Cyprus, mainly as a result of the enforcement of loan collateral, the BOC Group’s business, financial condition, results of operations and prospects are materially affected by changes in the demand for, and prices of, Cypriot real estate.

The BOC Group has substantial exposure to the Cypriot real estate market as the majority of its NPE portfolio is secured by mortgages over real estate in Cyprus. As at 30 June 2016, mortgages accounted for 89.1% of the total collateral held by the Bank in Cyprus. The total carrying value of the BOC Group’s Cypriot real estate assets resulting from the enforcement of loan collateral amounted to €887.2 million as at 30 June 2016. As at 30 June 2016, 9.4% of the BOC Group’s real estate assets were residential buildings and land, while another 90.6% were commercial buildings and land, of which 6.2% was concentrated in golf resort properties. Accordingly, the BOC Group’s business, financial condition, results of operations and prospects would be materially affected by changes in the demand for, and prices of, Cypriot real estate.

Cyprus’ real estate market began to decline from late 2008 onwards as Cyprus suffered significant declines in real estate prices, particularly during the period of recession from the second half of 2011 to 2014. Although the rate of decline decreased in 2015, the trend is continuing.

Should the Cypriot real estate market fail to recover, suffer further declines in prices, or continue to perform poorly, the BOC Group’s ability to restructure NPEs secured by real estate would be adversely affected and the corresponding decline in the recovery value of real estate assets held as collateral could lead to higher impairment provisions for the BOC Group. In relation to real estate over which the BOC Group has obtained control, the BOC Group could incur significant ongoing costs to maintain the value of its real estate portfolio in Cyprus. Furthermore, any decline in real estate prices could be exacerbated if a significant proportion of the real estate for sale in Cyprus comprises of foreclosed real estate. In any event, the BOC Group’s ability to realise the value of its real estate portfolio is dependent on a number of external factors over which the Bank has no control, such as foreign investor demand (which has historically been a material source of demand for Cypriot real estate) and government policies with respect to real estate investment requirements for Cypriot citizenship and residency. Accordingly, for any one or more of the foregoing reasons, any declines in the prices or demand for Cypriot real estate could have a material adverse effect on the BOC Group’s business, financial condition, results of operations and prospects.

Increases in new provisions could materially adversely affect the BOC Group’s financial condition and results of operations.

In connection with its lending activities, the BOC Group provides for loan losses, which are recorded in its profit and loss account. As at 30 June 2016, the BOC Group’s provision for loan losses was €3.8 billion excluding fair value adjustment on initial recognition and provision for off-balance sheet exposures. The

BOC Group's overall level of provisions is based on its assessment of prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the recoverability of various loans. For a discussion of the BOC Group's provisioning policies, see *"Risk Management—Credit Risk—Provisioning"*.

As a result of deteriorating economic conditions, changes in regulatory or accounting requirements or other causes, it is possible that the BOC Group's lending businesses may have to increase their provisions for loan losses in the future. In particular, the BOC Group may have to increase its provisions as a result of any increases in its NPEs, deteriorations in asset valuations and/or requests by the ECB to do so.

Any significant increase in provisions for loan losses or a significant change in the BOC Group's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the related provisions, may have a material adverse effect on the BOC Group's business, financial condition and results of operations.

The BOC Group is subject to ECB supervision which may result in requests that it increase its loan provisions or raise additional capital, or increased costs.

From November 2014, the BOC Group came under the supervision of the ECB following the latter's assumption of its supervisory responsibilities under Regulation (EU) No 1024/2013 (the **"ECB Regulation"**), adopted on 15 October 2013 with the goal of establishing a single supervisory mechanism to oversee and unify credit institutions in the Eurozone. Accordingly, the BOC Group's compliance with the prudential requirements of CRD IV and CRR (each as defined in *"Financial Services Regulation and Supervision"*) is significantly dependent on the ECB's interpretation and decisions in relation to these requirements following its periodic inspections of the BOC Group within the scope of the ECB Regulation. In practice, ECB supervision of the BOC Group is carried out in cooperation with the CBC and joint decisions with the PRA are issued with respect to the Bank of Cyprus UK Ltd's (**"BOC UK"**) capital requirements.

CRD IV and the CRR comprise the European regulatory package designed to transpose the capital, liquidity and leverage standards of Basel III into the EU's legal framework, and became effective on 1 January 2014. CRR established the prudential requirements for capital, liquidity and leverage that entities need to comply with. It has direct effect in all EU Member States. CRR introduced significant changes in the prudential regulatory regime applicable to banks, including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets, and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019, although some transitional provisions provide for phase-in until 2024. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws and allows national regulators to impose additional capital buffer requirements. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law. For more detail on CRD IV and the CRR, see *"Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements"*.

The ECB, as the BOC Group's competent authority, has power, among others, to request changes in the provisioning policy or treatment of items in terms of own funds requirements, for the purposes of CRD IV, as well as requirements in relation to capital and liquidity. Accordingly, loan provisioning, additional capital and other requirements, whether based on an interpretation of current rules or the application of new rules or guidance, could be imposed on the BOC Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-on capital requirements are a point-in-time assessment and therefore subject to change over time. Loan provisions, additional capital, and/or liquidity requirements could lead to increased costs for the Bank, limitations on the Bank's capacity to lend and further restructuring of the BOC Group which could have a material adverse effect on the business, financial condition, results of operations and prospects of the BOC Group.

Changes in financial reporting standards or policies could materially adversely affect the BOC Group's reported results of operations and financial condition and may have a material adverse effect on capital ratios.

The BOC Group prepares its financial statements in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the EU (**"IFRS"**) and, accordingly, from time to time the BOC Group is required to adopt new or revised

accounting standards issued by recognised bodies, including the International Accounting Standards Board. In July 2014, the International Accounting Standards Board announced IFRS 9 on financial instruments which will replace IAS 39 and is expected to become effective for annual periods beginning on or after 1 January 2018, subject to endorsement by the EU. An IFRS 9 implementation project has been initiated by the BOC Group. The project covers all aspects of IFRS 9, although the greatest amount of work is expected to be required to develop the methodologies to calculate the impairment of customer loans and advances based on the expected credit loss model, since IFRS 9 moves away from the current incurred loss model to an expected credit loss model, and requires more judgment in considering information for current and future provisioning. The expected credit losses model will result in earlier recognition of credit losses and thus a higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future. The credit loss expense is also likely to be more volatile as expectations and judgments may change. In addition, as the balance sheet of the BOC Group grows, more day-one provisions are recorded and this may also increase the provision charges. This volatility will be reflected in the BOC Group's income statement and CET1 capital. It is also expected that there will be additional movements within the three stages stipulated by the standard and, thus, further volatility in the provisioning charge as the BOC Group progresses further with the restructuring and recovery of loans. The assessment of the impact of IFRS 9 is ongoing and may significantly change upon its full application reflecting business models and balance sheet dynamics at the time, therefore making it impractical to quantify any potential effect at present. Changes in business models or policies, including as a result of choices made by the BOC Group, could have a material adverse effect on the BOC Group's reported results of operations and financial condition and may have a corresponding material adverse effect on capital ratios.

If the BOC Group does not generate sufficient taxable profits to utilise its deferred tax assets, it could result in a material reduction in the BOC Group's net profit and capital.

Deferred tax assets are recognised by the BOC 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. Judgment 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 judgment and are subject to uncertainty. At 30 June 2016, the BOC Group had recognised deferred tax assets of €451.1 million, mainly as a result of Laiki Bank's tax losses transferred to the Bank in accordance with the Laiki Transfer Decrees (as defined in "History of the BOC Group, the Restructuring, the Recapitalisation and Disposals").

The deferred tax asset recognised at the time of the transfer of these tax losses from Laiki Bank amounted to €417.0 million and can be set off against the taxable future profits of the Bank for a period of 15 years, expiring in 2028, at the prevailing tax rate (currently 12.5%). If the Bank does not generate sufficient future taxable profits to utilise its deferred tax assets fully prior to their expiry, the Bank will have to write-off these deferred tax assets which would reduce the BOC Group's net profit and, in turn, the BOC Group's capital.

Funding and Liquidity Risks

The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group's business, financial condition, results of operations and prospects.

In managing its liquidity risk, the BOC Group is dependent on external sources of funding, through deposits, interbank and wholesale markets, and central banks (the ECB and the CBC). The ability of the BOC Group to access these funding sources on favourable economic terms, or at all in circumstances where the Cypriot economy substantially deteriorates, is subject to a variety of factors, including a number of factors outside of its control, such as liquidity constraints, general market conditions and the level of confidence in the Cypriot banking system.

As a result of the Cypriot economic recession and certain events prior to March 2013, during which Cyprus' and the BOC Group's credit ratings were downgraded and the Cypriot banking sector experienced a significant overall reduction in deposits, the BOC Group's access to interbank and wholesale markets became restricted and the Bank had to rely heavily on central bank funding for liquidity. See "History of the BOC Group, the Restructuring, the Recapitalisation and Disposals". Despite the return and stabilisation of the amount of customer deposits in Cyprus as a percentage of the BOC Group's total funding over the

course of 2015 and the first half of 2016, the BOC Group remains reliant on central bank funding and continues to be in breach of many of its regulatory liquidity requirements as a result of prioritising the repayment of Emergency Liquidity Assistance (“ELA”) funding (the most significant portion of which was assumed by the Bank pursuant to the Laiki Transfer Decrees) over the meeting of its regulatory liquidity requirements. While reliance on ELA funding adversely affects the BOC Group’s prescribed liquidity ratios because ELA funding is short-term and a significant portion of the BOC Group’s liquidity is used to repay ELA funding, neither the ECB nor the CBC has imposed any fines or taken any other supervisory actions within their remit with respect to these breaches, other than having imposed strict reporting requirements on the Bank with respect to its cash flow and liquidity position. In addition, the ECB and the CBC have imposed a number of operating restrictions on the BOC Group, including prohibiting the distribution of dividends by the Bank and the provision of variable remuneration to BOC Group employees, as well as requiring the Bank to obtain the prior approval of the ECB before providing capital or funding to any subsidiary.

Although the BOC Group expects gradually to come into compliance with its liquidity ratios once the ELA funding is repaid in full, any failure by the BOC Group to manage its liquidity effectively after the repayment of such ELA funding, or further breaches after repayment, could result in the BOC Group not being able to meet its obligations when they fall due or in the regulators taking a different position with respect to breaches of liquidity requirements. For a discussion on the BOC Group’s regulatory liquidity requirements, see *“Operating and Financial Review—Liquidity and Capital Resources—Liquidity ratios”*. Currently, the BOC Group’s two principal sources of funds are customer deposits, particularly retail deposits, and central bank funding. As at 31 December 2015 and 30 June 2016, customer deposits accounted for 73.7% and 79.3%, respectively, and central bank funding accounted for 23.1% and 16.7%, respectively, of the BOC Group’s funding. As at 31 December 2015 and 30 June 2016, the BOC Group’s ELA funding was €3.8 billion and €2.4 billion, respectively, and comprised 85.4% and 77.4%, respectively, of the BOC Group’s central bank funding.

The availability of ongoing funding from customer deposits is subject to factors such as depositors’ concerns relating to the economy in general, the financial services industry and the BOC Group specifically, and any significant deterioration in economic conditions in Cyprus. Any of these factors separately or in combination could lead to a sustained reduction in the BOC Group’s ability to access customer deposit funding on appropriate terms in the future. By way of example, the bail-in of depositors of the Bank in 2013 resulted in losses suffered by depositors which would have likely resulted in significant deposit outflows from Cyprus if the government of Cyprus (the “**Government**”) had not imposed restrictive measures and capital controls on the withdrawal of funds. Accordingly, any event or series of events which results in a prolonged period of uncertainty concerning the Cypriot economy, the banking sector or the BOC Group could precipitate another loss of confidence by depositors, which could result in a withdrawal of deposits.

A deterioration in the Cypriot economy which precipitates a significant outflow of deposits from the Cypriot banking system (including the Bank) could result in the Bank having to rely on ELA funding of up to €2.8 billion under a reasonable worst case scenario in the Bank’s working capital assessment. This is based on a detailed analysis of the BOC Group’s projected profit and loss, capital and liquidity reserves under both a base case scenario and a reasonable worst case scenario and an assessment of the current macro-economic and regulatory position of the BOC Group. The reasonable worst case scenario was formulated using, amongst other things, macro-economic assumptions which simulate a recessionary environment in Cyprus. As a consequence of such reliance on ELA funding, certain requirements may be imposed on the Bank by the CBC and/or the ECB.

Access to central bank funding may not always be available (see *“—Government and ECB actions intended to support liquidity may be insufficient or discontinued, thus the BOC Group may be unable to obtain the required liquidity”* below) and is subject to funding provision rules. The amount of available funding is tied to the value of the collateral the BOC Group provides, including the market value of retained covered bonds, as well as the value of the BOC Group’s loan portfolio, which may also decline in value. If the value of the BOC Group’s assets declines, then the amount of funding the Bank can obtain from these facilities may be reduced. In addition, ELA funding is short-term and is typically provided for a period of two to four weeks. The availability of this funding and its terms are at the discretion of the ECB and the CBC. The Board of Directors of the Bank does not regard ELA funding as a committed liquidity facility for the purposes of the working capital statement. Further, if securities or other assets that are currently used by the Bank as collateral were no longer eligible to serve as collateral for central bank funding, the Bank’s funding costs could increase and its access to liquidity could be limited.

If there is a material decrease in the BOC Group's customer deposits and/or the BOC Group is unable to obtain the necessary liquidity either from central banks (including in the form of ELA or otherwise), the BOC Group may not be able to maintain its current levels of funding without disposing of a number of the BOC Group's assets or having to raise additional capital. In addition, in such circumstances the Bank may become subject to restrictive measures and capital controls by the Government and/or other measures taken with respect to the Bank under the BRRD regime and SRM Regulation (see "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Bank Recovery and Resolution*"), which, individually or together, could have a material adverse effect on the BOC Group's business, financial condition, results of operations and prospects.

See "*Additional Information—14. Working Capital*" in this Prospectus.

Government and ECB actions intended to support liquidity may be insufficient or discontinued, thus the BOC Group may be unable to obtain the required liquidity.

The financial markets crisis, the increase of risk premiums, and the higher capital requirements demanded by investors and regulators have led to intervention and requirements for banking institutions to have increased levels of capitalisation and liquidity. In many countries, the requirement for additional liquidity was achieved through the provision of liquidity support by central banks. In order to permit such support, financial institutions were required to pledge securities and other assets deemed appropriate as collateral by their regulators and central banks.

In the Eurozone, the ECB and the national central banks adopted monetary easing policies and, consequently, made available monetary policy tools such as targeted longer-term refinancing operations, covered bond purchase programmes and an asset-backed securities purchase programme. An expanded asset purchase programme was launched in 2015 and expanded further in 2016 to include corporate bonds. Financial institutions in the Eurozone utilise these programmes and, given the interdependence between financial institutions in the Eurozone, the cessation of these programmes and any other accommodative monetary policies could have a material adverse effect on the financial condition of these financial institutions, including the Bank, and any deterioration, or perceived deterioration, in these financial institutions could also result in an adverse affect on the Bank and the BOC Group in terms of its perception and prospects. There can also be no assurance that the ECB or these national central banks will continue to adopt accommodative monetary policies or that the employment of these policies will be sufficient to address the fiscal risks which remain.

In the event that there is a significant reduction or elimination in the liquidity support provided to the system by governments and central authorities, the BOC Group may encounter increased difficulties in procuring liquidity in the market and/or higher costs for procurement of such liquidity, thereby adversely affecting its business, financial condition or results of operations.

The Bank's wholesale borrowing costs and access to liquidity and capital have been adversely affected by a series of downgrades during the economic recession in Cyprus of the credit ratings of Cyprus and the Bank.

The Bank currently has a long-term deposit rating from Moody's Investor's Service Cyprus Limited ("**Moody's Cyprus**") of Caa3 with a positive outlook and a long-term issuer default rating from Fitch Ratings Limited ("**Fitch**") of B – with stable outlook. These ratings reflect in part the sovereign ratings of Cyprus (B1 stable outlook from Moody's Investor's Service Ltd. ("**Moody's**"), BB positive outlook from Standard and Poor's Credit Market Services Europe Limited ("**S&P**") and BB – from Fitch with positive outlook). The Bank's sub-investment grade ratings could make it more difficult for it to raise debt or equity and will increase its cost of wholesale funding, with a consequent adverse effect on its business, financial condition, results of operations and prospects. A downgrade of Cyprus' rating may occur in the event of a failure (or any investor perception of such failure) to maintain the pace of structural and fiscal reform in Cyprus, especially following Cyprus' exit from the EAP, or if the structural reforms implemented do not produce the economic results expected. Accordingly, the cost of funding for Cyprus would increase, with adverse affects on the cost of funding and credit ratings for Cypriot banks. A downgrade of the Bank's credit rating (including as a result of any downgrades of the sovereign rating of Cyprus) would likely increase cost of funding and could potentially prevent the Bank from accessing capital markets for funding and/or exclude the Bank from private sources of wholesale funding or other sources of funding.

The BOC Group's ability to enter into transactions with other financial institutions may be limited by its current credit rating and risk profile.

The Bank routinely transacts with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Sovereign credit pressures may weigh on Cypriot financial institutions, limiting their funding operations and weakening their capital adequacy by reducing the market value of their sovereign and other fixed income holdings. These liquidity and capital concerns have adversely affected inter-institutional financial transactions in general. In particular, as a Cypriot financial institution, the Bank's ability to enter into what would have been routine transactions with international counterparties has been adversely affected as a result of these counterparties' concerns as to the credit risk they would be taking with respect to the Bank. While credit market conditions have improved in the last year and most of the counterparties have re-opened lines of credit with the Bank, the risk remains that the credit situation may deteriorate as a result of deterioration in the sovereign credit outlook and the credit outlook for Cypriot financial institutions. In that event, the Bank's credit rating and risk profile may lead to the Bank having to pay higher rates of interest on its interbank borrowings and/or provide higher amounts of collateral, particularly cash collateral, to secure its transactions with international counterparties or adversely affect the Bank's ability to enter into transactions. The higher cost of these transactions may have an adverse affect on the Bank's ability to hedge its foreign currency and other market risk exposures and to manage its liquidity reserves.

Market Risks

A prolonged period of low or negative market interest rates or changes in interest rates may negatively affect the BOC Group's net interest income and have other adverse consequences.

Interest rates are highly sensitive to many factors beyond the BOC Group's control, including monetary policies and domestic and international economic and political conditions. There is a risk that future events, in view of the tight liquidity conditions in the domestic deposit market, may alter the interest rate environment.

In the Eurozone, the ECB and the national central banks have adopted monetary easing policies which have exerted downward pressure on interest rates and yield curves, which may adversely affect the interest rate margin of the BOC Group. Interest rates remain at historical lows and are expected to remain low (by historical standards) for the foreseeable future. A prolonged period of flatter than usual interest rate yield curves and negative interest rates could in particular have a material adverse effect on the BOC Group's net interest income. In particular, net interest income may be adversely affected due to the inability of the Bank to lower interest rates on customer deposits and accounts below 0% and by possible margin compression from lower interest rates. From a funding perspective, even in the event of decreasing interest rates, competitive pressures may still restrict the BOC Group's ability to decrease its deposit interest rates. Furthermore, a prolonged period of low inflation or deflation could materially adversely affect client behaviour, lead to customer deposit outflows and therefore adversely affect the BOC Group's funding base.

In addition, changes in market interest rates may affect the interest rates the BOC Group charges on its interest-earning assets differently from the way that it may affect the interest rates it pays on its interest-bearing liabilities, which could reduce the BOC Group's net interest income. Since the BOC Group's loans re-price quicker than its liabilities, a decrease in interest rates may cause the BOC Group's net interest income to decrease. Alternatively, rising interest rates may also result in an increase in the BOC Group's allowance for the impairment of loans and advances to customers if customers cannot refinance in a higher interest rate environment. Competitive pressures and/or fixed rates in existing loan commitments or loan facilities may also restrict the BOC Group's ability to increase lending rates in the event of an increase in interest rates. Further, an increase in interest rates may reduce the BOC Group's clients' capacity to repay, thereby increasing the BOC Group's NPEs. Further, different types of assets and liabilities may be linked to different interest reference rates which may expose the BOC Group to basis risk. Accordingly, changes in interest rates or a failure to manage its basis risk effectively may have a material adverse effect on the business, financial condition and results of operations of the BOC Group.

Changes in currency exchange rates may materially adversely affect the BOC Group.

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. These fluctuations and the degree of volatility with respect thereto may affect earnings reported by the BOC Group. Foreign exchange rate fluctuations expose the

BOC Group to risks that arise from transactions in foreign currency, as well as changes in the value of the BOC Group's assets and liabilities denominated in foreign currencies which may affect the BOC Group's financial results and equity. Losses may also arise during the management of the BOC Group's assets/liabilities and investments in foreign countries. Although the BOC Group enters hedging transactions with the aim of minimising the risk of fluctuations in foreign exchange rates, such hedging could be inadequate. As a result, such fluctuations in foreign exchange rates may have a material adverse effect on the business, financial condition and results of operations and prospects.

Risk of fluctuation of prevailing share and other securities prices.

The BOC Group can be adversely affected by changes in the market price of securities that it holds (mainly equity and debt securities and mutual funds). Changes in the prices of securities that are classified as investments at fair value through profit and loss affect the profit of the BOC Group whereas changes in the value of securities classified as "available for sale" affect the equity of the BOC Group. As at 30 June 2016, the BOC Group had a €839.7 million portfolio of mutual funds and debt and equity securities. The BOC Group currently invests part of its liquid assets in debt securities issued mostly by governments. In addition, the BOC Group's insurance and investment businesses are subject to the risk of negative price adjustments in the value of shares and other securities held in their investment portfolios.

Business Risks

The BOC Group's businesses are conducted in a highly competitive environment.

The BOC Group faces significant competition from both domestic banks and international banks operating in Cyprus, particularly in relation to retail deposits as a result of the general scarcity of wholesale funding since the onset of the Cypriot economic recession in 2012. Further, a large number of domestic cooperative credit institutions were restructured and recapitalised by the Government in accordance with the Memorandum of Understanding ("MoU") between Cyprus and the European Commission (the "EC"), the ECB and the IMF (the "Troika") and now represent increasing competition to the Bank in the retail and small and medium size enterprise ("SME") markets. Some of the foreign banks operating in Cyprus may have resources greater than those of the Bank's and have refocused their operations to cater for domestic retail, SME and corporate clients, as well as international clients. Moreover, with respect to international clients, Cyprus as a country competes with other low tax jurisdictions focused on the provision of financial services. If the Bank is unable to successfully compete with other institutions, these competitive pressures on the BOC Group may have an adverse effect on its business, financial condition and results of operations.

The BOC Group's ability to grow its business and maintain its competitive position depends, in part, on the success of new operations, products and services, including the newly established REMU, its strategy to expand the BOC UK operations and proposed digitalisation and paperless banking.

The BOC Group intends to continue to explore and pursue opportunities to strengthen and grow its business generally. This includes the establishment of the Real Estate Management Unit ("REMU"), the organic expansion of the BOC UK business operations and assets, as well as proposals to move towards digitalisation and paperless banking.

With the establishment of REMU, the BOC Group aims to accelerate the monetisation of its real estate assets which, as a result of the recent Cypriot economic recession, are principally comprised of enforced loan collateral located in Cyprus and Greece. REMU's ability to sell these real estate assets will depend on factors which are outside of the BOC Group's control, such as changes in the demand for, and prices of, Cypriot and Greek real estate, the availability of capital gains tax relief in Cyprus for purchases of real estate in connection with debt restructurings or other changes to the current property tax environment and the quality and location of the real estate assets which, in many cases, are in a state of disuse and disrepair. Any material failure by REMU to sell these assets could result in increased ongoing operational and maintenance costs for the BOC Group and a reduction in non-interest income for the BOC Group, any of which could have a material adverse effect on the profitability of the BOC Group.

The Bank has also targeted selective markets and client segments for growth, including BOC UK and its customer base. In December 2015, a new CEO was appointed to lead the UK bank into the next phase of its development. With a view to increasing its profitability and growing its business in the United Kingdom, the BOC Group may launch new products and services and enter markets in new regions of the UK through BOC UK, its UK bank subsidiary. When seeking to expand its business, the BOC Group may

incur risks that may be material, including spending significant time, funds and other resources developing new products and services or improving BOC UK's existing offerings. If these products, services or improved offerings are not successful or not as innovative as envisaged, the BOC Group may not be able to offset the costs of such initiatives, which may have a material adverse effect on the BOC Group's income, revenues and/or cost base. The ability to successfully implement BOC UK's strategy or pursue business opportunities will also be impacted by factors such as general economic and business conditions, changes in government policy and regulatory requirements and constraints, many of which are outside the control of the BOC Group. In particular, BOC UK's focus on the mortgage financing of buy-to-let real estate in the United Kingdom exposes it to volatility in UK house prices and changes in government policies and tax laws which may make the purchase of buy-to-let properties a less viable investment and, therefore, reduce the demand for the related mortgage financing. The BOC Group may also become subject to new or stricter UK regulatory requirements as a result of expanding its products, services and operations, or the supervision by existing supervisory authorities may increase its administrative, operational and management expenses (including management attention and time) to comply with such new or stricter requirements and supervision.

The success of the BOC Group's business, financial condition, results of operations, prospects and competitive position in general also depends, in part, on the success of new products and services offered to clients, including any shifts to digitalisation and paperless banking. However, the BOC Group cannot guarantee that these new products and services will be responsive to client demands or successful once they are offered or that they will be successful in the future. In addition, clients' needs or desires may change over time, and such changes may render its products and services obsolete, outdated or unattractive and the BOC Group may not be able to develop and deploy new products that meet clients' evolving needs. The BOC Group's success is also dependent on its ability to anticipate and leverage new and existing technologies that may have an impact on products and services in the banking industry. Technological changes may further intensify and complicate the competitive landscape and influence client behavior. If the BOC Group's products and services employ technology that is not as attractive to clients as that employed by its competitors, if it fails to employ technologies desired by clients before its competitors do so, such as digitalisation or paperless banking, or if it fails to execute effectively on targeted strategic technology initiatives, its business financial condition, results of operations and prospects could be materially adversely affected. In addition, if the BOC Group cannot respond in a timely fashion to the changing needs of its clients, it may lose clients, which could in turn materially adversely affect its, financial condition, results of operations, prospects and competitive position.

Accordingly, if the BOC Group's strategies are not implemented successfully, or if the BOC Group's strategies do not yield the anticipated benefits or leads to unforeseen liabilities, or if the BOC Group is unable to successfully monetize its real estate portfolio, launch new products or services, improve offerings or pursue other business opportunities in time or at all in the United Kingdom or its core market in Cyprus, this could have a material adverse effect on the BOC Group's business, results of operations, financial condition and prospects.

The BOC Group is exposed to insurance and reinsurance risks.

The BOC Group, through its subsidiaries EuroLife Ltd ("**EuroLife**") and General Insurance of Cyprus Ltd ("**GIC**"), provides life insurance and general insurance, respectively, and is exposed to certain risks particular to these businesses. For a portfolio of life insurance contracts, the principal risk is that the actual claims and benefit payments exceed the carrying amount of insurance liabilities. The risk of a general insurance contract derives from the uncertainty of the amount and time of occurrence of a claim, such as natural disasters which are unpredictable both in terms of occurrence and scale. In addition, liabilities which stem from claims that have occurred in the past but have not been fully settled could turn out to be higher than expected. In particular, liability insurance claims may often take years to settle and may result in higher settlement or court costs than anticipated.

Insurance events are unpredictable and the actual number and amount of claims and benefits will vary from year to year from the estimate established using actuarial and statistical techniques. Accordingly, the level of insurance risk is determined by the frequency of the claims, the severity and the evolution of claims from one year to another.

In addition, although reinsurance arrangements mitigate insurance risk, the BOC Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations.

Operational Risks

The BOC Group could fail to attract or retain senior management or other key employees.

The BOC Group relies on an experienced and qualified management team. In particular, Dr. Josef Ackermann, Chairman, and Mr. John Patrick Hourican, Group Chief Executive Officer, and certain other key members of management have been a driving force behind the BOC Group's restructuring and strategy following the economic recession in Cyprus. The loss of the services of key members of management or certain key employees, particularly to competitors, in circumstances where a suitable replacement cannot be found in a timely manner, an inability to attract experienced and qualified employees and an inability to adequately incentivise existing employees, may have a material adverse effect on the BOC Group's business, financial condition and results of operations. Mr. Hourican's existing employment contract is due to expire in February 2018. A failure to identify successors of a similar professional calibre could delay and affect the BOC's Group ability to implement its corporate strategies, including the reduction of its portfolio of NPEs and the resumption of growth in its core markets, and, accordingly, have a material adverse effect on the BOC Group's business, financial condition and results of operations.

Staff rationalisation measures and a failure to manage trade union relationships effectively could have a material adverse effect on the BOC Group's business, operations, financial condition and results of operations.

Staff rationalisation measures taken by the Bank, such as the voluntary exit plan ("VEP") provided by the BOC Group in February and June 2016 to its employees in Cyprus, could weaken employee relations and result in labour disputes, which could adversely affect the BOC Group's business, financial condition and results of operations. In the past, the Bank has implemented and may in the future continue to implement measures to increase efficiency, exploit synergies and respond to changing customer preferences. These measures could weaken the BOC Group's employee relations and result in labour disputes that could have a negative impact on its reputation and the BOC Group's business, financial condition and results of operations.

In addition, any failure to manage trade union relationships effectively may also result in disruption to the business and the BOC Group's operations causing potential financial loss. Most of the Bank's employees are members of a union, and any prolonged labour unrest could have a material adverse effect on the Bank's operations in Cyprus, either directly or indirectly.

The proper functioning of the BOC Group's business requires precise documentation, recordkeeping and archiving, the lack of which could have a material adverse effect on the BOC Group's reputation, business, results of operations and financial condition and prospects.

The proper functioning of the BOC Group's business requires precise documentation, recordkeeping and archiving. Incomplete documentation, inaccurate documentation, documentation not properly executed by counterparties, inadequate recordkeeping or archiving, including the inability to promptly reproduce the information stored in a demonstrable authentic, unchanged, unmodified or unaltered fashion, and the loss of documentation (both physical and electronic) could materially adversely affect the BOC Group's business operations in a number of ways.

Technical limitations, end of lifecycles, erroneous operational decisions, human mistakes, outdated computer systems and programmes for the storage of older data, system failures, system decommissioning, underperforming third party service providers, and inadequate and incomplete arrangements with third party service providers (including where the business continuity and data security of such third parties proves to be inadequate), may all lead to the production of incomplete or insufficient documentation or data, the loss or inaccessibility of documentation or data, and non-compliance with regulatory requirements or with internal monitoring requirements or policies. Furthermore, data required for making adequate decisions may not always be readily available or not be available in a format that allows processing without human intervention. In those circumstance, the BOC Group may need to manually collect data from its various systems or from within different business units and convert it into a format compliant with reporting requirements. Deficiencies in its documentation, recordkeeping and archiving, or in obtaining accurate and complete information, for any one or more of the foregoing reasons, could materially adversely affect the BOC Group's reputation, business, results of operations, financial condition and prospects.

Failure to effectively improve or upgrade the BOC Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on its operations.

The ability of the BOC Group to remain competitive depends in part on its ability to upgrade its information technology on a timely and cost-effective basis. The BOC Group must continually make significant investments and improvements in its information technology infrastructure in order to remain competitive. The BOC Group cannot provide assurance that it will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of its information technology infrastructure. Any failure to effectively improve or upgrade the BOC Group's information technology infrastructure and management information systems in a timely manner could have a material adverse effect on its business, results of operations, financial condition and prospects.

The BOC Group is currently contemplating the introduction of a digital transformation programme. There can be no assurance that the BOC Group will realise the anticipated benefits associated with this upgrade programme in the timeframe planned, or at all. Technological advances between the date of the Prospectus and full implementation of the programme may be faster than the upgrade programme anticipates, resulting in the risk that the BOC Group may need to make further investments in its information technology landscape.

The Bank's information systems and networks have been, and will continue to be, vulnerable to an increasing risk of continually evolving cyber security or other technological risks.

A significant portion of the Bank's operations rely heavily on the secure processing, storage and transmission of confidential and other information, as well as the monitoring of a large number of complex transactions on a minute-by-minute basis. The Bank stores an extensive amount of personal and client-specific information for its retail, corporate and governmental customers and clients and must accurately record and reflect their extensive account transactions. The secure transmission of confidential information over the internet and the security of the BOC Group's systems are essential to its maintaining customer confidence and ensuring compliance with data privacy legislation. If the BOC Group or any of its third-party suppliers fails to transmit customer information and payment details online securely, or if they otherwise fail to protect customer privacy in online transactions, or if third parties obtain and/or reveal the confidential information of any member of the BOC Group, the BOC Group may lose customers and potential customers may be deterred from using the BOC Group's products and services, which could expose the BOC Group to liability and could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Bank's computer systems, software and networks have been and will continue to be vulnerable to unauthorised access, loss or destruction of data, unavailability of service, computer viruses or other malicious code and other events, which may be caused by misconfiguration of systems, failure of security updating (patching) or outdated systems. For example, the Bank's systems are not yet fully payment card industry data security standard ("PCI DSS") compliant so there is a risk of improper management of cardholder data as required by PCI DSS. In addition, the data centres of the BOC Group are located in relative proximity to each other, which increases the likelihood that both data centres could be significantly impacted in the event of natural disasters.

A number of threats may derive from human error, fraud or malice on the part of employees, even if trained in information security, or third parties, or may result from accidental technological failure. If one or more of these events occurs, it could result in the disclosure of confidential client information, damage to the BOC Group's reputation with its clients and the market, additional costs to the Bank (such as for repairing systems or adding new personnel or protection technologies), regulatory penalties and financial losses to both the Bank and its clients. Such events could also cause interruptions or malfunctions in the operations of the Bank (such as the lack of availability of the Bank's online banking systems), as well as the operations of its clients, customers or other third parties. Given the volume of transactions at the Bank, certain errors or actions may be repeated or compounded before they are discovered and rectified, which would further increase these costs and consequences.

The Bank relies on the remote access service, either by employees working remotely or service providers who support the Bank's systems. The reliance on service providers to support the Bank's systems and infrastructure is due to the expanded landscape of systems required to support operations and may lead to systems compromises or information leaks.

In addition, third parties with which the Bank conducts business under stringent contractual agreements may also be sources of cyber security or other technological risks. Although the Bank adopts a range of

actions to reduce the exposure resulting from outsourcing, unauthorised access, loss or destruction of data or other cyber incidents could occur, resulting in similar costs and consequences to the Bank as those discussed above.

The BOC Group uses internal risk management methodologies and models which incorporate assumptions, judgements and estimates that may change over time or that may ultimately turn out not to be accurate, which could materially and adversely affect the BOC Group's business, results of operations, financial condition and prospects.

The BOC Group could incur losses as a consequence of decisions that are principally based on the output of methodologies or models or due to errors in the development, implementation or use of such methodologies or models. Such errors can be caused by insufficient quality or quantity of data, flawed expert opinions, incorrect implementation or application of the model, unverified model assumptions, uncaptured behaviour, incomplete algorithms and computations or any other technical weaknesses. Uncaptured behaviour, which is behaviour that a model does not take into account, could relate to client behaviour, market behaviour or the behaviour of the BOC Group.

The BOC Group's risk management techniques and strategies may not be fully effective in mitigating the BOC Group's risk exposure in all economic market environments or against all types of risk, including risks that the BOC Group fails to identify or anticipate. Some of the BOC Group's tools and metrics for managing risk are based upon the use of observed historical market behaviours. The BOC Group applies statistical and other tools to these observations to arrive at quantifications of risk exposures. These tools and metrics may fail to predict future risk exposure or may not be sufficiently conservative and, as such, could fail to correctly manage an existing, or to identify in a timely manner a future, material adverse event which could result in a material adverse effect on the business, financial condition, results of operations and prospects of the BOC Group.

When BOC Group's management establishes provisions for loan losses in the BOC Group's businesses at a level it deems appropriate, it makes an assessment based on historical data, such as prior loss experiences, the volume and type of lending being conducted by the BOC Group, industry standards, past due loans, economic conditions, recovery periods and potential amounts of liquidation expenses and other factors related to the BOC Group's ability to collect on its loan portfolio. Accordingly, the establishment of provisions for loan losses requires management to exercise its judgment and to have available meaningful historical data. If this judgement proves to be incorrect or if the historical data is unavailable or limited for any reason, including due to the historical material economic dislocation experienced by Cyprus during 2013, or if the underlying risk management methodologies and models turn out not to be accurate, which for example, could come to light as a result of increases or decreases in non-performing assets or for other reasons, the BOC Group's ability to forecast or make a judgement about future events based on past performance may be limited and the BOC Group may have to increase or decrease its provisions for loan losses in the future. Any increase in the provisions for loan losses, any loan losses in excess of the previously determined provisions or changes in the estimate of the risk of loss and loss given default (i.e., the value of the asset lost upon default) inherent in the portfolio of performing loans could have a material adverse effect on the business, financial condition, results of operations and prospects of the BOC Group.

Conduct and Reputational Risks

The BOC Group is exposed to conduct risk and, on Admission, BOCH's conduct risks will increase as a result of its dual listing in London and Cyprus.

Conduct risk corresponds to risks arising from the way in which the BOC Group and its employees conduct themselves and includes matters such as how customers are treated, organisational culture (in particular, the way in which the BOC Group's senior management affects the ethical conduct of employees), corporate governance, employee remuneration and conflicts of interest. The BoC Group is also required to comply with certain conduct-of-business rules and the CBC Governance Directive (as defined in "Management and Corporate Governance") and any failure to comply with these rules could result in significant penalties.

On Admission, BOCH will be subject to the supervision of both the UKLA and the CSE as a company admitted to trading on the standard listing segment of the Official List and to listing on the main market of the CSE. Accordingly, BOCH will be required to comply with both the UKLA's and the CSE's listing and disclosure regimes which include, amongst other things, the requirement to comply with both the UK Corporate Governance Code and the CSE Corporate Governance Code. Accordingly, the conduct risks for BOCH and the BOC Group will be increased purely as result of the increased burden and complexity of complying with two listing, disclosure and corporate governance regimes which are overseen by two listing authorities which are likely to have different approaches to their supervision of BOCH.

Any failure to identify, manage and control these conduct risks or correct any deficiencies could result in a material adverse effect on BOCH and BOC Group's reputation, business, financial conditions, results of operations and prospects.

The BOC Group is subject to reputational risk.

Reputational risks may arise from past, present or potential failures in corporate governance or management practices that could lead to a misconduct event. The reputation of the BOC Group may also be impacted by any fraudulent activity or litigation against the BOC Group as well as from negative media or press coverage. Failure to appropriately manage reputational risks may reduce, directly or indirectly, the attractiveness of the BOC Group to stakeholders, including depositors, borrowers and other customers, and may lead to negative publicity, loss of revenue, litigation, higher scrutiny and/or intervention from regulators, regulatory or legislative action, loss of existing or potential client business and difficulties in recruiting and retaining talent. Sustained damage arising from conduct and reputation risks could have a materially negative impact on the BOC Group's operations and the value of the BOC Group's franchise, which could have a material negative impact on the BOC Group's financial condition and prospects.

There are ongoing investigations and proceedings which relate to the Bank's operations and prior board and management conduct during the period preceding the Bail-in Decrees (as defined in "*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*") (see "*Additional Information—Litigation and Related Matters, including Regulatory Proceedings and Investigations*"). The outcome of one or more of these investigations or proceedings could result in the Bank, or members of its prior Board or members of its management team being named as defendants in additional proceedings which could adversely affect the Bank's reputation. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012, the CBC commissioned a report into Laiki Bank's and the Bank's acquisition of Greek government bonds which were perceived to have contributed to a significant capital shortfall at both banks and various corporate actions involving the Bank's international operations during the pre-bail-in period. The report ultimately focused on these issues with respect to the Bank and on alleged significant governance and conduct issues within the Bank during the pre-bail-in period. Under the supervision of the CBC and ECB, the Bank has taken steps to improve its corporate governance and internal controls and procedures. Nonetheless, the risk of further reputational damage to the Bank remains.

The BOC Group is exposed to the risk of fraud and illegal activities.

The BOC Group is subject to rules and regulations related to money laundering, anti-bribery and terrorism financing. Compliance with anti-money laundering, anti-bribery and anti-terrorist financing rules entails significant cost and effort, including obtaining information from clients and other third parties. Non-compliance with these rules may have serious consequences, including adverse legal and reputational consequences. Although the BOC Group has anti-money laundering, anti-bribery and counter-terrorism financing policies and procedures which aim to ensure compliance with applicable legislation and strive for zero tolerance of any violations, it may not always be successful in identifying all instances of fraud or human error and, therefore, may not be able to comply at all times with all rules applicable to money laundering, anti-bribery and terrorism financing as extended to the whole BOC Group and applied to its workers in all circumstances. In particular, the BOC Group relies on a wide network of corporate service providers ("**Introducers**") for a significant proportion of its international banking business in Cyprus and has limited oversight of Introducers' interactions with prospective customers. As a general statement, a violation, or even any suspicion of a violation, of any of these rules may have serious legal and financial consequences, which could have a material adverse effect on a financial institution's reputation, business, results of operations, financial condition and prospects.

Regulatory and Legal Risks

The BOC Group is exposed to various forms of legal risk, particularly in relation to the alleged misselling of securities issued by the Bank, the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to its Recapitalisation from March 2013 to July 2013 and regulatory investigations.

The BOC Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Legal risk arises from pending or potential legal proceedings against the BOC Group which may result in expenses incurred by the BOC Group.

In particular, a significant number of legal proceedings and investigations have been brought against the Bank in relation to the alleged misselling to retail and institutional investors in Greece and Cyprus of the 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities and the 2011 EUR CECS issued by the Bank and the bail-in of shareholders, uninsured depositors and other creditors of the Bank pursuant to the recapitalisation of the Bank effected by the Resolution Authority pursuant to the Bail-in Decrees (the “**Recapitalisation**”) from March to July 2013. The Bank is under a number of investigations by the CySEC and the Hellenic Capital Markets Commission (the “**HCMC**”) and there is a risk that the outcome or conclusions of these investigations could result in an increase in legal claims brought against the Bank. Moreover, as a result of increased regulatory scrutiny by the CySEC in the wake of the Recapitalisation, the number of investigations by the CySEC could increase. Some actions have also been instituted against the Bank by borrowers who obtained loans in foreign currency (mainly Swiss Francs), alleging that the Bank misled these borrowers and/or misrepresented matters, in violation of applicable law.

If the BOC Group is unsuccessful in defending itself against these claims or appealing against the fines and penalties being imposed on it, or it has failed to take sufficient provisions, or at all, against legal proceedings that are decided unfavourably with respect to the BOC Group, these claims or legal proceedings could have a material adverse effect on its financial condition and reputation. For a discussion of these misselling and bail-in proceedings, the CySEC and HCMC investigations and certain other legal proceedings and related matters to which the BOC Group is a party, see “*Additional Information—Litigation and Related Matters, including Regulatory Proceedings and Investigations*”. Furthermore, in the event that legal issues are not properly dealt with by the BOC Group, these may give rise to the unenforceability of contracts with customers, legal actions against the BOC Group, adverse judgments and an adverse impact on the reputation of the BOC Group. All these events may disrupt the operations of the BOC Group, possibly reducing the BOC Group’s equity and profits.

The BOC Group’s business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments.

The BOC Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations. This is particularly the case in the current market environment, which is experiencing increased levels of government and regulatory intervention in the financial sector, which the BOC Group expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the BOC Group and could materially adversely affect the BOC Group’s business, financial condition, results of operations and prospects.

In particular, the CBC has issued and/or amended a number of directives which have adversely affected the Bank’s ability to originate new loans and the CBC has also imposed stringent requirements and processes in terms of its management of NPLs, see “*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to Bank—CBC Credit Risk Directives*”. Furthermore, while the Sale of Credit Facilities Law is intended to assist Cypriot banks with the management of their delinquent loans, it remains untested and includes certain provisions which could potentially restrict the Bank’s ability to sell delinquent loans to purchasers (see “*Financial Services Regulation and Supervision—Sale of Credit Facilities Law*”).

The BOC Group’s operations are contingent upon licences issued by financial authorities in the countries in which the BOC Group operates, including the United Kingdom. Violations of rules and regulations, whether intentional or unintentional, may lead to the withdrawal of some of the BOC Group’s licences or the imposition of financial or other penalties. In particular, in light of recent case law and decisions by the Financial Ombudsman Services established under FSMA (the “**Ombudsman**”), BOC UK has notified the FCA in relation to its re-examination of loans re-priced by it during 2008 and 2009 in order to determine

the extent of any borrower detriment and the level of potential remediation or redress required. While the financial impact of any such remediation or redress required is not expected to be material in the context of the BOC Group, the FCA may impose penalties or take other regulatory measures which could have a material adverse impact on the reputation of BOC UK or the BOC Group. The imposition of significant penalties, the revocation of licences for any member of the BOC Group or the taking of any other significant regulatory measure against any member of the BOC Group could have a material adverse effect on the BOC Group's reputation, business, results of operations, financial condition, and prospects.

The Bank is subject to supervision by the ECB and the CBC regarding, among other things, capital adequacy, liquidity and solvency. Certain of the BOC Group's subsidiaries and operations are subject to the supervision of other local supervisory authorities. For example, BOC UK is subject to the supervision of the PRA and joint decisions of the ECB and PRA are issued with respect to the BOC UK's capital requirements. Increased regulatory intervention may lead to requests from regulators to carry out wide-ranging reviews. The BOC Group is unable to predict what regulatory changes may be imposed in the future as a result of regulatory initiatives in the EU and elsewhere or by the ECB, the CBC, the PRA and other supervisory authorities. If the BOC Group is required to make additional provisions or to increase its reserves as a result of potential regulatory changes, this could adversely affect the results of operations of the BOC Group.

The BOC Group is also subject to EU regulations with direct applicability and to EU directives which are adopted and implemented through local laws by the European Economic Area Member States in which it operates. For example, on 16 August 2012, the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012) ("**EMIR**") came into force. EMIR introduces certain requirements in respect of derivative contracts, which apply primarily to financial counterparties, such as the Bank and other credit institutions, investment firms, and insurance companies. Broadly, EMIR's requirements in respect of derivative contracts, as they apply to financial counterparties, are (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation through an authorised or recognised central counterparty; (ii) risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts within the scope of EMIR. Accordingly, the introduction of EMIR is likely to increase the costs of transacting OTC derivative contracts for the BOC Group. In addition, MiFID II, MiFIR and MAR could also require the implementation of additional compliance and other processes which could result in increased costs for the BOC Group. MiFID II, MiFIR and MAR (each as defined in "*Financial Services Regulation and Supervision*") will also need to be supplemented by delegated acts and technical standards and, therefore, the scope of the final regulations and their impact on the BOC Group remains unclear.

The Mortgage Credit Directive (as defined and described in "*Financial Services Regulation and Supervision*") has introduced a number of requirements for secured credit and home loans including enhanced consumer information requirements, business conduct rules, calculation of the annual percentage rate in accordance with a prescribed formula, a ban on certain "bundling" practices, and a creditworthiness assessment before granting the loan and requirements on early repayment. Such changes may adversely affect the Bank's business model and require substantial investment in systems and controls to meet the requirements of the Mortgage Credit Directive.

Legislative action and regulatory measures in response to the global financial crisis may materially adversely affect the BOC Group and the financial and economic environment in which it operates.

In the wake of the global financial crisis, the general political environment has evolved unfavourably for banks and the financial industry, resulting in the adoption of more stringent legislative and regulatory measures, despite the fact that these measures can have adverse consequences on lending and other financial activities, and on the economy. The impact of these measures has changed, and the continuing introduction of new legislative and regulatory measures is likely to change, the environment in which the BOC Group and other financial institutions operate substantially, and it is not always possible to predict what effect they will have on the BOC Group.

The measures that have been or may be adopted include more stringent capital and liquidity requirements (particularly for large global institutions and groups such as the BOC Group), taxes on financial transactions, limits or taxes on employee compensation over specified levels, limits on the types of activities that commercial banks can undertake (particularly proprietary trading and investment and ownership in private equity funds and hedge funds) or new ring-fencing requirements relating to certain activities, restrictions on certain types of financial activities or products such as derivatives, mandatory

write-down or conversion into equity of certain debt instruments, enhanced recovery and resolution regimes, revised risk-weighting methodologies (particularly with respect to insurance businesses) and the creation of new and strengthened regulatory bodies, including the assignment to the ECB of a supervisory role for all banks in the Eurozone area under the EU Single Supervisory Mechanism Regulation 1024/2013 (the “**SSM Regulation**”). The assumption by the ECB of its supervisory responsibilities under the SSM Regulation and implementation of a more demanding and restrictive regulatory framework, which is continuing to develop, with respect to, amongst other things, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, will imply additional costs for banks. In addition, changes in law to address tax compliance issues such as compliance with the United States Foreign Account Tax Compliance Act of 2010 (“**FATCA**”) and the Common Reporting Standard (see “*Financial Services Regulation and Supervision—Tax-related Regulations*”), formally referred to as the Standard for Automatic Exchange of Financial Account Information, released by the Organisation for Economic Co-operation and Development (“**OECD**”) have significantly increased the BOC Group’s compliance costs.

Compliance with new regulations might also restrict certain types of transactions, affect the BOC Group’s strategy and limit or imply the modification of the rates or fees charged by the BOC Group for certain loans and other products, where any of the foregoing might reduce the yield of its investments, assets or holdings. Accordingly, the Bank might face increased limitations on its capacity to pursue certain business opportunities, and, as a consequence, this could have a significant adverse effect on the business, financial condition, results of operations of the Bank and prospects.

As a result of the implementation of the BRRD and SRM Regulation in Cyprus and the United Kingdom, the relevant authorities have wide powers to impose resolution measures on BOCH and the Bank which could materially adversely affect the BOC Group, as well as the BOCH Shareholders and unsecured creditors of the Bank.

Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 on the establishment of a framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”) has been fully implemented in Cyprus and the United Kingdom (see “*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Bank Recovery and Resolution*”).

Under the BRRD regime, bank supervisory authorities in the EU are provided with wide resolution powers and tools intended to manage the failure of an institution in an orderly way and ensure the continuity of essential services. These resolution powers include a sale of business tool (which allows the relevant resolution authority to sell all or part of the failing bank to another entity), a bridge institution tool (which involves identifying the “good” assets or essential functions of the failing bank and separating them into a new entity, such as a bridge bank, that would be sold to another entity, with the existing bank holding the “bad” or non-essential functions then be liquidated), an asset separation tool (which involves the bad assets of the failing bank being put into an asset management vehicle) and a debt write down (or bail-in) tool. For banks established in a participating member state of the Single Supervisory Mechanism, such as the Bank, the resolution authority is the SRB which is an independent agency established under the Single Resolution Mechanism Regulation No 806/2014 (the “**SRM Regulation**”).

Credit institutions to which the BRRD applies that are subsidiaries of other credit institutions to which the BRRD applies, such as BOC UK, may be subject to independent resolution action by their national resolution authorities in addition to those taken by the resolution authority supervising the parent entity. Any such measures could have a material adverse effect on the Bank or BOC UK, including its shareholders and unsecured creditors. In addition, BOCH Shareholders would be structurally subordinated to any creditors of the Bank who are issued shares in the Bank as a result of bail-in measures being imposed on the Bank, which measures may dilute the holdings of BOCH in the Bank. Moreover, other resolution measures taken in relation to the Bank could cancel or further dilute BOCH’s holding in the Bank, which in turn may have a materially detrimental affect on the value of shares issued by BOCH. Both the Bank’s and Laiki Bank’s shareholders and unsecured creditors suffered losses as a result of resolution measures imposed under the Resolution of Credit and Other Institutions Law of 2013 which provided for similar resolution powers as the BRRD (see “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*”).

The BOC Group is subject to minimum requirements for own funds and eligible liabilities.

To support the effectiveness of bail-in and other resolution tools, Article 130(1) of the BRRD requires that from 31 January 2016 EU member states shall apply the BRRD’s provisions requiring EU credit institutions and certain investment firms (collectively, “**BRRD Institutions**”) to maintain minimum

requirement for own funds and eligible liabilities (“MREL”), subject to the provisions of the MREL regulatory technical standards (“RTS”).

The draft RTS on the setting of MREL by resolution authorities such as the SRB had originally provided that resolution authorities had up to 48 months to fully phase in MREL. The final RTS have amended this such that the transitional period is now required to be “as short as possible”. The SRB included the need to implement a harmonised framework for MREL in its priorities for 2016, and indicated on 12 January 2016 that it would “strive to obtain MREL decisions for the major banking groups within the Banking Union during 2016”. As at the date of this Prospectus, the SRB has not set MREL for BOC and it remains difficult to predict with certainty when a binding MREL decision will be taken by the SRB in respect of BOC, and the ultimate impact it will have in respect of the institutions comprising the BOC Group.

Article 45(7) of the BRRD provides that the MREL for an individual BRRD institution will be set by the resolution authority for the member state in which the BRRD institution is authorised. The resolution authority must consult a competent authority before determining the MREL. The calculation of MREL should consider the need, in case of application of the bail-in tool, to ensure that the institution is capable of absorbing an adequate amount of losses and of being recapitalised by an amount sufficient to restore its Common Equity Tier 1 (“CET 1”) ratio to a level sufficient to maintain the capital requirements for authorisation and to sustain market confidence.

Article 45 of the BRRD mandates the European Banking Authority (the “EBA”) to deliver a report to the EC on the implementation of MREL, which was due by 31 October 2016. As at the date of this Prospectus, the EBA has yet to deliver its report, however, on 19 July 2016, the EBA published an Interim Report on MREL, which sets out the EBA’s provisional recommendations. In addition, in a press release published in May 2016, the EC announced that this report would take into consideration standards published in November 2015 by the Financial Stability Board for a new international standard on total loss absorbing capacity for globally systemically important banks. As a result of the status of the implementation, it is difficult to predict with certainty when MREL will be set, and the ultimate impact it may have in respect of the institutions comprising the BOC Group.

Certain actions of the BOC Group are restricted by its regulators.

The Restructuring Plan in relation to the Bank was approved by the CBC in November 2013 and, in providing its approval of the Restructuring Plan, the CBC imposed a number of restrictions on the BOC Group. These restrictions were affirmed by the ECB, in its capacity as SSM, including a prohibition on the distribution of dividends by the Bank and the provision of variable remuneration to BOC Group employees as well as a requirement that the Bank obtain the prior approval of the ECB before providing capital or funding to any subsidiary. Following SREP 2016, based on the pre-notification received in September 2016 and subject to final confirmation which is expected by the end of 2016, the BOC Group expects the ECB’s prohibition on variable pay to be lifted and replaced with a limitation on variable remuneration to 10% of net revenues. These restrictions may prevent the BOC Group from undertaking actions that are otherwise in the best interests of the BOC Group. Notwithstanding the Restructuring Plan, the distribution of dividends by the Bank may also be restricted by applicable law or regulation, for example due to the requirement to maintain adequate regulatory capital. If the ECB or CBC imposes additional requirements or restrictions or fail to lift these restrictions in time as anticipated, the BOC Group’s business, financial condition, results of operations or prospects could be adversely affected.

The BOC Group is exposed to risks in relation to compliance with anti-corruption laws and the imposition of economic sanctions programmes against certain countries, citizens and entities.

The BOC Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the BOC Group’s operations are subject to various anti-corruption laws, including the key principles of the United Kingdom Bribery Act of 2010 as part of the BOC Group’s Anti-Bribery Policy, and economic sanction programmes, including those administered by the United Nations and the EU, as well as those of the United States Department of Treasury’s Office for Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value for the purposes of obtaining or retaining business or securing any improper business advantage. As part of its business, the BOC Group may deal with entities whose employees are considered government officials. In addition, economic sanctions programmes restrict the BOC Group’s business dealings with certain sanctioned countries, individuals and entities. In particular, the BOC Group is exposed to risks in relation to the EU’s economic sanctions programme against Russia and certain Russian citizens and businesses, which was imposed as a result of the accession of Crimea to the Russian Federation in March 2014 and subsequent

unrest by Russian separatists in Eastern Ukraine following the presidential elections in Ukraine in May 2014.

Although the BOC Group has internal policies and procedures and several monitoring measures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, these policies and procedures cannot provide complete assurance that the BOC Group's employees, directors, officers, partners, agents, service providers or introducers will not take actions in violation of its policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Bank or they may be ultimately held responsible. In particular, the BOC Group relies on a network of Introducers for a significant proportion of its international banking business in Cyprus and has limited oversight over introducers' interactions with prospective customers. Litigation or investigations relating to alleged or suspected violations of anti-corruption laws and sanctions regulations could lead to financial penalties being imposed on the BOC Group, limits being placed on the BOC Group's activities, the BOC Group's authorisations and licenses being revoked, damage to the BOC Group's reputation and other consequences that could have a material adverse effect on the BOC Group's business, results of operations, financial condition and prospects. Further, violations of anti-corruption laws and sanctions regulations could be costly. In recent years, enforcement of these laws and regulations against financial institutions in the UK has become more aggressive, resulting in several landmark fines against UK financial institutions. The FCA, in particular, has made financial crime and anti-money laundering a key topic to be addressed under its 2016/2017 Business Plan. Furthermore, following the entry into force of the MLD4 and Transfers of Funds Regulation on 25 June 2015, new regulations will come into force before the deadline for national implementation of 26 June 2017, which will affect the scope of the regulatory requirements that the BOC Group must comply with.

Changes in consumer protection laws might limit the fees that the BOC Group charges and increase costs in certain banking transactions.

Changes in consumer protection laws in the jurisdictions where the BOC Group has operations could limit the fees that the BOC Group can charge for certain products and services such as mortgages, unsecured loans and credit cards. For example, an amendment to the Liberalisation of Interest Rate and Related Matters Law of 1999 (the "**Interest Rate Law**"), passed by the House of Representatives of Cyprus in September 2014, renders void and unenforceable certain terms in agreements relating to the payment of interest in credit facilities and prohibits default interest being charged in such agreements above 2%. On 7 May 2015, a further amendment to the Interest Rate Law entered into force imposing a burden on credit institutions to prove that, in connection with all credit facility agreements in force or terminated on or before 7 May 2015, the default interest levied on a borrower represents the actual amount of damages suffered by them and an obligation on credit institutions to pay compensation to borrowers in the event that they are unable to provide such proof. For more detail on this law, see "*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—Interest Rates*". If additional legislation is introduced, such laws could reduce the BOC Group's profit for the period, although the amount of any such reduction cannot be estimated with any accuracy at this time. In addition, Regulation (EC) No 924/2009 on cross-border payments in euro laid the foundations of the single euro payments area policy by establishing the principle that banks are not permitted to impose different charges for domestic and cross-border payments or automated teller machine withdrawals within the EU. Accordingly, the BOC Group's ability to increase its fees and charges with respect to the products and services concerned is limited and this could have an adverse effect on the BOC Group's business, results of operations, financial condition and prospects.

The BOC Group must comply with data protection and privacy laws and failure to do so could have a material adverse effect on the BOC Group's business, financial condition and reputation.

The BOC Group's operations are subject to a number of laws relating to data privacy, including the Cyprus Law on the Processing of Personal Data (Protection of the Individual) of 2001. The requirements of these laws may affect the BOC Group's ability to collect and use personal data, transfer personal data to countries that do not have adequate data protection laws and also to utilise cookies in a way that is of commercial benefit to the BOC Group. Enforcement of data privacy legislation has become increasingly frequent and could result in any member of the BOC Group being subjected to claims from its customers that it has infringed their privacy rights, and it could face administrative proceedings (including criminal proceedings) initiated by the Commissioner for the Protection of Personal Data in Cyprus. In addition, any enquiries made, or proceedings initiated by, individuals or regulators may lead to negative publicity and potential liability for the BOC Group.

The BOC Group is exposed to tax risk and the failure to manage this risk may have an adverse effect on the BOC Group.

Tax risk is the risk associated with changes in taxation rates or law, or misinterpretation of the law. This could result in an increase in tax charges or the creation of additional tax liabilities. Failure to manage the risks associated with changes in the taxation rates or law, or misinterpretation of the law, could materially adversely affect the BOC Group's business, financial condition and results of operations.

For example, in line with the MoU, the Government amended Cyprus' tax legislation in order to increase its tax revenues. These amendments include an increase of the corporate tax rate from 10% to 12.5%, the immovable property tax rates as at 1 January 2013 and the special levy paid by banking institutions on deposits. There is a risk that further additional taxes could be imposed which may have a material adverse effect on the BOC Group's business, financial condition and results of operations.

Risks relating to the BOCH Shares

An active market for the BOCH Shares may fail to develop.

There can be no assurance that an active trading market will develop or be sustained following the completion of the Admission. The Admission should not be taken as implying that there will be a liquid market for the BOCH Shares. Any delay in Admission would impair the liquidity of the market for the BOCH Shares and make it more difficult for Shareholders to sell their BOCH Shares.

If an active trading market for the BOCH Shares does not develop, Shareholders may not be able to sell their Shares at or above the market price of the BOCH Shares at the time of Admission. As a result, Shareholders could lose all or part of their investment in the BOCH Shares.

The price of the BOCH Shares could be highly volatile and investors may lose all or part of their investment.

The share price of quoted companies can be highly volatile, which may prevent BOCH Shareholders from being able to sell their BOCH Shares at or above the market price of the BOCH Shares at the time of Admission. The market price for the BOCH Shares could fluctuate significantly for various reasons, which may be outside the BOC Group's control. The price of the BOCH Shares may fall in response to market appraisal of the BOC Group's strategy or if the BOC Group's results of operations and/or prospects are below the expectations of market analysts or shareholders.

In addition, during the past few years, securities markets have experienced significant price and volume fluctuations that have affected the market price of securities, and may, in the future, experience similar fluctuations which may be unrelated to the BOC Group's operating performance and prospects but nevertheless affect the price of the BOCH Shares. Other factors which may affect the price of the BOCH Shares include but are not limited to:

- differences between the BOC Group's expected and actual operating performance and results;
- cyclical fluctuations in the performance of the BOC Group's business and the financial services sector in general;
- announcements or speculation, whether or not well-founded, regarding the intentions of the BOC Group's major shareholders or significant sales of shares by any such BOCH Shareholders or short-selling of the BOCH Shares;
- announcements or speculation, whether or not well-founded, about significant issues of shares by the BOC Group;
- announcements or speculation, whether or not well-founded, about the capital adequacy and/or liquidity position of the BOC Group;
- announcements or speculation, whether or not well-founded, regarding possible changes in the BOC Group's management team;
- the publication of research reports by analysts;
- strategic actions by the BOC Group or its competitors, such as mergers, acquisitions, divestitures, partnerships and restructurings;
- announcements or speculation, whether or not well founded, about the BOC Group and/or significant corporate events or transactions involving the BOC Group;
- the involvement of the BOC Group in litigation; and

- changes to the taxation and/or regulatory environment in which the BOC Group operates.

Any significant sales of the BOCH Shares following Admission would adversely affect the price of the BOCH Shares.

The acquisition of shares in BOCH may require regulatory approval and failure to obtain such approval could result in the suspension of voting rights.

Under the “change of control” regime prescribed by CRD IV, a proposed direct or indirect acquisition of 10%, 20%, 30% or 50% of capital or of voting rights in, an EU bank requires prior approval from the relevant competent authority. Prior approval is also required for any increase of such holdings if the increase reaches or exceeds any one of these thresholds. Accordingly, any investor acquiring shares in BOCH must seek prior approval from the ECB and the CBC if it proposes to make any acquisition which would result in it reaching or exceeding any of these thresholds. The application for such approval would require the submission of detailed information and declarations by the investor and there can be no assurance that approval will be granted by the ECB and the CBC. The failure to obtain regulatory approval could result in penalties or other sanctions being imposed by the ECB and/or CBC on, and the suspension of voting rights for, the investor concerned pursuant to, and in accordance with, the articles of association of BOCH (the “**BOCH Articles**”).

BOCH does not expect to pay dividends on the BOCH Shares for so long as the ECB imposes a prohibition on the Bank from making any distributions to its shareholders and even if that prohibition is lifted, BOCH may not have any profits that are available for distribution and there is no guarantee that such profits will be generated or created in the future.

BOCH does not expect to distribute dividends for so long as the ECB imposes a prohibition on the Bank from making any distributions to its shareholders. This is because BOCH is a holding company which is dependent on payment of dividends, distributions, loans or advances to it from the Bank to produce distributable reserves.

Further, the Bank’s ability to pay dividends and effect returns of capital in the future would, in any event, be dependent upon it having sufficient cash resources and, where necessary, sufficient distributable reserves out of which any dividend may be paid (see “*Additional Information—Dividends and other distributions*” for a description of the Irish law requirements for the making of distributions by BOCH). In addition, because the Bank is a separate and distinct legal entity, it will have no obligation to pay dividends or to lend or advance BOCH funds and may be restricted from doing so by contract, including other financing arrangements, the articles of association of BOC (the “**BOC Articles**”) or applicable law.

BOCH cannot guarantee that the Bank will generate sufficient profits and cash flows to pay dividends or lend or advance to BOCH sufficient funds to enable it to meet its obligations and pay dividends, if any, on the BOCH Shares. Consequently, BOCH Shareholders may not receive any return on their investment unless they sell their BOCH Shares for a price greater than the market price of the BOCH Shares at the time of Admission. The inability of the Bank to pay dividends or lend or advance funds to BOCH could have a material adverse effect on the BOC Group’s business, results of operations, financial condition and prospects.

BOCH Shareholders whose principal currency is not euro may be subject to exchange rate risk.

The BOCH Shares are denominated in euro and will be quoted in euro on the London Stock Exchange. The BOC Group’s financial statements are expected to be prepared in euro and any dividends to be paid in respect of the BOCH Shares are expected to be denominated in euro. Accordingly, any investor whose principal currency is not euro is exposed to foreign currency exchange rate risk, which may reduce the value of the BOCH Shares, as well as that of any dividends paid by the Bank. Furthermore, investors are exposed to the value of their dividends fluctuating between the date at which they are declared and the date at which they are paid due to foreign currency exchange rate risk.

Transfers of BOCH Shares, other than transfers of DI representing BOCH Shares, will generally be subject to Irish stamp duty.

Transfers of BOCH Shares, other than transfers of Depositary Interests through the Central Depository and Central Registry of the CSE (the “**CDCR**”), will generally be subject to Irish stamp duty (currently at the rate of 1% of the higher of the price paid or the market value of the shares acquired). A transfer of Depositary Interests through the CDCR will be free of Irish stamp duty. A transfer of BOCH Shares or Depositary Interests by a BOCH Shareholder between CDCR and CREST will not be subject to Irish stamp duty provided there is no change in the beneficial ownership of the underlying BOCH Shares and the transfer is not in contemplation of a sale of such shares by a beneficial owner to a third party.

Payment of Irish stamp duty is generally a legal obligation of the transferee. The potential for stamp duty could adversely affect the price of the BOCH Shares. See “*Taxation—Irish Taxation—Stamp duty*”.

INFORMATION ON THE DRAFTING OF THE PROSPECTUS—PERSONS RESPONSIBLE

This Prospectus has been drafted in accordance with the relevant legislation. The Prospectus has been approved by the Cyprus Securities and Exchange Commission only as to the coverage of the required information of the investors, as these are provided by the Public Offer and Prospectus Law of 2005 (as amended) of Cyprus and the Commission Regulation (EC) 809/2004 of the European Union.

This Prospectus contains all information concerning BOCH, the BOCH Shares and the admission to trading of the BOCH Shares issued pursuant to the Scheme, required to be publicised by the Public Offer and Prospectus Law of 2005 (as amended) of Cyprus and the Commission Regulation (EC) 809/2004 and which concerns BOCH and the BOCH Shares and the admission to trading of the BOCH Shares issued pursuant to the Scheme.

This Prospectus contains all the information necessary for the investors to evaluate the assets, liabilities, financial position, performance and prospects of BOCH as well as the rights incorporated in the BOCH Shares described in this Prospectus.

BOCH assumes full responsibility for the information contained in this Prospectus and declares that the information contained in the Prospectus is in accordance with the facts and contains no omission likely to affect its import. The BOCH Directors are jointly and severally responsible for the information included in this Prospectus and declare that having taken all reasonable care to ensure that such is the case, the information contained in all parts of this Prospectus is, to the best of their knowledge, in accordance with the facts and that it contains no omission likely to affect its import.

In accordance with the provisions of the Public Offer and Prospectus Law of 2005 (as amended) this Prospectus has been signed by all the Directors of the Bank of Cyprus Holdings Public Limited Company.

The Cyprus Investment and Securities Corporation Limited (CISCO) in its capacity as Lead Manager—Investment Firm Responsible for drawing up the Prospectus in accordance with Article 23 of the Prospectus Law declares that, having taken all responsible care to ensure that such is the case, the information contained in the Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Investors interested to obtain further information may contact the following during their regular business schedule:

The Lead Manager—Investment Firm Responsible for drawing up the Prospectus in accordance with Article 23 of the Prospectus Law

The Cyprus Investment and Securities Corporation Limited (CISCO)
154 Lemesou Avenue, 2025 Strovolos, Nicosia, Cyprus, P.O. Box 20597,
tel: +357 22121700

The following departments of Bank of Cyprus:

In Cyprus

Shares & Loan Stock Department
Eurolife House, 4 Evrou Street, PO Box 24884, 1398 Nicosia,
tel: + 357 22126055

Investors Relations
51 Stassinou Street, Ayia Paraskevi, Strovolos, 2002 Nicosia
tel: +357 22122239

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Historical Financial Information

BOCH was incorporated on 11 July 2016 with a nominal share capital of €1.00 and is expected to become the holding company of the BOC Group upon the Scheme becoming Effective as described under “*The Scheme of Arrangement*”. BOCH has not traded or undertaken significant transactions since incorporation. As such, no historical financial information of BOCH has been provided. Upon the Scheme becoming Effective, BOCH will become the new parent company of BOC and its assets, liabilities and earnings on a consolidated basis will be those of the BOC Group.

The BOC Group prepared its consolidated historical financial information as at and for the six months ended 30 June 2015 and 2016 and as at and for the years ended 31 December 2013, 2014 and 2015 in accordance with IFRS, the requirements of the Prospectus Directive Regulation.

Ernst & Young LLP has reported, in accordance with Statements of Investment Reporting Standards issued by the Auditing Practices Board in the United Kingdom, on the consolidated historical financial information as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2013, 2014 and 2015, as stated in its accountant’s report dated 30 November and included in “*Historical Financial Information*” (the “**Accountant’s Report**”).

Unless otherwise stated in this Prospectus, financial information in relation to the BOC Group referred to in this Prospectus has been extracted or derived without material adjustment from the Historical Financial Information or has been extracted or derived from those of the BOC Group’s accounting records and its financial reporting and management systems that have been used to prepare that financial information. Financial information as at and for the nine months ended 30 September 2016 in this Prospectus has been extracted or derived from the interim condensed consolidated financial statements of the BOC Group for the nine month period ended 30 September 2016 (the “**Third Quarter Financial Information**”) or derived from those of the BOC Group’s accounting records and its financial reporting and management systems that have been used to prepare that financial information.

The consolidated audited historical financial information as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2013, 2014 and 2015 and the consolidated unaudited historical financial information as at and for the six months ended 30 June 2015, together are herein referred to as the “**Historical Financial Information**”. The Historical Financial Information is included in the Prospectus in the section entitled “*Historical Financial Information*” herein and should be read together with the notes thereto.

The BOC Group has made a number of changes to its business line segmentation and organisation in order to better support the Bank’s drive for simplification and synergy across its businesses. For a discussion of the business line segmentation and organisation, see “*Business Description—BOC Group Organisational Structure*” and “*Management and Corporate Governance—BOC Group Management Structure*” in this Prospectus. All periods contained within the Historical Financial Information included in this Prospectus are presented according to the BOC Group’s amended reporting segment structure. To the extent that a business line did not exist in a prior period/year, that segment was not included.

Published Financial Information

The consolidated financial statements of the BOC Group as at and for the six-month period ended 30 June 2016, the nine month period ended 30 September 2016 and the three years ended 31 December 2015, 2014 and 2013 were reported on by Ernst & Young Cyprus Ltd (“**EY Cyprus**”), of Jean Nouvel Tower, 6 Stasinou Avenue, P. O. Box 21656 1511 Nicosia, Cyprus, the independent auditors of the BOC Group within the meaning of the Cyprus Companies Law, Cap 113 and the Auditors’ and Compulsory Audit of the Annual and Consolidated Accounts Law of 2009, Law 42(I)/2009 for those periods.

The Third Quarter Financial Information and the independent auditor’s review report thereon (the “**Q3 Review Report**”) are included in the F-pages at the back of this Prospectus. The information therein and replicated therefrom herein, is unaudited.

Qualified Opinion with Respect to 2013 Financial Information in the Accountant's Report

The Accountant's Report includes a qualified opinion with respect to the financial information for the year ended 31 December 2013. The qualification relates to the inability of the Bank to measure the shares issued (a) in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Bail-in Decrees issued and enforced by the Resolution Authority in 2013; and (b) in consideration for the acquisition of certain assets and liabilities of Laiki Bank in 2013, pursuant to the provisions of the relevant Bail-in Decree, issued and enforced by the Resolution Authority at their fair value as required by IFRS. For more information please see refer to the Accountant's Report or Note 54.6.1 to the Historical Financial Information.

Emphasis of Matter in the Accountant's Report

The Accountant's Report also includes an emphasis of matter with respect to the Bank's ability to continue as a going concern, and the fact that the BOC Group is currently in breach of the regulatory liquidity ratios in Cyprus. The Accountant's Report is not qualified in this respect. For more information please see the Accountant's Report, Note 4 to the Historical Financial Information and "*Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group's business, financial condition, results of operations and prospects*".

Emphasis of Matter in the Q3 Review Report

The Q3 Review Report also includes an emphasis of matter with respect to the Bank's ability to continue as a going concern, and the fact that the BOC Group is currently in breach of the regulatory liquidity ratios in Cyprus. The Q3 Review Report is not qualified in this respect. For more information please see the Q3 Review Report, Note 5 to the Third Quarter Financial Information and "*Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group's business, financial condition, results of operations and prospects*".

Non-IFRS information and other statistics

This Prospectus also presents certain financial measures that are not measures defined under IFRS, including regulatory capital, risk weighted assets, funding and other risk measures. In addition, this Prospectus presents certain other operational statistics that are not measures of financial performance under IFRS. No non-IFRS information should be considered as an alternative to any IFRS financial measure. Such measures, as defined by the BOC Group, may not be comparable to other similarly described measures used by other companies, as non-IFRS measures are not uniformly defined and other companies may calculate them in a different manner from the BOC Group. The BOC Group believes that these non-IFRS measures are important aids to understanding the BOC Group's performance, operations and capital position. All non-IFRS disclosures are unaudited and labelled as such.

Comparability of Financial Information

The BOC Group has represented and reclassified certain financial information, which is included in its publically available audited financial statements for the years ended 31 December 2013, 2014 and 2015, in the Historical Financial Information. These representations and reclassifications were made in order for the presentation to take into account the effects of disposals, and other changes in the presentation of the relevant financial statement line items to conform with the latest period presented, and to present them in such a way that the analysis of the results of continuing and discontinued operations respectively, is comparable for all periods presented in the Historical Financial Information. The Historical Financial Information is therefore different in certain respects from the BOC Group's audited financial statements for the years ended 31 December 2013, 2014 and 2015 previously published and available on the BOC Group website.

Comparatives in the Historical Financial Information have been either represented or reclassified in order to reflect, among other things:

Reclassifications of line items to conform to the latest period presented:

- (a) the representation of the consolidated balance sheet as at 31 December 2013 to reflect the reclassification of part of the debt securities in issue into deposits by banks in 2015;

- (b) the representation of the consolidated balance sheet as at 31 December 2013 to reflect the reclassification of stock of property in 2015 which had also been reflected in the 2014 comparatives; in the prior presentation this was included in ‘Other assets’;
- (c) the change in the presentation of ‘Losses from revaluation and disposal of investment properties’ within the consolidated income statement for the year ended 2013; in the prior presentation this was included in ‘Other income/(expenses)’;
- (d) the change in the presentation of ‘Impairment of other financial instruments’ within the consolidated income statement for the year ended 2013; in the prior presentation this was included in ‘Net gains/(losses) on financial instrument transactions’;
- (e) the change in the presentation of ‘Impairment of non-financial instruments’ within the consolidated income statement for the year ended 2013; in the prior presentation this was included in ‘Other operating expenses’;
- (f) the change in presentation of ‘Gain on derecognition of loans and advances to customers and changes in expected cash flows’ so that this line item is presented as adjoining to the ‘Provisions for impairment of loans and advances to customers and other customer credit losses’ in the consolidated income statement for the year ended 2013; the BOC Group considers this presentation to be more relevant as it considers such gains and changes in expected cash flows (mainly arising from the fair value adjustment on initial recognition for acquired loans) to be credit risk related;

Restatements of analyses between continuing and discontinued operations:

- (g) the change in the presentation of the Russian operations disposed of in September 2015 as discontinued operations (the results of the Russian loan portfolio not disposed of is presented within continuing operations) for the year ended 2013;
- (h) the change in the presentation of the Ukrainian operations disposed of during 2014 as discontinued operations for the year ended 2013; and

Restatement with respect to the finalisation of acquisition accounting:

- (i) the restatement with respect to the finalisation of the accounting for the Laiki Bank acquisition, leading to an increased loss for the year 2013 by €6,587 thousand, increase in total assets by €7,082 thousand and increase in net equity by €7,082 thousand as at 31 December 2014.

The changes in presentation set out in (a) to (h) above did not have an impact on the total equity as at the relevant balance sheet date.

Rounding and negative amounts

Certain figures contained in this Prospectus, including financial, statistical and operating information, have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly, and figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures which precede them. In addition, certain percentages in this Prospectus have been calculated using rounded figures.

Negative amounts in this Prospectus are shown between brackets or otherwise indicated by the surrounding text (such as describing such amount as “negative”).

Market and Industry Information and Other Data

All references to market share, market data, industry statistics and industry forecasts in this Prospectus consist of estimates compiled by industry professionals, competitors, organisations or analysts of publicly available information, including governmental sources, or of the BOC Group’s own knowledge of its sales and markets. Certain statements made in this Prospectus are based on the BOC Group’s own proprietary information, insights, opinions or estimates, and not on any third-party or independent source; these statements contain words such as ‘the BOC Group believes’, ‘the BOC Group expects’, ‘the BOC Group sees’, and as such do not purport to cite, refer to or summarise any third-party or independent source and should not be so read.

Industry publications and governmental statistics generally state that their information is obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions.

Although the BOC Group believes these sources to be reliable, the BOC Group does not have access to the information, methodology and other bases for such information and has not independently verified the information. Where third-party information has been sourced in this Prospectus, the source of such information has been identified. The information in this Prospectus that has been sourced from third parties has been accurately reproduced with reference to these sources in the relevant paragraphs and, as far as the BOC Group is aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

In this Prospectus, the BOC Group makes certain statements regarding its competitive and market position. The BOC Group believes these statements to be true, based on market data and industry statistics, but the BOC Group has not independently verified the information. The BOC Group cannot guarantee that a third party using different methods to assemble, analyse or compute market data or public disclosure from competitors would obtain or generate the same results. In addition, the BOC Group's competitors may define their markets and their own relative positions in such markets differently than the BOC Group does and may also define various components of their business and operating results in a manner which makes such figures non-comparable with the BOC Group's.

All references to a "branch" or "branches" in this Prospectus denote a place or places where the BOC Group has a physical presence and do not necessarily denote that the BOC Group either maintains a retail branch or provides counter or other client services at such location.

Statistical information included in the section entitled "*The Macroeconomic Environment in Cyprus*" is calculated based on publically available information from the Statistical Service of Cyprus (known as CYSAT) unless otherwise indicated.

Statistical information included in the section entitled "*The Banking Sector in Cyprus*" is calculated based on publically available information from the CBC unless otherwise indicated.

Forward looking statements

This Prospectus contains certain forward-looking statements within the meaning of the safe-harbour provisions of the United States Private Securities Litigation Reform Act of 1995. Statements in this Prospectus that are not historical facts are forward-looking statements, including statements relating to the BOC Group's intentions, beliefs or current expectations and projections about the BOC Group's future results of operations, financial condition, liquidity, performance, prospects, anticipated growth, provisions, impairments, strategies and opportunities, as well as potential developments in the legal and regulatory environment to which the BOC Group is subject and developments in the markets in which the BOC Group operates, including changes in interest rates, inflation, foreign exchange rates, demographics and any assumptions underlying any such statements. 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.

The BOC Group has tried to identify forward-looking statements by using words such as "may", "will", "would", "should", "expects", "intends", "estimates", "anticipates", "projects", "believes", "could", "hopes", "seeks", "plans", "aims", "strives", "objective", "potential", "probability", "goal", "strategy", "target", "continue", "desire", "strive", "endeavour", "outlook", "optimistic", "prospects", "risk", "annualised" and similar expressions or variations thereof, but such expressions are not the exclusive means of identifying forward-looking statements in the Prospectus.

Forward-looking statements are included in this Prospectus in a number of sections, including "The Scheme of Arrangement", "Additional Information—Dividends", "Business Description—Competitive Strengths and Strategies—Banking and Finance Operations and—Insurance Operations", "Operating and Financial Review—Current Trading, Trends and Prospects", "The Macroeconomic Environment in Cyprus", "The Banking Sector in Cyprus", "Financial Services Regulation and Supervision" and elsewhere. Such forward-looking statements are based on the BOC Group's beliefs, assumptions and expectations regarding future events and trends that affect the BOC Group's future performance, taking into account all information currently available to the BOC Group, and are not guarantees of future performance. In particular, this Prospectus includes forward looking statements relating but not limited to the BOC Group's potential exposures to the macroeconomic effects of the economies of Cyprus and other EU Member States and various types of operational, credit and market risk, such as counterparty risk, interest rate risk, foreign exchange rate risk and fraud or other risks related to information technology systems. Such statements are subject to risks and uncertainties. These forward-looking statements are not

historical facts and represent only the BOC Group's beliefs regarding future events, many of which by their nature are inherently uncertain and beyond the BOC Group's control.

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 BOC Group include, but are not limited to, the risks identified under "Risk Factors".

Should one or more of these other risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the BOC Group's actual financial condition or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected. Prospective investors should not place undue reliance on the forward-looking statements in this Prospectus. Prospective investors are strongly encouraged to read the following sections of this Prospectus, "Summary", "Risk Factors", "Operating and Financial Review", "Business Description" and "The Macroeconomic Environment in Cyprus", which include more detailed descriptions of the factors that might have an impact on the BOC Group's business and the markets in which the BOC Group operates.

The forward-looking statements made in this Prospectus are only applicable as from the date of publication of this document. The BOC Group does not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this Prospectus, and the BOC Group does not assume any responsibility to do so.

Ratings

Each of Moody's Cyprus, Moody's, Fitch and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<u>Event</u>	<u>Time and/or date</u>
Record Date for the EGM	5 December 2016
Latest time for return of Form of Proxy	10:00 a.m. on 11 December 2016
EGM	10:00 a.m. on 13 December 2016
Cyprus Court hearing to sanction the Scheme	9:00 a.m. on 21 December 2016*
<i>The following dates are indicative only and remain subject to the decision of the Cyprus Court, and will be announced by BOC</i>	
Announcement made by BOC of the issuance of the Court Order	Upon Court Order being issued
Last day of trading of BOC Shares	D (being at least 2 business days after announcement by BOC of the Court Order)
Scheme Record Time	5:30 p.m. on D
Effective Date of the Scheme (including issue of BOCH Shares)	D+7 business days
Commencement of trading in BOCH Shares on the CSE Main Market	D+8 business days**
Commencement of trading in BOCH Shares on the LSE Main Market	D+8 business days**
Long Stop Date	31 March 2017 (being the latest date by which the Scheme may become Effective, unless the Bank and BOCH agree a later date and (if appropriate) the Court so allows)

* The Court hearing will take place at the District Court of Nicosia in Cyprus at the Courts of Justice Complex, Charalambos Mouskos Street 1405 Nicosia, Cyprus.

** Subject to the Scheme becoming Effective and the applications to the UKLA, the LSE and the CSE being successful, it is expected that the earliest date on which the Admission of the BOCH Shares will become effective is 13 January 2017 and that dealings in the BOCH Shares will commence on the CSE and LSE at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively or as soon as practicable thereafter on that date.

Unless otherwise stated, all references in this Prospectus to times are to Cyprus times. The dates given in this expected timetable that follow the date of this Prospectus are based on BOCH's current expectations and may be subject to change.

The Scheme is subject to the Scheme Conditions. In the event the Scheme Conditions are not satisfied (or waived) prior to the Long Stop Date, the Scheme will be cancelled. For more information, See "The Scheme of Arrangement"

**DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE
AND PRINCIPAL ADVISERS**

Directors of BOCH	Dr. Josef Ackermann, Chairman Mr. Wilbur L. Ross, Jr., Vice-Chairman Mr. Maksim Goldman, Vice-Chairman Mr. Michalis Spanos, Senior Independent Director Mr. John Patrick Hourican, Group Chief Executive Officer Dr. Christodoulos Patsalides, Deputy Chief Executive Officer and Chief Operating Officer Mr. Arne Berggren, Non-Executive Director Mr. Marios Kalochoritis, Non-Executive Director Mr. Ioannis Zographakis, Non-Executive Director Dr. Michael Heger, Non-Executive Director
Company Secretary	Ms. Katia Santis
Registered Office	Arthur Cox Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland
Head Office and BOCH Directors' Business Address	51 Stassinou Street Ayia Paraskevi Strovolos 2002 Nicosia Cyprus
Adviser to the London Listing	HSBC Bank plc 8 Canada Square London E14 5HQ United Kingdom
Lead Manager—Investment Firm Responsible for drawing up the Prospectus in accordance with Article 23 of the Prospectus Law	The Cyprus Investment and Securities Corporation Limited 154 Lemesou Avenue 2025 Strovolos Nicosia Cyprus P.O. Box 20597
Legal Advisers to BOCH as to matters of English law	Sidley Austin LLP 25 Basinghall Street London EC2V 5HA United Kingdom
Legal Advisers to BOCH as to matters of Cypriot law	Chryssafinis & Polyviou LLP 37 Metochiou Street Agios Andreas 1101 Nicosia Cyprus
Legal Advisers to BOCH as to matters of Irish law	Arthur Cox Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland

Legal Advisers to the Adviser to the London Listing as to matters of English law

Linklaters LLP
One Silk Street
London
EC2Y 8HQ
United Kingdom

Reporting Accountant to BOCH

Ernst & Young LLP
1 More London Place
London
SE1 2AF
United Kingdom

Auditors to BOC Group prior to the Effective Date

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
1060 Nicosia, Cyprus

Registrars to BOCH

Capita Registrars (Ireland) Limited
2 Grand Canal Square
Dublin 2
D02 A342
Ireland

THE SCHEME OF ARRANGEMENT

Introduction

The Bank (the current holding company of the BOC Group) announced on 15 November 2016 details of proposals to change the BOC Group's corporate structure by introducing a new parent company of BOC, incorporated in Ireland, with its tax residence in Cyprus, using the scheme of arrangement proposed to be made under sections 198 to 200 of the Cyprus Companies Law, between BOC and the BOC Shareholders, to be presented for approval to the Cyprus Court on 21 December 2016 (the "**Scheme**").

BOCH was incorporated under the Irish Companies Act 2014 (the "**Companies Act**") on 11 July 2016, as a public limited company under the name "Aion Cyprus Public Limited Company" and changed its name to "Bank of Cyprus Holdings Public Limited Company" on 10 August 2016. If the Scheme becomes Effective, BOCH will become the holding company of BOC and conduct all of its operations through its holding of the Bank and the BOC Group.

As BOCH is a company incorporated in Ireland, the BOCH Shares are, in respect of the relevant FTSE jurisdiction criteria, eligible for inclusion in the FTSE UK index series. The BOCH Directors intend to make an application for the admission of the BOCH Shares to the premium listing segment of the Official List at a future date. If such application is successful, the BOCH Shares will be eligible for inclusion in the FTSE UK index series and the BOCH Directors believe that any eventual inclusion of BOCH Shares in the FTSE UK index series may lead to a broader investor base and greater liquidity in the BOCH Shares.

Principal features of the Scheme

Conditions, Waivers and Modification

Conditions

The Scheme is subject to certain conditions (the "**Scheme Conditions**"). If the Scheme Conditions have been satisfied (or waived), the Scheme is expected to take legal effect (become "**Effective**") on the date on which: (a) a copy of the Court Order has been duly delivered to the Registrar of Companies in Cyprus for registration; and (b) the Reduction of Capital has been registered by the Registrar of Companies (the "**Effective Date**"). Subject to the Scheme becoming Effective and the applications to the UKLA, the LSE and the CSE being successful, it is expected that the earliest date on which the Admission of the BOCH Shares will become effective is 13 January 2017 and that dealings in the BOCH Shares will commence on the CSE and LSE at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively or as soon as practicable thereafter on that date. In the event any of the Scheme Conditions are not satisfied (or waived) prior to 31 March 2017 (being the latest date by which the Scheme may become Effective, unless the Bank and BOCH agree a later date and (if appropriate) the Court so allows) (the "**Long Stop Date**"), the Scheme will be cancelled and will not become Effective. If the Scheme does not become Effective, the current listings of the BOC Shares on the CSE and on the Athens Exchange ("**ATHEX**") will continue and BOC Shareholders will retain their current holdings of BOC Shares.

The Scheme Conditions are fully set out in the Circular, and include:

- (i) the passing of all of the Scheme Resolutions;
- (ii) Admission becoming effective;
- (iii) the sanctioning of the Scheme by the Cyprus Court;
- (iv) the order of the Cyprus Court relating to the Scheme being delivered to the Registrar of Companies in Cyprus and registered by him;
- (v) all regulatory approvals having been obtained, including from the ECB and the CBC in respect of any change in control requirements with respect to the insertion of BOCH as the parent of BOC; and
- (vi) no third party having taken any action which would or might reasonably be expected to: (a) effect the implementation of the Scheme; (b) effect the relationship between BOC and BOCH and any other material relationships between companies in the BOC Group; (c) require, prevent or delay the divestiture by any member of the BOC Group any material asset; or (d) have a material adverse affect on the BOC Group.

Waiver of Conditions

BOC and BOCH reserve the right to jointly waive, in whole or in part, any of the Scheme Conditions, so far as they relate to the BOC Group or any part thereof, provided that any such waivers would not contravene any applicable law. In the event any of the Scheme Conditions are not satisfied but are waived, then, provided all other Scheme Conditions have been satisfied (or similarly waived), then the Scheme will become Effective.

BOC Board of Directors Decision not to Proceed

At any time prior to the Scheme being approved by the Cyprus Court, the directors of BOC (the “**BOC Directors**”) may choose not to proceed with the Scheme (notwithstanding the approval of the BOC Shareholders being obtained) if they believe that it is in the interests of the BOC Shareholders and BOC not to implement the Scheme.

Modification

The Scheme contains a provision for BOC and BOCH jointly to consent, on behalf of all persons affected, to any modification of, or addition to, the Scheme, as approved by the Cyprus Court, or to any condition approved or imposed by the Cyprus Court. The Cyprus Court would be unlikely to approve any modification of, or additions to, or to impose a condition to, the Scheme which might be material to the interests of the BOC Shareholders unless BOC Shareholders were informed of such modification, addition or condition. It would be a matter for the Cyprus Court to decide, in its discretion, whether or not a further meeting of BOC Shareholders should be held in these circumstances. Similarly, if a modification, addition or condition is put forward which, in the opinion of the BOC Directors, is of such a nature or importance that it requires the consent of BOC Shareholders, the BOC Directors will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained. Once trading has begun on the LSE Main Market and the CSE Main Market, no revocation will be possible.

Structure

Under the Scheme, the share capital of BOC will be reduced by the cancellation of all the BOC Shares. The cancellation of the BOC Shares will result in a reserve arising in the books of accounts of BOC. This reserve will be used by BOC to issue fully paid-up shares in BOC (the “**New BOC Shares**”) to BOCH or its nominees. As a result, BOC will become a wholly-owned subsidiary of BOCH.

BOC Shareholders will receive (other than in respect of Blocked Shares (as defined below), in respect of which see below) either one BOCH Share or one uncertificated depositary interest representing one BOCH Share (a “**Depositary Interest**”) (depending on where they elect to trade these BOCH Shares in their respective share election forms, a copy of which is set out in Part XII of the Circular (the “**Share Election Form**”) and whether they possess any Blocked Shares (in respect of which see below)) for each individual holding of 20 BOC Shares (calculated in accordance with the Consolidation Basis set out below) held by them at 5:30 p.m. on a specified date, that specified date is expected to be at least two business days after the announcement by BOC of the issuance of the court order (the “**Court Order**”) of the Cyprus Court sanctioning the Scheme (the “**Scheme Record Time**”). The Scheme will result in BOC Shareholders owning 100% of the share capital of BOCH. BOC Shareholders’ economic interest in the BOC Group will also remain the same (subject only to the minor rounding contemplated by the Consolidation Basis).

BOC Shareholders holding BOC Shares in a CSE ISCS account or an ATHEX ISCS Account which are subject to any security arrangements and/or charges and in relation to which the Cyprus Court orders the pledging and/or charging and/or the allocation by the CDCR into the special (blocked) account within such BOC Shareholder’s CSE ISCS accounts (or otherwise registered under a ‘blocked’ status) of the Depositary Interests representing BOCH Shares offered in consideration for their cancellation (“**Blocked Shares**”) will receive pursuant to the Court Order (and in accordance with the Consolidation Basis), Depositary Interests representing BOCH Shares subject to a pledge and/or charge and/or allocated by the CDCR to the special (blocked) account of their CSE ISCS accounts (or otherwise registered under a ‘blocked’ status), irrespective of whether they have elected to trade BOCH Shares on the LSE or on the CSE.

The Scheme will be considered by the BOC Shareholders at the EGM, and by the Cyprus Court on 21 December 2016 and, if approved, is expected, subject to the Scheme Conditions being satisfied (or waived), to become Effective on the Effective Date. The Scheme, once Effective, will be binding on all

Shareholders, irrespective of whether or not they attended or voted at the EGM (and, if they attended and voted, whether or not they voted in favour).

Following the Effective Date, BOC will become a wholly-owned subsidiary of BOCH and the BOC Shares held within the CSE and ATHEX dematerialised securities systems will be cancelled. The Scheme requires the sanction of the Cyprus Court.

The Scheme Resolutions

The Scheme Resolutions are included in the Notice of Meeting and provide for the approval, by way of ordinary resolution (requiring approval by simple majority of the BOC Shareholders present and voting), of the Scheme and authorise the BOC Directors to take all such actions as they consider necessary or appropriate for carrying the Scheme into effect. BOC Shareholders will also be asked to approve a special resolution (requiring approval by not less than 75% of the BOC Shareholders present and voting) covering the reduction of the share capital of BOC (the “**Reduction of Capital**”) and subsequent issue of shares to BOCH (together with the ordinary resolution approving the Scheme, the “**Scheme Resolutions**”). If the Scheme Resolutions are approved by the requisite majority at the EGM, an application will be made to the Cyprus Court to sanction the Scheme on 21 December 2016 and to confirm the Reduction of Capital.

Procedure for Action

Voting at the EGM

Entitlement to attend and vote at the EGM and the number of votes which may be cast thereat will be determined by reference to the register of members of BOC at 5 December 2016 (the “**Record Date**”). All BOC Shareholders whose names appear on the register of members of BOC at the Record Date shall be entitled to attend and vote at the EGM in respect of the number of BOC Shares registered in their name at the relevant time. Transactions involving BOC Shares taking place on 2 December 2016 or thereafter will not be considered in determining the right to vote at the EGM.

A BOC Shareholder is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a BOC Shareholder. A Form of Proxy for the EGM has been included in Part XI of the Circular. To be valid, the Form of Proxy must reach the registered office of BOC, or the fax number set out in the Form of Proxy by 10:00 a.m. on 11 December 2016. Whether or not a BOC Shareholder intends to attend the EGM, they are requested to complete and sign the Form of Proxy enclosed with the Notice of Meeting and return it to BOC in accordance with the instructions printed on it.

BOC Shareholders who return completed Forms of Proxy may still attend the EGM instead of their proxies and vote in person if they wish and are entitled to do so.

BOC Shareholders are entitled to appoint a proxy in respect of all or a part of their BOC Shares (the total of which should not exceed the total number of BOC Shares held by the BOC Shareholder in a CSE ISCS account or a ATHEX ISCS account). BOC Shareholders who appoint a proxy to vote on their behalf, but wish to specify how their votes are cast, should indicate accordingly in the relevant boxes on the Form of Proxy. BOC Shareholders who have their shares registered on an ATHEX ISCS account do not need to block their shares in order to vote and/or be represented at the EGM.

Allocation of BOCH Shares and Depositary Interests

If the Scheme becomes Effective, BOC Shareholders will be entitled to receive, in respect of their holding of BOC Shares at the Scheme Record Time, one BOCH Share (other than in respect of any Blocked Shares) or one Depositary Interest representing one BOCH Share in exchange for each individual holding of 20 BOC Shares (calculated in accordance with the Consolidation Basis). BOC Shareholders can elect to trade BOCH Shares on the LSE or CSE and therefore receive either BOCH Shares or Depositary Interests. BOC Shareholders will need to complete the Share Election Form in order to make an election between trading interests in BOCH on the LSE or CSE. The options are:

- to trade BOCH Shares on the LSE, election must be made to receive BOCH Shares by selecting the LSE option in the Share Election Form, inserting the relevant CREST account details in the space provided on the Share Election Form, and submitting the completed Share Election Form to any branch of BOC in Cyprus or to the Shares & Loan Stock Department of BOC by the business day following the Scheme Record Time. Contact details for the Shares & Loan Stock Department are set out in the box on page 32 of the Circular. BOC Shareholders who do not have a CREST account will

need to contact an eligible brokerage firm/custodian to take the necessary steps to open a CREST account before submitting a Share Election Form;

- to trade BOCH Shares on the CSE (where such BOC Shareholder has an active CSE ISCS account), election must be made to receive Depository Interests by selecting the CSE option in the Share Election Form, inserting the relevant CSE ISCS account details and the details of the relevant Operator in the space provided, and submitting the completed Share Election Form to any branch of BOC in Cyprus or to the Shares & Loan Stock Department of BOC by the business day following the Scheme Record Time. Contact details for the Shares & Loan Stock Department are set out in the box on page 32 of the Circular. Depository Interests issued by the Depository will be allocated to such CSE ISCS account;
- to trade BOCH Shares on the CSE (where such BOC Shareholder does not have an active CSE ISCS account) such BOC Shareholder will need to open a CSE ISCS account. To do this such BOC Shareholder should contact a broker/custodian authorised by the CSE (an “**Operator**”). A full list of Operators is available on the CSE’s website www.cse.com.cy. Once such CSE ISCS account has been opened and the relevant fees have been paid, election must be made to trade interests in BOCH on the CSE in the Share Election Form, the details of the CSE ISCS account and the details of the relevant Operator must be inserted in the space provided and the completed Share Election Form must be submitted to any branch of BOC in Cyprus or to the Shares & Loan Stock Department of BOC by the business day following the Scheme Record Time. Contact details for the Shares & Loan Stock Department are set out in the box on page 32 of the Circular. In the event BOC Shares have been credited to an inactive investor share code account, this inactive investor share code account will be cancelled and, if a Share Election Form is not validly and correctly submitted selecting one of the above options in respect of the BOC Shares in such inactive investor share code account, any Depository Interests will be allocated under the control of the CDCR to a new inactive investor share code account opened in the name of the relevant BOC Shareholder by the CSE;
- If a Share Election Form validly selecting one of the options set out above is not submitted in respect of any holding of BOC Shares, the relevant BOC Shareholder will be deemed to have elected to trade BOCH Shares on the CSE and will therefore receive Depository Interests pursuant to the Scheme. The Shares & Loan Stock Department of BOC will conduct a search to ascertain whether the relevant BOC Shareholder maintains an active CSE ISCS account. If they do, Depository Interests will be allocated to such CSE ISCS account. This search will be based on the relevant BOC Shareholder’s data held by the Shares & Loan Stock Department. In the event that this search does not reveal a CSE ISCS account, the Depository Interests will be allocated under the control of the CDCR to an inactive investor share code account opened in the name of the relevant BOC Shareholder by the CSE.
- BOC Shareholders who hold Blocked Shares, will receive Depository Interests in exchange for such Blocked Shares (in accordance with the Consolidation Basis) irrespective of whether such BOC Shareholders have elected to trade BOCH Shares on the LSE or on the CSE. Such Depository Interests representing BOCH Shares will be allocated to those BOC Shareholders subject to a pledge and/or charge and/or allocated by the CDCR to the special (blocked) account within such BOC Shareholder’s CSE ISCS accounts or otherwise requested by the CDCR under a ‘blocked’ status.
- In order to trade interest in BOCH on the CSE, a BOC Shareholder with an inactive CSE ISCS account opened in its name will need to open a CSE ISCS account through an Operator and pay the relevant fee required by the CSE. Such BOC Shareholder will then need to provide the CSE ISCS account details to the Shares & Loan Stock Department by completing and submitting the relevant form.

BOC Shareholders whose BOC Shares are currently listed on ATHEX

BOCH Shares issued under the Scheme will not be listed on ATHEX, and any BOC Shares in an ATHEX ISCS account with ATHEX will be cancelled following the Effective Date. BOC Shareholders holding BOC Shares that are listed on ATHEX have been given the option of electing to trade on the LSE or CSE and will therefore receive BOCH Shares (other than in respect of any Blocked Shares) or Depository Interests in accordance with the instructions set out above.

Pledges Over BOC Shares

If any pledge or other charge which, as at the Scheme Record Time, is registered with the CDCR (pursuant to the provisions of applicable law) on any BOC Shares, the Cyprus Court shall be requested to

issue an order as follows. The CSE shall be required to register a pledge or charge on the Depositary Interests which shall be issued in consideration for the cancellation of the BOC Shares concerned pursuant to the Scheme, as if documentation analogous to that submitted for the registration of the pledges and/or charges on the Existing Shares, was submitted to the CSE on the Effective Date and/or circumstances analogous to those allowing the registration of the pledge or other charge on the BOC Shares are in place for the pledging and/or charging of the Depositary Interests issued in exchange for such Existing Shares, and such pledges and/or charges will be valid and effective and subject to the applicable laws and regulations of the CSE.

If any pledge or other charge which, as at the Scheme Record Time, is registered with the ATHEX DSS (pursuant to the provisions of applicable law) on any BOC Shares, the Cyprus Court shall be requested to issue an order as follows. The CSE shall be required to register a pledge or charge on the Depositary Interests representing BOCH Shares which shall be issued in consideration for the cancellation of the BOC Shares concerned pursuant to the Scheme, as if documentation analogous to that submitted for the registration of the pledges and/or charges on the BOC Shares, was submitted to the CSE on the Effective Date and/or circumstances analogous to those allowing the registration of the pledge or other charge on the BOC Shares are in place for the pledging and/or charging of the Depositary Interests issued in exchange for such BOC Shares, and such pledges and/or charges will be valid and effective and subject to the applicable laws and regulations of the CSE.

It is possible that the Cyprus Court may not issue the order referred to in the above paragraphs. BOC therefore strongly recommends that BOC Shareholders consider their own positions in relation to any existing security arrangements over their BOC Shares, the possibility that such security arrangement may not be extended to the Depositary Interests representing BOCH Shares and the impact this might have on the relationship between the BOC Shareholder and the beneficiary of the security arrangement.

BOC Shares Allocated to the Special (Blocked) Account or Otherwise Registered Under a 'Blocked' Status by the CDCR

If, pursuant to any court order, any BOC Shares have been caused by the CDCR to appear in the special (blocked) account within a CSE ISCS account or are otherwise registered by the CDCR under a 'blocked' status as at the Scheme Record Time, the Cyprus Court shall be requested (as part of the application made to the Cyprus Court) to issue an order as follows. The CSE shall be required to register the Depositary Interests representing BOCH Shares which shall be issued in consideration of the cancellation of the BOC Shares pursuant to the Scheme, into the special (blocked) account within such CSE ISCS account or otherwise under an analogous 'blocked' status (as the case may be), as if the court order requiring such BOC Shares to appear in the special (blocked) account within the CSE ISCS account or otherwise under a 'blocked' status encompassed the Depositary Interests representing BOCH Shares issued in consideration for the cancellation of such BOC Shares pursuant to the Scheme. In addition an order passed by the Cyprus Court pursuant to the application to the Cyprus Court (or any court order which originally caused the BOC Shares registered in the CDCR to appear in the special (blocked) account within a CSE ISCS account or otherwise registered under a 'blocked' status) be considered as valid and effective against such Depositary Interests representing BOCH Shares.

It is possible that the Cyprus Court may not issue the order referred to in the above paragraph. Consequently any BOCH Shares or Depositary Interests representing BOCH Shares issued pursuant to the Scheme will not be subject to an analogous 'blocked' status.

Overseas Shareholders

General

It is the responsibility of holders of BOC Shares resident in, or citizens or nationals of, jurisdictions in which BOCH has not taken any action to permit a public offering of the ordinary shares in BOCH or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials relating to the BOCH Shares) ("**Overseas Shareholders**") to satisfy themselves as to the full observance of the laws of the relevant jurisdiction to which they belong in connection with the issue of BOCH Shares and Depositary Interests, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

If, in respect of any Overseas Shareholder, BOCH is advised that the issue of BOCH Shares or Depositary Interests would or might infringe the laws of any jurisdiction, or would or might require BOCH to obtain

or comply with any governmental or other consent or any registration, filing or other formality or condition with which, in the opinion of BOCH, it would be unable to comply or which it regards as unduly onerous, then BOCH may in its sole discretion determine that no BOCH Shares or, as the case may be, Depositary Interests, shall be issued to such Overseas Shareholder, but that instead those BOCH Shares (or the underlying BOCH Shares represented by such Depositary Interests that such Overseas Shareholder is entitled to receive):

- (a) shall be issued to a nominee appointed by BOCH, as trustee for such Overseas Shareholder, on terms that the nominee shall, as soon as reasonably practicable following the Effective Date, sell those BOCH Shares (or the underlying BOCH Shares represented by such Depositary Interests) so issued at the best price which can reasonably be obtained at the time of sale and shall account for the net proceeds of sale (after deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) to the Overseas Shareholder concerned, as soon as reasonably practicable after the sale, by sending a cheque in euro (at the risk of such Overseas Shareholder); or
- (b) shall be sold, in which event BOCH shall appoint and authorise a person to act on behalf of the Overseas Shareholder to procure that such BOCH Shares (or the underlying BOCH Shares represented by such Depositary Interests that such Overseas Shareholder is entitled to receive) in respect of which BOCH has made such a determination shall, as soon as practicable following the Scheme Record Time, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) shall be paid to the Overseas Shareholder by sending a cheque to such Overseas Shareholder in euro (at the risk of such Overseas Shareholder). To give effect to any such sale, the person so appointed shall be authorised on behalf of the Overseas Shareholder to execute and deliver a form of transfer and to give such instructions and do all such things which he may consider necessary or expedient in connection with such sale.

For the avoidance of doubt, no direct sale of Depositary Interests representing underlying BOCH Shares shall take place, and any Depositary Interests that an Overseas Shareholder may be entitled to pursuant to the Scheme shall be withdrawn and converted into the underlying BOCH Shares, with such BOCH Shares being sold as described above.

In the absence of bad faith or wilful default, none of BOC, BOCH, or their respective nominees or directors and officers or any broker or agent appointed by any of them shall have any liability for any loss or damage arising as a result of any decision to sell BOCH Shares or the underlying BOCH Shares represented by Depositary Interests or of the timing or terms of such sale.

Overseas Shareholders should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.

European Economic Area

In relation to each Relevant Member State, with effect from and including the relevant implementation date, no BOCH Shares have been offered or will be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the BOCH Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State in which the offer to the public is to take place, all in accordance with the Prospectus Directive, except that with effect from and including the relevant implementation date, offers of BOCH Shares may be made to the public in that Relevant Member State at any time:

- (i) to any legal entity which is a “qualified investor”, within the meaning of Article 2(1)(e) of the Prospectus Directive, including any relevant implementing directive measure in that relevant member state;
- (ii) to fewer than, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of BOCH Shares shall result in a requirement for the publication by BOCH or the Adviser to the London Listing of a prospectus pursuant to Article 3 of the Prospectus Directive or supplemental prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions above, the expression an “offer to the public” in relation to any BOCH Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of offer and any BOCH Shares to be offered so as to enable an investor to decide to acquire the BOCH Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Russian Federation

Information contained in this document is not an offer, or an invitation to make offers, to sell, purchase, exchange or otherwise transfer securities in the Russian Federation or to or for the benefit of any Russian person or entity and does not constitute an advertisement or offering of securities in the Russian Federation within the meaning of Russian securities laws. The BOCH Shares have not been and will not be registered in Russia and are not intended for “offering”, “placement” or “circulation” in Russia (each as defined in Russian securities laws) unless and to the extent otherwise permitted under Russian law. Information contained in this document is not intended for any persons in the Russian Federation who are not Russian QIs and must not be distributed or circulated or re-distributed into Russia or made available in Russia to any persons who are not Russian QIs, unless and to the extent they are otherwise permitted to access such information under Russian law. This document has been prepared in respect of the Scheme which is being effected outside the Russian Federation in accordance with Cypriot Companies Law and, if approved by the requisite shareholders’ majority and the competent Cypriot court, shall be binding by operation of law on all BOC Shareholders irrespective of whether or not they attended or voted at the EGM (and, if they attended and voted, whether or not they voted in favour). The BOCH Shares, if any, will be delivered to shareholders’ securities accounts opened and maintained outside the Russian Federation. In order to participate in the Scheme, a BOC Shareholder should be incorporated, located, resident or otherwise act outside the Russian Federation in participating in the Scheme (including the submission of all relevant communications and acceptance of delivery of the BOCH Shares).

United States

The BOCH Shares and Depositary Interests which will be issued in connection with the Scheme have not been, will not be and are not required to be registered with the SEC under the U.S. Securities Act or under the securities laws of any state, district or other jurisdiction of the United States, and may not be offered, sold, delivered or transferred except pursuant to an available exemption from or in a transaction not subject to the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws. It is expected that the BOCH Shares will be issued in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) of the U.S. Securities Act (the “**Section 3(a)(10) Exemption**”).

In order to qualify for the Section 3(a)(10) Exemption with respect to the BOCH Shares and Depositary Interests issued pursuant to the Scheme, BOC will advise the Cyprus Court that BOCH will rely on the Section 3(a)(10) Exemption based on the Cyprus Court’s sanctioning of the Scheme, which will be relied upon by BOCH as an approval of the Scheme following a hearing upon the fairness of the terms and conditions of the Scheme at which hearing all such Shareholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such BOC Shareholders.

The BOCH Shares and Depositary Interests to be issued under the Scheme should not be “restricted securities” within the meaning of Rule 144(a)(3) under the U.S. Securities Act, and persons who receive BOCH Shares or Depositary Interests in connection with the Scheme (other than “affiliates”, as described below) may resell such BOCH Shares or the underlying BOCH Shares represented by Depositary Interests without restriction under the U.S. Securities Act. Whether a person is an affiliate of a company for purposes of the U.S. Securities Act depends on the circumstances, but affiliates can include certain officers, directors and significant shareholders. Persons who believe they may be affiliates of BOC, BOC Group or BOCH should consult their own legal advisers prior to any sale of BOCH Shares or the underlying BOCH Shares represented by Depositary Interests issued under the Scheme.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed an opinion upon the fairness or merits of such securities or upon the accuracy or adequacy of the disclosures contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Scheme is subject to the disclosure requirements and practices applicable in Cyprus to schemes of arrangement, which differ from the disclosure and other requirements that would be applicable under U.S. federal securities laws.

The BOCH Shares and Depositary Interests have not been and will not be listed on a U.S. securities exchange or quoted on any inter-dealer quotation system in the United States. BOCH does not intend to take any action to facilitate a market in BOCH Shares or Depositary Interests in the United States. Consequently, BOCH believes that it is unlikely that an active trading market in the United States will develop for the BOCH Shares or underlying BOCH Shares represented by Depositary Interests.

Announcement of Results

As soon as practicable following the EGM, BOC will make a public announcement stating whether or not the Scheme Resolutions were passed by the requisite majorities (and, if not, whether or not the Scheme has lapsed) and giving voting results in relation to the EGM.

As soon as practicable following the hearing of the Cyprus Court, BOC will make a public announcement stating whether or not the Scheme was approved by the Cyprus Court.

Directors' and Others Interests

The interests of Directors and others in the BOC Shares are set out under “*Management and Corporate Governance—BOCH Directors' interests in BOC Shares and Management and Corporate Governance—BOCH Executive Managers' interests in BOC Shares*”.

Timetable

The Scheme is yet to be approved by BOC Shareholders at the EGM and by the Cyprus Court. For a full description of the timetable, see “*Expected Timetable of Principal Events*”.

BOCH Constitution

For a summary of the BOCH Constitution, see “*Additional Information—Summary of BOCH's Constitution*”.

Listing and Dealings

Applications will be made to the UKLA for the admission of the BOCH Shares to listing on the standard listing segment of the Official List and to the LSE for admission to trading on the LSE Main Market. The decision to admit the BOCH Shares to listing on the standard listing segment of the Official List and to trading on the LSE Main Market is at the sole discretion of the UKLA and the LSE, respectively.

Application will also be made to the CSE for the BOCH Shares to be admitted to listing and trading on the CSE Main Market. The decision to admit the BOCH Shares to listing on the CSE Main Market is at the sole discretion of the council of the CSE.

The expected timetable (see “*Expected Timetable of Principal of Events*”) may be changed if it is necessary to adjourn any meetings required to approve the arrangements described in this Prospectus and the Circular or if there is any delay in obtaining the Cyprus Court's sanctioning of the Scheme. In the event of a delay, the cancellation of the BOC Shares will be deferred and the BOC Shares will continue to be listed and traded on the CSE Main Market and on ATHEX.

Consolidation Basis

Upon the Scheme becoming Effective, all BOC Shares will be cancelled on the Effective Date. In consideration for the cancellation, BOC Shareholders will be entitled to receive:

One BOCH Share or one Depositary Interest representing one BOCH Share for each individual holding of 20 BOC Shares (calculated in accordance with the Consolidation Basis).

The exchange ratio will be calculated on the following basis (the “**Consolidation Basis**”):

- (a) subject to paragraphs (b) to (d) below, each BOC Shareholder's holding of BOC Shares in a CSE ISCS account or a ATHEX ISCS account at the Scheme Record Time will be notionally rounded up to the nearest multiple of 20 (e.g. where a BOC Shareholder holds 29 BOC Shares in a CSE ISCS

account or a ATHEX ISCS account at the Scheme Record Time, such shareholding will be notionally rounded up to 40 BOC Shares and, following the Effective Date, such BOC Shareholder will receive two BOCH Shares or two Depositary Interests each representing one BOCH Share);

- (b) if a BOC Shareholder has holdings of BOC Shares within a CSE ISCS account assigned to more than one Operator, then such holding of BOC Shares in that CSE ISCS account will be notionally aggregated before the rounding described in paragraph (a) above is to occur;
- (c) if a BOC Shareholder has holdings of BOC Shares within an ATHEX ISCS account assigned to more than one Operator, then such holding of BOC Shares in that ATHEX ISCS account will be notionally aggregated before the rounding described in paragraph (a) above is to occur; and
- (d) if a BOC Shareholder has holdings of BOC Shares in both a CSE ISCS account and an ATHEX ISCS account there will be no notional aggregation of the BOC Shares held in the CSE ISCS account with those held in the ATHEX ISCS account before the rounding described in paragraph (a) above is to occur.

BOCH Shares will be allotted and issued in accordance with the Consolidation Basis (other than in relation to any Blocked Shares) to BOC Shareholders who have validly elected, by properly completing and submitting the Share Election Form, to trade BOCH Shares on the LSE. Depositary Interests will be issued in accordance with the Consolidation Basis to: (i) BOC Shareholders who have validly elected, by properly completing and submitting the Share Election Form, to trade BOCH Shares on the CSE; (ii) BOCH Shareholders holding Blocked Shares; and (iii) those BOC Shareholders who have not submitted a properly completed Share Election Form and are therefore deemed to have made an election to trade BOCH Shares on the CSE.

Unless otherwise indicated by a BOCH Shareholder in his Share Election Form, where a BOC Shareholder has holdings of BOC Shares in a CSE ISCS account assigned to more than one Operator, any Depositary Interests in respect of BOCH Shares issued to such BOC Shareholder pursuant to the Scheme will be distributed pro-rata among such holdings within the BOC Shareholder's CSE ISCS account. Where as a consequence of the Consolidation Basis, a pro-rata distribution of Depositary Interests among such holdings within a CSE ISCS account is not possible, BOC will have the discretion, acting reasonably, to allocate any Depositary Interests to a particular holding within that CSE ISCS account. The pro-rata distribution referred to in this paragraph will not be applicable to holdings of BOC Shares in ATHEX ISCS accounts as no BOCH Shares or Depositary Interests will be allocated to ATHEX ISCS accounts pursuant to the Scheme.

Following the cancellation of the BOC Shares, the capital reduction reserve arising in the accounts of BOC as a result of the Reduction of Capital will be applied in paying up in full, at par, 8,922,944,533 new shares of €0.10 each in the capital of BOC and allotting such new shares to BOCH (or its nominees). BOCH will, as a result, become the parent company of BOC and the BOC Group. As a result of the Scheme, BOCH Shareholders will own 100% of the issued share capital of BOCH (either via BOCH Shares or Depositary Interests).

Settlement

Subject to the Scheme becoming effective, settlement of transactions in BOCH Shares will be effected in the manner set out below.

Settlement of trades on the LSE

BOCH will, prior to Admission, arrange for BOCH Shares to be allotted and issued (other than in relation to any shareholding of Blocked Shares) in uncertificated form to the CREST accounts of those BOC Shareholders who have validly opted to receive BOCH Shares via the Share Election Forms. CREST is a paperless settlement system operated by Euroclear enabling securities to be evidenced otherwise than by a certificate (i.e. in uncertificated form) and transferred otherwise than by written instrument (i.e. on a dematerialised basis). It is proposed that BOCH Shares be made eligible for settlement in CREST.

Settlement of trades on the CSE

BOCH will, prior to Admission, enter into depositary arrangements to enable BOCH Shareholders and other future investors to settle interests in the BOCH Shares through the DSS. The DSS is the central registry and computerised system for the settlement of sales and purchases of securities on a dematerialised basis and the holding of securities in uncertificated form operated by the CDCR. The DSS

is a direct holding system, providing a record of legal title and any changes to securities admitted to the CSE. All securities listed on the CSE and recorded in the DSS are in uncertificated form. The DSS facilitates the transfer of securities listed on the CSE from one person to another without the need to use any written instrument (i.e. on a dematerialised basis).

To allow settlement within the DSS, BOCH will enter into depositary arrangements which will enable BOCH Shareholders who wish to trade BOCH Shares listed on the CSE to receive Depositary Interests. Each Depositary Interest will represent an entitlement to one BOCH Share. Under these arrangements, the BOCH Shares will be issued to the Custodian, rather than to BOCH Shareholders directly and legal title to the BOCH Shares listed on the CSE will be held by the Custodian for the Depositary. In turn, the Depositary will hold its interest in the BOCH Shares on trust for the Depositary Interest holders (each a “**DI Holder**”). The Depositary Interests will be independent securities bearing the same International Securities Identification Number (“**ISIN**”) as the underlying BOCH Shares and will be capable of being held in uncertificated form only through the CDCR and transferred on a dematerialised basis only through the CDCR.

BOCH reserves the right to deliver any BOCH Shares in certificated form. However, this right is only likely to be exercised in the event of any interruption, failure or breakdown of: (i) CREST (or any part of CREST); (ii) the DSS; or (iii) the facilities and/or systems operated by the Registrars to BOCH in connection with CREST or the CDCR.

Exchanging BOCH Shares for Depositary Interests and vice versa

If a DI Holder wishes instead to hold legal title to the BOCH Shares represented by its Depositary Interests or otherwise hold BOCH Shares in CREST, he may (subject to any pledges and/or charges existing over his Depositary Interests or his Depositary Interests being allocated to a special (blocked) account within his CSE ISCS account or otherwise registered by the CDCR under a ‘blocked’ status) elect at any time to convert his Depositary Interests into the underlying BOCH Shares by notifying the CDCR or his Operator responsible for the DI Holder’s CSE ISCS account and by providing the necessary information (including CREST account details). In both cases, once the Depositary is notified of the election and has received the relevant information, it will procure the cancellation and removal of the relevant Depositary Interests from the DSS and transfer the BOCH Shares to the CREST account designated by the former DI Holder.

If a holder of BOCH Shares wishes instead to hold Depositary Interests representing BOCH Shares in DSS, he may elect at any time to convert its BOCH Shares into Depositary Interests by notifying the relevant CREST participant and providing the necessary information (including CSE ISCS account details). Once the Depositary is notified of the election and has received the relevant information, it will arrange for the transfer of the BOCH Shares (from the relevant CREST participant’s account) to the Custodian and the issuance of Depositary Interests into the DSS (to the CSE ISCS account designated by the former holder of BOCH Shares).

Rights attaching to Depositary Interests

Depositary Interests are a type of security that provides its holder with an interest in a separate security (in this case, the BOCH Shares). They are often used to allow investors in one jurisdiction (in this case, Cyprus) to settle trades in those shares located in a second jurisdiction (in this case, Ireland), where it is not possible or practicable to settle trades in those securities directly in the first jurisdiction (Cyprus). Under a typical depositary interest arrangement, a depositary will hold legal title to the relevant underlying shares (here the BOCH Shares) of a company incorporated in the second jurisdiction (Ireland) (often using a nominee custodian company) on trust for the benefit of the investors in the first jurisdiction (Cyprus) and issue depositary interests on a one-for-one basis to investors in the first jurisdiction (Cyprus).

BOCH will appoint the Depositary to act in relation to the Depositary Interests. The Depositary will hold (through the Custodian) BOCH Shares (and all rights attributable to those BOCH Shares) that are related to the Depositary Interests for the benefit of each DI Holder. DI Holders will have an interest in the BOCH Shares to which they are entitled under the Scheme but will not be the registered holders of the relevant BOCH Shares. DI holders will not exercise directly the rights and entitlements which Irish law and the BOCH Articles confer on holders of the BOCH Shares. However, DI Holders will be able to enforce and exercise the rights relating to the BOCH Shares only in accordance with the arrangements described below.

Capita IRG Trustees Limited will act as the Depository and enter into depositary arrangements with BOCH. Capita IRG Trustees Limited is a wholly-owned subsidiary of Capita plc (together with its subsidiaries “**Capita Group**”), Capita Group is a leading UK provider of technology enabled customer and business process services and integrated professional support services with 75,000 people at over 500 sites, including 94 business centres across the UK, Europe, India and South Africa. Capita is quoted on the London Stock Exchange (CPI.L), and is a constituent of the FTSE 100 with 2015 underlying revenue of £4.7 billion.

Capita IRG Trustees Limited is registered in England and Wales (company number 2729260) and in addition to providing depositary interest services to international companies admitted to trading in the United Kingdom also provides share dealing, nominee and trustee services. Capita IRG Trustees Limited is authorised and regulated by the Financial Conduct Authority with registered number 184113. The Depository will pass on to the DI Holders all rights and entitlements in respect of the BOCH Shares received by the Depository (directly or through the Custodian), all DI Holders will:

- (a) receive notices of all shareholders’ meetings of BOCH (at the same time and in the manner as holders of the BOCH Shares);
- (b) be able to give instructions as to voting at all shareholders’ meetings of BOCH (at the same time and in the manner as holders of the BOCH Shares);
- (c) be able to attend and vote (as the proxy of the Custodian) at all shareholders’ meetings of BOCH (at the same time and in the same manner as holders of BOCH Shares);
- (d) have made available to them and be sent at their request, copies of the annual report and accounts of BOCH and of all of the documents issued by BOCH to its shareholders (in each case, in English/ Greek); and
- (e) receive any dividends declared and paid in the future by BOCH in respect of BOCH Shares.

BOCH will also procure that any rights and entitlements of a DI Holder under the BOCH Articles, including the rights and entitlements to:

- (i) receive notice of and to attend general meetings of BOCH in the same manner as a holder of the BOCH Shares;
- (ii) vote at general meetings of BOCH pursuant to: (i) a proxy issued by the Custodian appointing a DI Holder (or such other person as a DI Holder may nominate in writing to BOCH) as its proxy entitled to cast the votes in respect of underlying BOCH Shares represented by a DI Holder’s Depository Interests; or (ii) a deemed appointment as corporate representative of the Depository in respect of the underlying BOCH Shares represented by their Depository Interests; and
- (iii) receive, at the direction of the Custodian any dividend or other moneys payable in respect of any BOCH Shares represented by such DI Holder’s Depository Interests,

are passed on to the DI Holders pursuant to the terms of the BOCH Deed Poll.

The Depository Interests issued in respect of the BOCH Shares will have the same ISIN as the underlying BOCH Shares and will not have a separate listing on the CSE Main Market. Depository Interests are capable of being credited to the same account as all other investments held in the CSE ISCS account of any particular investor. This means that, from a practical point of view, Depository Interests will be held and transferred in the same way as other companies’ shares admitted to the CDCR.

If arrangements are made which allow a DI Holder to take up rights in BOCH Shares that require payment, the DI Holder must ensure that the Depository has the necessary funds available to it before the relevant payment date or other date notified by the Depository, if such DI Holder wishes the Depository to effect the exercise of such rights. No payment will be required to allow the DI Holders to exercise the rights in paragraphs (a) to (e) above. Also, the Depository will not charge holders of BOCH Shares and DI Holders any fees in relation to the exchange of BOCH Shares for Depository Interests and vice versa. However, the CDCR and Euroclear may charge fees in connection with such exchange as would be customary for the transfer of holdings and the communication of instructions within or through the DSS and CREST, respectively.

Those DI Holders who wish to use the voting rights attached to the BOCH Shares represented by their Depository Interests will be permitted to attend shareholders’ meetings of BOCH and exercise the voting rights attached to the BOCH Shares represented by their Depository Interests as if they were holders of

BOCH Shares. DI Holders may alternatively nominate a proxy in respect of the BOCH Shares to which their Depositary Interests relate.

All arrangements concerning the issue of (and the exercise by any DI Holders of their rights in respect of) the Depositary Interests will be subject to any regulations governing the issue of depositary interests that may be implemented and amended by the CDCR from time to time.

Depositary Agreement

Under the depositary agreement to be entered into between BOCH and the Depositary prior to the Effective Date (the “**Depositary Agreement**”), BOCH will appoint the Depositary to provide depositary and certain other services, upon the terms of the deed poll to be issued and executed by the Depositary in favour of the DI Holders creating the Depositary Interests and granting certain rights to the DI Holders (the “**Deed Poll**”), in connection with the Depositary Interests. These services will include the issue of Depositary Interests to holders of CSE ISCS accounts, on an uncertificated basis into the DSS and to effect transactions relating to the Depositary Interests and the underlying BOCH Shares to which they relate on behalf of holders of CSE ISCS accounts directly and/or through the Custodian.

The Depositary will also provide custody services by arranging for the Custodian to hold legal title to the BOCH Shares, in respect of which the Depositary will issue the Depositary Interests. The Depositary will also agree that it will provide the various services in good faith and will exercise all due skill and care and diligence while performing these services.

In addition to the above, the Depositary Agreement will set out the procedures to be followed where BOCH is to pay or make a dividend or other distribution. It will also provide that the Depositary will consult with BOCH before taking certain steps under the Deed Poll, including in relation to obtaining additional warranties or certifications from DI Holders, handling fractional entitlements, charging fees or expenses to DI Holders, seeking to enforce any indemnity or making arrangements to the Deed Poll.

BOCH will agree to provide such assistance, information and documentation to the Depositary as is reasonably required by the Depositary for the purposes of performing the services under the Depositary Agreement.

BOCH will indemnify the Depositary against any loss which it may incur as a result of, amongst other things, any act performed by the Depositary in relation to the Deed Poll, except to the extent that any losses result from the Depositary’s negligence, willful default or fraud. The Depositary will provide a limited indemnity to BOCH against any loss it may incur as a result of any breach of the terms of the Deed Poll in an amount up to £500,000. The appointment of the Depositary will be for a minimum initial period of 3 years (which may be extended to 5 years at the option of BOCH) and then for successive periods of 12 months thereafter.

The Depositary Agreement will be capable of being terminated with limited or no notice in certain limited circumstances, such as where either the Depositary or BOC have committed a material breach that is irremediable or otherwise not remedied. Additionally, either party will be able to terminate the agreement by giving notice, not to expire earlier than the initial 3 year period or the relevant 12 month period thereafter.

BOCH will be required to pay certain fees and charges to the Depositary. The Depositary is also entitled to recover any reasonable out-of-pocket expenses it incurs while performing its duties under the Deed Poll and the Depositary Agreement.

Deed Poll

Those BOC Shareholders who: (i) have validly elected, by properly completing and submitting the Share Election Form, to receive Depositary Interests in a CSE ISCS account; (ii) hold any Blocked Shares; or (iii) are deemed to have made an election to receive Depositary Interests, will be deemed to be bound by the terms of the Deed Poll as soon as the Depositary Interests are issued to the CSE ISCS accounts opened in their name.

The Depositary will issue and constitute the Depositary Interests on the terms of the Deed Poll. Each Depositary Interest will be treated by the Depositary as one BOCH Share for the purposes of determining, for example, eligibility for dividends and voting rights. The Deed Poll will include provisions commonly addressed in custody and depositary agreements and which are otherwise similar to those that an Operator

would require before operating on behalf of an investor a CSE ISCS account. Such provisions would be binding upon all DI Holders and will include the following:

- (a) Each DI Holder will be bound to give warranties and certifications to the Depositary as the Depositary may reasonably deem necessary or appropriate in order to apply with any applicable law or regulation for the administration or implementation of the Deed Poll or the administration of the Depositary Interest facility. However, in any event, DI Holders will be taken to warrant to the Depositary that each BOCH Share credited to the Depositary's CREST account for the account of the DI Holders are credited free and clear of all liens, charges, encumbrances or third party interests and that the transfer is not in contravention of BOCH's Articles or any contractual obligation, law or regulation binding on the DI Holders.
- (b) The Depositary will be entitled to charge DI Holders fees and expenses, as may be separately notified from time to time provided that: (i) any fees or expenses charged by the Depositary relate to the particular circumstances of the relevant DI Holder and are not applied to all DI Holders generally; and (ii) such fees or expenses are of a type which would be charged by a reasonable depositary providing services similar to those provided by the Depositary in relation to the Depositary Interests. However, no fees will be charged to DI Holders in relation to the matters listed in paragraphs (a) to (e) in relation to the rights attaching to Depositary Interests above and/or the exchange of BOCH Shares for Depositary Interests and vice versa, as described in relation to the Depositary Agreement above, BOCH has agreed with the Depositary that the Depositary will consult with BOC prior to charging any such fees or expense to a DI Holder under the Deed Poll.
- (c) Each DI Holder will be liable to indemnify the Depositary and any Custodian (and their respective agents, officers and employees) against any and all liabilities arising from or incurred in connection with, any breach of the provisions of the Deed Poll by that DI Holder (including where any confirmation or certification given or deemed to be given by the DI Holder are not true and accurate). The indemnity will not extend to those liabilities resulting from the wilful default, negligence or fraud of the Depositary, or the Custodian or any agent, if such Custodian or agent is a member of the Depositary's group, or, if not being a member of the same group, the Depositary shall have failed to exercise all due skill, care and diligence in the selection, the appointment and continued use and supervision of such Custodian or agent.
- (d) The Depositary will be entitled to cancel Depositary Interests and treat the DI Holder as having requested a withdrawal of the BOCH Shares in certain circumstances, including where the Depositary is exposed to any increased liability to taxation or additional regulatory requirements or where a DI Holder fails to provide the Depositary with material information, including the DI Holder's identity or the identity of any ultimate beneficial owners of the Depositary Interests held by it. After such deemed request, the DI Holder will be required, on request of the Depositary, to specify an account within CREST to which the underlying BOCH Shares should be transferred. After cancellation, the Depositary will continue to hold the underlying BOCH Shares on trust for the relevant DI Holder until the relevant BOCH Shares are transferred to the DI Holder's designated CREST account.
- (e) The Deed Poll also will contain provisions excluding and limiting the Depositary's liability. For example, the Depositary will not be liable to any DI Holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll (except for negligence or wilful default or fraud by the Depositary or any person for whom the Depositary is vicariously liable). Furthermore, the Depositary's liability to a DI Holder will be limited to the lesser of: (i) the value of the BOCH Shares that would have been attributable to the Depositary Interests to which the liability relates (such value calculated at the date of the act, omission or other event giving rise to the liability is discovered and as if such act, omission or other event had not occurred); and (ii) that proportion of £10 million which corresponds to the proportion which the amount the Depositary would otherwise be liable to pay to the DI Holder bears to the aggregate of the amounts that the Depositary would otherwise be liable to pay to all or any DI Holders in respect of the same act, omission or event which gave rise to such liability or, if there are no such amounts, £10 million.
- (f) If and to the extent any stamp duty or other transfer tax is payable on the deposit, transfer or withdrawal of any Depositary Interests, it will be the responsibility of the relevant DI Holder, and not the Depositary, to pay such stamp duty or other tax.
- (g) The Depositary will be able to terminate the Deed Poll by giving 30 days' notice. During such notice period DI Holders will be obliged to cancel their Depositary Interests and obtain BOCH Shares, if any

Depository Interests remain outstanding after termination, the Depository will be required, among other things, deliver the BOCH Shares represented by the Depository Interests to the relevant DI Holders or, at the Depository's discretion, sell all or part of such BOCH Shares. The Depository will then deliver the net proceeds of any such sale, after deducting any sums due to the Depository, together with any other cash held by it under the Deed Poll, to DI Holders proportionately.

- (h) The Depository or the Custodian will be able to require from any DI Holder information as to the capacity in which Depository Interests are or were owned and the identity of any other person who has held an interest in such Depository Interest and the nature of such interest, along with any necessary evidence. The DI Holders will be obliged to provide such information requested and consent to the disclosure of such information by the Depository or Custodian if the disclosure is necessary to comply with their legal or regulatory obligations.
- (i) The Deed Poll and the Depository Interests will be governed by English law, and, for the benefit of the Depository, each DI Holder will irrevocably submit to the courts of England to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the Deed Poll.

BOCH Articles and BOCH Deed Poll

The BOCH Articles provide that DI Holders shall be entitled to:

- (i) receive notice of and to attend general meetings of BOCH in the same manner as a holder of BOCH Shares;
- (ii) vote at general meetings of BOCH pursuant to: (A) a proxy issued by the Custodian appointing a DI Holder (or such other person(s) as a DI Holder may nominate in writing to BOCH) as its proxy entitled to cast the votes in respect of underlying BOCH Shares represented by a DI Holder's Depository Interests; or (B) a deemed appointment as corporate representative of the Depository in respect of the underlying BOCH Shares represented by their Depository Interests; and
- (iii) receive, at the direction of the Custodian any dividend or other moneys payable in respect of any BOCH Shares represented by such DI Holders' Depository Interests.

The BOCH Articles also specify that BOCH may make additional regulations from time to time (including by way of a deed poll executed by BOCH) pursuant to which BOCH may: (i) grant in whole or in part entitlements or rights to DI Holders that are equivalent or analogous to those of a holder of BOCH Shares and facilitate DI Holders to exercise rights equivalent or analogous to those of a holder of BOCH Shares; and (ii) undertake to the DI Holders to comply with any corresponding provisions set out in the BOCH Articles.

BOCH has therefore extended the scope of the above provisions of the BOCH Articles directly to the DI Holders through the BOCH Deed Poll such that DI Holders may enforce such provisions as set out in the BOCH Articles directly against BOCH. The BOCH Deed Poll also provides that upon the receipt from a DI Holder of a requisition calling for a general meeting of BOCH which had such requisition been received from one or more holders of BOCH Shares would have entitled such holders of BOCH Shares to validly issue a requisition requiring the Board of Directors of BOCH to convene a general meeting of BOCH (or otherwise give rise to a right to convene a general meeting of BOCH directly), in each case, in accordance with the Irish Companies Act and BOCH's Articles and BOCH's Memorandum, BOCH shall use its reasonable endeavours to procure the Custodian's consent to such requisition and shall, subject to such consent being given, treat such requisition as equivalent or analogous to that made by one or more holders of BOCH Shares.

The BOCH Deed Poll is governed by Irish law. BOCH and each DI Holder irrevocably submit to the courts of Ireland to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the BOCH Deed Poll.

BUSINESS DESCRIPTION

Overview of the BOC Group

The BOC Group was founded in 1899 and is a leading full-service bank and financial services group in Cyprus. For a detailed description of the history and development of the BOC Group, see “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals—History and Development of the BOC Group*”.

The BOC Group provides a wide range of financial products and services which include consumer and SME banking, corporate banking, international banking services and wealth, brokerage and asset management services, life assurance and general insurance. At 30 June 2016, based on CBC data, the BOC Group was the largest bank in Cyprus based on loans and deposits, with a market share of loans of 41.4% and a market share of deposits of 29.0%. The BOC Group operates primarily in Cyprus with limited operations abroad. At 30 June 2016, the BOC Group had a total of 131 branches (of which 125 operated in Cyprus, one operated in Romania, four operated in the United Kingdom and one operated in the Channel Islands). The BOC Group also provides 24-hour online, mobile and telephone banking to its customers. The BOC Group has representative offices in Russia, Ukraine and China. At 30 June 2016, the BOC Group employed 4,279 staff worldwide.

The BOC Group’s total revenue from continuing operations for the six months ended 30 June 2016 was €542.5 million and was €1.1 billion for the year ended 31 December 2015. The majority of the BOC Group’s revenue is derived from banking and financial services, which accounted for 95.0% of total revenue from continuing operations for the six months ended 30 June 2016 and 95.4% for the year ended 31 December 2015.

At 30 June 2016 the BOC Group’s total assets, total liabilities and total equity were €22.7 billion, €19.6 billion and €3.1 billion, respectively. As one of the largest deposit-taking institutions and providers of loans in Cyprus, the BOC Group’s assets are mostly comprised of loans to businesses and households in Cyprus. At 30 June 2016 gross loans and advances to customers in Cyprus before fair value adjustments on initial recognition was €19.3 billion and accounted for 91.4% of gross loans and advances to customers before fair value adjustments on initial recognition.

Competitive Strengths and Strategies

The BOC Group’s Competitive Strengths

The BOC Group believes that it benefits from the following competitive strengths:

Strong Position in a Recovering Cypriot Economy

The Cypriot economy continues to see strong improvement. During 2015 and the first half of 2016, Cypriot real GDP grew by 1.6% and 2.7%, respectively (seasonally adjusted, year-on-year) exceeding the IMF and EC forecasts. The unemployment rate fell by more than 4 percentage points from 16.5% at the end of 2013 to 12.4% at the end of the second quarter of 2016 (seasonally adjusted). This occurred against a background of negative consumer price inflation of 1.9% during the first seven months of 2016. As a result of improvement in the macroeconomic and fiscal environment, Cyprus exited the memorandum of understanding (“**MoU**”) with the Troika in March 2016, having utilised 73% of the financing available to it thereunder. Cyprus’ sovereign credit rating has also improved to B1/BB-/BB from B3/B-/B (in each case: Moody’s/Fitch/S&P), which allowed the Government to refinance the national debt at more favourable rates and with extended maturities.

The recovering Cypriot economy is underpinned by improving tourist arrivals, which increased by 8.9% in 2015 and by 21.2%, year-on-year, during the period from 31 December 2015 to 30 June 2016, and Cyprus’ unique position as a regional centre for business services for companies and investors in the middle east, the eastern Mediterranean, Russia and eastern Europe (source: CYSTAT).

The Bank believes that it is well positioned to capitalise on the improving economic environment. It is one of the dominant banks in Cyprus, with the largest share of the market for loans and deposits.

Leading Banking and Insurance Position across all Customer Segments

The BOC Group enjoys a well-recognised brand name and market position within Cyprus. It has a leading market position and large branch network (131 branches). In Cyprus, the BOC Group has a loan market share of 41.4% and a deposit market share of 29.0% (source: CBC data at 30 June 2016).

The BOC Group also provides an effective distribution platform for bancassurance products and services, serving its fully-owned subsidiaries, GIC and EuroLife, offering insurance product distribution through the Bank's branch network. GIC has a market share of 11.0% (source: 2015 Directory & Statistical Information for 2015 of the Insurance Association of Cyprus at 31 December 2015) of general insurance premiums in Cyprus and offers its products through the Bank's branch network, directly and indirectly through agents. EuroLife, has a market share of 27.2% (source: 2015 Directory & Statistical Information for 2015 of the Insurance Association of Cyprus at 31 December 2015) of life insurance premiums in Cyprus and offers a range of savings products, augmented by life, disability and illness insurance, through the Bank's branch network and through agents. The Bank also has a 49.9% shareholding in Cyprus Insurance Holdings Ltd (“CNP”), which is also a significant insurance operator in Cyprus.

Profitable Cypriot Banking Operations and a Significantly Enhanced Funding and Capital Profile

The profitable core of the BOC Group is driven by its domestic banking business, which is predominantly comprised of Consumer Banking and SME Banking, Corporate Banking and the International Banking services division (“IBS”) together contributing combined revenues of €291.3 million, or 53.7% of the Group's total revenues for the six months ended 30 June 2016. These three divisions contributed to BOC Group's competitive cost-to-income ratio, which was 41.8% for the six months ended 30 June 2016. Since 2014, the BOC Group has pursued an orderly reduction in non-core domestic and international business lines and loan exposures. The restructuring and recoveries division (the “RRD”) has been able to substantially increase the pace of loan restructuring as well as decrease the amount of NPEs held by the Bank. As domestic operations increase as a proportion of the BOC Group's total operations, the correlation between the Bank's profitability and the recovering Cypriot economy is expected to increase. The BOC Group's funding profile has also been significantly enhanced. At 30 June 2016, deposits funded 65.0% of total assets. The net loans-to-deposits ratio was 109.9% at 30 June 2016, a reduction of 35.5 percentage points from 145.4% at 31 December 2013. The BOC Group believes that, together, these set a strong foundation towards normalising the BOC Group's funding structure. In addition to strengthening the BOC Group's capital base, the BOC Group believes that its June 2016 capital position and favourable ratio of risk-weighted assets-to-total assets increases its ability to meet regulatory tests and withstand potential external shocks, improves stakeholder confidence in the BOC Group, provides improved funding options for the BOC Group and better positions the BOC Group both to help stimulate, and to benefit from, the recovery of the Cypriot economy.

An Experienced Management Team with Significant Turn-around Experience and a Deep Understanding of the Local Market

The BOC Group's executive team and Board of Directors have extensive experience in banking and the broader financial, corporate and government sectors, combined with a deep understanding of the local market and strong international experience. Dr. Josef Ackermann (Chairman) and Mr. John Patrick Hourican (Group Chief Executive Officer), along with certain other key members of management, are the driving force behind the BOC Group's restructuring and strategy. The BOC Group has recruited a number of key management personnel with significant turn-around experience to lead the run-down and sale of the Bank's non-core businesses and assets, as well as the restructuring and sale of distressed assets. The BOC Group has also started preparing a strong successor team of committed individuals to lead the BOC Group in the future. The Bank's current management has successfully executed the complex integration of two banks (BOC and Laiki Bank) within the requirements of a strict timetable, established a single integrated culture, recapitalised the Bank in 2014 through the €1 billion Capital Raising based on investment from international private investors, reduced the amount of emergency liquidity assistance (“ELA”) funding by 94.7% from its highest point as at the date of this Prospectus, substantially disposed of the BOC Group's non-core assets and strengthened the BOC Group's core Cypriot business lines. These achievements underscore management's clear strategic focus on the core business in the Cyprus market with the aim of creating value for stakeholders.

The BOC Group's Strategy

The BOC Group intends to position itself to grow in a moderate risk environment and support the recovery of the economy in Cyprus through the following measures:

Grow Core Cyprus Market through Prudent New Lending and Developing the UK Franchise

The BOC Group's performance is highly correlated to the Cypriot economy. Local operations accounted for 91.4% of gross loans and 90.3% of customer deposits as at 30 June 2016. The country's improving economic conditions, should have direct benefits for the Bank's profitability. Growth in new lending, through either organic growth or targeted acquisitions, is focused on the consumer, SME and corporate sectors. Growth in certain areas of the Cypriot economy is believed to directly complement the Bank's target risk profile, such as tourism, trade, professional services, information/communication technologies, energy, education and green projects. The Bank is reducing its risk profile by disposing of non-core assets, while enhancing its liquidity and capital positions as well as focusing on diversifying its income streams by increasing fee income from international businesses (including international transaction services), increasing deposits, wealth management and insurance. The BOC Group also has targeted certain BOC UK activities and its UK customer base as the subject of a focused growth initiative. Alongside focusing on the BOC Group's UK operation's core strength in property (and specifically the professional buy-to-let market), the BOC Group also has a clear diversification and expansion strategy, including adding a consumer division (mortgages, savings and current accounts) and a business division (trade-related products for professionals, SMEs and Cypriot residents).

Programmed Management of Non-performing Loans

A key priority for the BOC Group is to improve the quality of its loan portfolio through professional management of its loan exposures that are 90+DPD as well as prudent loan origination. To manage the BOC Group's 90+DPD portfolio, the Bank established RRD to manage, pro-actively restructure, dispose of or, as necessary, collect delinquent loans. Since 30 June 2015, RRD has reduced the BOC Group's 90+DPD loan exposures in Cyprus by approximately €2.8 billion through increased restructuring activities primarily focused on corporate loans and improved recoverability of the 90+DPD portfolio. An average of €1.2 billion of loans per quarter were restructured during the period from 30 June 2015 to 30 June 2016. The Bank is also monitoring and actively managing its NPE levels, given the importance of this regulatory metric.

The restructuring of the Bank's large, historic, lending exposures is substantially complete, resulting in decreased delinquency ratios (including as a result of specific provisioning for 90+DPD loans), improving to 52.6% at 30 June 2016, as compared to 48.1% at 31 December 2015, with 79.0% of restructured loans completed since the first quarter of 2014 presenting no arrears. Recently enacted foreclosure legislation and a new insolvency framework support this process by giving RRD increased flexibility to propose solutions for distressed borrowers, but also greater latitude to enforce security over assets such as real property and dispose of such assets gradually over time. In line with its focus on restructuring and workout activities for delinquent borrowers, the Bank has established a real estate management unit (the "REMU") as a new division to on-board, manage and dispose of the Bank's real estate assets and portfolios. The main objectives of REMU are to provide solutions for distressed borrowers, to accelerate the recovery process for the Bank and to monetise acquired assets at the appropriate time.

Normalise Funding Structure and Fully Repay the ELA

The BOC Group reduced its reliance on ELA funding to €2.4 billion (10.6% of total assets) as at 30 June 2016. The reduction has been achieved through a combination of deleveraging actions, deposit inflows, increased access to ECB funding and the Capital Raising. As at 30 June 2016, an ELA reduction of €9.0 billion, or 78.9%, had been achieved since the peak of ELA funding in 2013. As at the date of the Prospectus, the level of ELA funding is €0.6 billion. The BOC Group aims to fully repay the ELA as soon as possible during the first half of 2017, subject to market conditions and the Bank's performance. Efforts are also being made to boost the deposit franchise by taking advantage of growing customer confidence in Cyprus and improving macroeconomic conditions. Customer deposits totalled €14.7 billion as at 30 June 2016, an increase of €565.8 million, or 4.0%, compared to 31 December 2015.

Customer deposits fund 65.0% of the BOC Group's total assets and the net loans to deposits ratio improved by 9.1% to 109.9% at 30 June 2016 from 120.9% at 31 December 2015.

Increase and Diversify Fee Income

The BOC Group is endeavouring to increase fee income. To this end, the international banking services division (“**IBS**”) is intensifying its efforts with respect to international transaction services while simultaneously strengthening its deposit base. Corporate Banking focuses on fee-generating activities such as factoring, debt collection, assessment services, ledger administration and trade finance. The BOC Group is also looking to generate more insurance business to provide increased recurring income and distribute bancassurance products through its branch network. The wealth, brokerage and asset management division (the “**WBAM**”) is expected to be a contributor of fee income growth. As the economic recovery in Cyprus continues, the BOC Group expects its investment banking subsidiary, The Cyprus Investment and Securities Corporation Limited (“**CISCO**”) to benefit from an increase in investment banking and advisory fees. These various initiatives are designed to both support positive trends in certain fee income streams and to grow the Bank’s revenue.

Improving Risk Profile Supported by Strong Capitalisation, Deleveraging and Disposing of Non-Core Assets.

An improved risk profile is a main feature of the BOC Group’s strategy, and such a profile is expected to be supported by robust capitalisation and improving asset quality. As at 30 June 2016, the BOC Group had a CET 1 (transitional) ratio of 14.4% and a fully-loaded CET 1 ratio of 13.6%, which were significantly higher than the regulatory minimum of 11.75% required under Pillar 2 and higher than the Bank’s EU peer average (which was 13.5% as at 30 June 2016 (source: EBA Risk Dashboard, Q2 2016)). The BOC Group had a leverage ratio of 12.3% as at 30 June 2016, which is among the strongest of the Bank’s EU peers (the average of which was 6.8% as at 30 June 2016). The Bank’s strong capital position has contributed to the increased confidence of customers and other stakeholders in the Bank, as evidenced by, among other things, customer deposit inflows from June 2015 to June 2016 in Cyprus and the Bank’s increasing deposit market share in Cyprus over the same period. The BOC Group’s capital position has been strengthened by further deleveraging and disposal of non-core assets and operations in Romania and Russia. In Cyprus, the Bank has simplified its organisational structure and rationalised its branch network and headcount to improve efficiency. The Bank intends to continue to grow its loan portfolio prudently to improve its capital and funding positions. A strong capital position and improved credit ratings would facilitate increased access to wholesale funding markets. See “*Operating and Financial Review—Capital Management—Regulatory capital (unaudited)—SREP*”.

Maintain a Lean Operating Bank

The BOC Group aims to improve its profitability by continuing to focus on cost efficiencies and by striving for sustainable risk-adjusted returns. The BOC Group intends to introduce new technologies and processes to improve product distribution channels and reduce operating costs as part of the Bank’s focus on cost control. Strategic initiatives, such as a specific programme for reducing operating expenses and a voluntary employee exit plan, aim to contribute to controlled costs in the medium-term. The BOC Group also intends to incentivise employees through a range of human resources’ policies and initiatives, including an employee share option plan, allowing certain employees to benefit from any appreciation in the value of the Bank’s shares. This plan currently remains subject to the approval of the ECB.

Key Performance Indicators and Medium-Term Targets

The BOC Group has identified the following key performance indicators (“**KPIs**”) and established several medium-term targets reflecting the priorities of the BOC Group: asset quality, funding, capital, margins and efficiency and balance sheet. The KPIs presented below are measures that are not defined under IFRS. The methodologies prescribed under such regulations provide for the exercise of certain discretions by the Bank in calculating the relevant measures. Such discretion means that these measures may not be directly comparable with those prepared by other banks.

The following table shows the BOC Group's performance in respect of the medium-term target for each KPI and the latest statistics for each KPI.

	As at and for the year ended			As at and for the six months ended	As at and for the nine months ended	Medium-Term Targets	
	31 December 2013	31 December 2014	31 December 2015	30 June 2016	30 September 2016		
	(unaudited)						
BOC Group Key Performance Indicators							
Asset Quality (unaudited)							
90+DPD ratio (%) ⁽¹⁾	48.6%	53.2%	50.1%	44.0%	42.6%	<30%	
90+DPD provision coverage ratio (%) ⁽²⁾	38.3%	40.6%	48.1%	52.6%	53.6%	>50%	
Provisioning charge ⁽³⁾ (cost of risk) (year to date) (%) ⁽⁴⁾	4.0%	3.6%	4.3%	1.4%	1.6%	<1.0%	
Funding (unaudited)							
ELA % assets	31.5%	27.6%	16.3%	10.6%	5.8%		
ELA € bn ⁽⁵⁾	€9.6bn	€7.4 bn	€3.8 bn	€2.4 bn	€1.3 bn	Fully Repay	
Net loans to deposits ratio ⁽⁶⁾	145.4%	141.5%	120.9%	109.9%	101.9%	100%–120%	
Capital (unaudited)							
CET 1 capital ratio (transitional) ⁽⁷⁾	10.4%	14.0%	14.0%	14.4%	14.6%	>15%	
Margins and Efficiency (unaudited)							
Net interest margin ⁽⁸⁾	3.2%	3.9%	3.8%	3.6%	3.5%	~3.00%	
Net fee and commission income/total income ⁽⁹⁾	13.6%	13.0%	14.8%	15.3%	16.0%	>20%	
Cost-to-income ratio ⁽¹⁰⁾	42.6%	36.5%	40.0%	41.8%	41.7%	40–45%	
Balance Sheet	Total assets € bn	€30.3 bn	€26.8 bn	€23.3 bn	€22.7 bn	€22.4 bn	>€25 bn

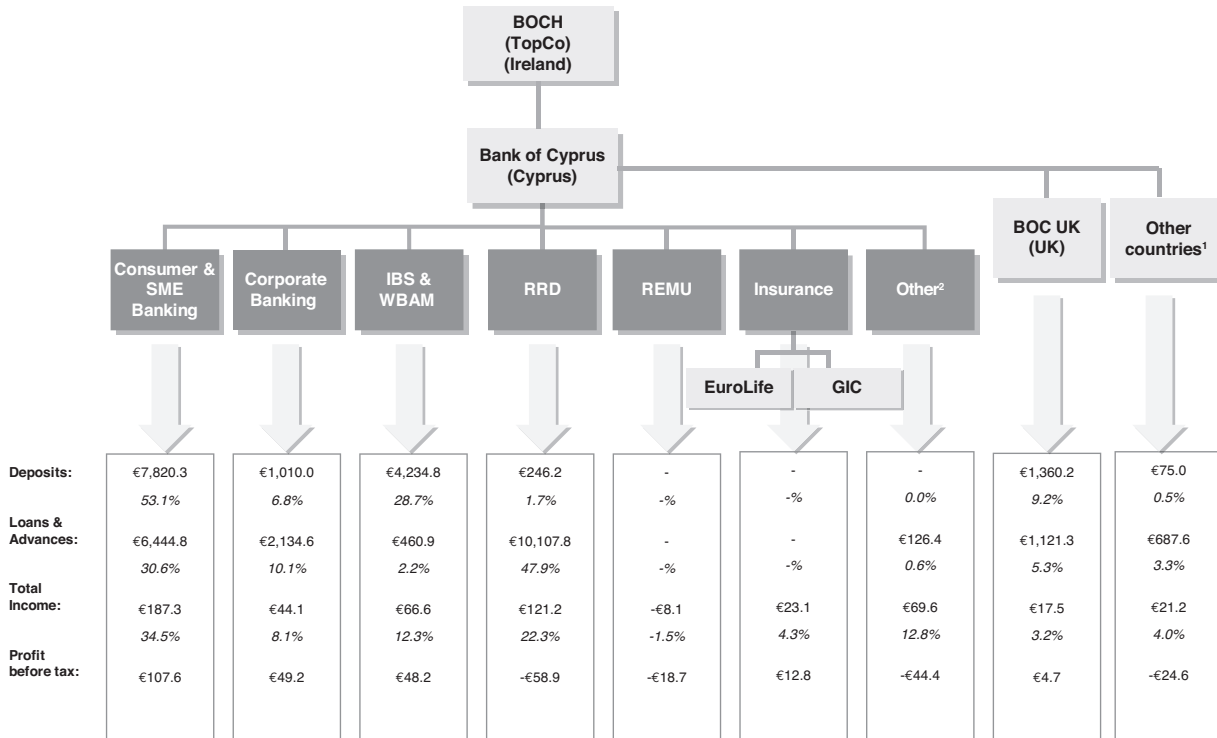
- (1) 90+DPD ratio means loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery) divided by gross customer loans (gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired)).
- (2) Provisioning coverage ratio for 90+DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, divided by 90+DPD.
- (3) IFRS 9 impact, which is effective as from 1 January 2018, has not been taken into account for the purposes of the data. Data is determined based on the current regulatory environment.
- (4) Provisioning charge (cost of risk) (year to date) is calculated as the provisions for impairment of customer loans and provisions for off-balance sheet exposures, including provisions of discontinued operations, net of gain on derecognition of loans and advances to customers and changes in expected cash flows divided by average gross loans (the average balance calculated as the average of the opening balance and the closing balance). The ratios for the six months ended 30 June 2016 and nine months ended 30 September 2016 are annualised.
- (5) ELA % assets is calculated as the ELA amount divided by the total assets.
- (6) Net loans to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits, including deposits held for sale. Net loans are defined as gross loans less accumulated provisions (which is the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provisions for off-balance sheet exposures).
- (7) CET 1 capital ratio (transitional) is defined in accordance with the Basel II requirements.
- (8) Net interest margin is calculated as the difference between the cost of lending and the interest income generated relative to the amount of interest-earning assets. Interest bearing assets include: cash and balances with central banks, plus placements with banks, plus repos, plus net customer loans and advances, plus investments (excluding equities and mutual funds) and derivatives.
- (9) Net fee and commission income/total income is the fee and commission income divided by total income, excluding gains/(losses) on disposals of non-core assets. Gains on disposal of non-core assets pre-tax was €0, €161.6 million, €54.2 million, €60.9 million and €60.9 million for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 and the nine months ended 30 September 2016, respectively.
- (10) Cost-to-income ratio is the staff costs and other operating expenses excluding restructuring costs divided by total income, excluding gains/(losses) on disposals of non-core assets. Restructuring costs amount to €98.3 million, €87.4 million, €43.1 million, €36.2 million and €156.8 million as at 30 September 2016, 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013, respectively. Gains on disposal of non-core assets pre-tax was €0, €161.6 million, €54.2 million, €60.9 million and €60.9 million for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 and the nine months ended 30 September 2016, respectively.

These KPIs are estimates and are subject to a number of assumptions. They are not guarantees of future performance and no assurance can be given that these medium-term targets will be achieved or that BOCH's assumptions will prove to be correct.

BOC Group Organisational Structure

On 28 April 2016, the BOC Group announced a revision of its organisational structure to simplify and drive synergies across its business. For a description of the BOC Group’s organisational reporting lines see “*Management and Corporate Governance—BOC Group Management Structure*” and for a description of the BOC Group’s legal structure and significant subsidiaries, associates and branches, see “*Additional Information—Significant Subsidiaries, Associates and Branches*”.

The structure chart below sets out the key business lines and subsidiaries, and certain summary financial information per business line, of the BOC Group as at 30 June 2016:



Notes:

- (1) Includes BOC CI and the Overseas Run Down department which manages portfolios in the United Kingdom (not including Laiki Bank), Greece, Romania, and Russia. On 30 August 2016, as part of the BOC Group’s strategy focusing on its core businesses and markets, the BOC Group decided to close the operations of BOC CI.
- (2) Includes group and head office functions such as treasury, finance, risk management, compliance, legal, corporate affairs and human resources.
- (3) EUR figures are given to the thousand Euro.

Group Sector Designations

The BOC Group categorises its loans using the following customer sectors:

- *consumer*—personal customers and small businesses with facilities from the Bank of up to €260 thousand, excluding residential and commercial real estate loans;
- *SME*—any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Bank in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million; and
- *corporate*—any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with the Bank in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.

While the customer sectors above correlate with the categorisation of loans by Consumer Banking, SME Banking and Corporate Banking in Cyprus, these customer sector categories are also applied to the loan portfolio managed by RRD and outside of Cyprus to the BOC Group’s loan portfolios in the United Kingdom, Greece, Romania and Russia.

Banking and Finance Operations

Consumer and SME Banking

The Bank is a leading provider of retail banking services in Cyprus, with over 775,000 consumer and SME customers as at 30 June 2016. Consumer and SME Banking (as defined in “—*SME Banking*” below) serves both Cypriot and non-Cypriot customers in Cyprus and provides a broad range of products and services. Consumer and SME Banking had 1,623 employees as at 30 June 2016.

Consumer Banking

At 30 June 2016, the consumer banking division (“**Consumer Banking**”) had approximately 775,000 customers, representing the largest single customer class for the Bank. These customers were serviced by a network of 125 (at 30 June 2016) retail branches situated in key towns and regions of Cyprus which are staffed by a total of 1,282 employees. As at 30 June 2016, Consumer Banking accounted for deposits of €8.4 billion, which comprised 57.2% of the BOC Group’s total deposits and is a significant source of funding and liquidity for the BOC Group. Consumer Banking accounted for loans and advances to customers of €5.0 billion, which comprised 23.7% of the BOC Group’s total loans and advances to customers, at 30 June 2016. Consumer Banking accounted for 28.9% and 35.0% of the BOC Group’s net interest income for 2015 and the six months ended 30 June 2016, respectively and 35.3% and 30.0% of the BOC Group’s total net fee and commission income for the year ended 31 December 2015 and the six months ended 30 June 2016, respectively.

Through Consumer Banking, the Bank offers a wide range of traditional consumer products and services to its customers in Cyprus, including: current accounts; fixed deposits; mortgage loans; student loans; personal loans; business loans for micro business; hire purchase finance (primarily for new and used cars) and finance cards (including credit, debit and prepaid cards).

Most of the Bank’s consumer lending takes the form of mortgage loans, overdraft accounts with predetermined credit limits, credit cards with predetermined limits and personal and hire purchase loans. The Bank offers flexible mortgage loans according to the needs of its customers. For small business lending in Consumer Banking, security is almost always taken in the form of personal guarantees from the owner of the borrowing company and/or other persons, together with grants of security over specified assets. At 30 June 2016, 72.4% of Consumer Banking’s loans and advances to customers was comprised of mortgage loans.

The Bank’s Consumer Banking strategy is as follows:

- *Retain and increase deposits.* As deposits are an important source of funding and liquidity for the BOC Group, a key component of Consumer Banking’s strategy is to retain and increase consumer deposits from its existing customer base. Consumer Banking engages in marketing campaigns targeted at specific customer segments (e.g. Greek depositors, potential “premier” depositors, customers who have reduced their deposit balances, customers within certain deposit ranges, and customers whose fixed deposits mature within a few months) using its retail branch and online banking network to communicate the Bank’s renewed strength and interest rate and other promotions for its deposit products. Due to its market position and the variety of its offerings, the Bank provides products and services tailored to its customer segments of “premier” (customers who have deposits with the Bank in excess of €75,000), “mass affluent” (customers who have deposits with the Bank of between €25,000 and €75,000) and “mass” (customers who have deposits with the Bank of less than €25,000). As at 31 October 2016 the Bank is the only financial institution in Cyprus to provide deposit products and services targeting “premier” customers.
- *Prudent new lending.* The Bank’s approach to new lending is based on an assessment of each customer based on credit risk criteria in line with the Bank’s prudent lending policy and the CBC Directive on Credit Granting and Review Process of 2016 (the “**Credit Granting Directive**”). This strategy entails prudent lending to customers with a track record of repayment and sufficient assets to collateralise the loan. Small businesses with viable business models and the potential to benefit from any potential recovery in the economy are targeted for financing.
- *Manage and improve quality of the consumer loan portfolio.* The consumer loan portfolio is monitored on a daily basis. Relationship officers use a dedicated dashboard to monitor their portfolio and take appropriate action (e.g. collect arrears or restructure a loan). The Bank has implemented targets on

asset quality, based on 90+DPD and NPE targets for each branch, and collectability, based on the amount of arrears from the previous month to be collected by each branch in the current month.

- *Enhance profitability through fee generation.* The Bank will continue to use its dominant market position in Cypriot consumer banking to increase its share of an existing customer's wallet and increase fee and commission income by cross-selling to customers with existing accounts, deposits or loans its fee-generating services and products, such as hire purchase finance (primarily for new and used cars), finance cards (including credit, debit and prepaid cards) and bancassurance products.
- *Use technology to meet customer demands and increase efficiency.* As customer demands develop over time as a result of new technology, the Bank intends to ensure it can deliver the most advanced services to its customers. Furthermore, as improvements in technology present cost saving opportunities (for example through automation), the Bank intends to use improved technology to improve efficiency.

In order to provide services and products to customers in a way that is both cost-effective and that provides customers with improved experience and access, Consumer Banking provides automated and electronic banking facilities, including e-banking (1bank) and mobile banking. 1bank offers customers the opportunity to carry out a variety of banking transactions 24 hours a day, seven days a week through internet- or mobile-banking. As at 31 October 2016, the Bank is the only bank in Cyprus which provides mobile person-to-person payment services (Quickpay). Consumer Banking has also implemented customer service standards across all retail branches and call centres and the quality of service provided by its staff is continuously monitored and enhanced.

SME Banking

At 30 June 2016, the SME banking division ("**SME Banking**" and together with Consumer Banking, "**Consumer and SME Banking**") had approximately 13,000 customers which were serviced by a network of 12 dedicated SME business centres in key towns of Cyprus which are staffed by a total of 107 employees. At 30 June 2016, SME Banking accounted for deposits of €0.7 billion (4.8% of the BOC Group's total deposits) and for loans and advances to customers of €1.7 billion (8.3% of the BOC Group's total loans and advances to customers). For the year ended 31 December 2015 and the six months ended 30 June 2016, SME Banking contributed 7.2% and 6.8%, respectively, of the BOC Group's total revenue from continuing operations, and 87.8% of which is comprised of interest income on loans and advances to customers. SME Banking accounted for 8.2% and 9.0% of the BOC Group's net interest income for the year ended 2015 and the six months ended 30 June 2016 and 6.0% and 5.7% of the BOC Group's total net fee and commission income for the year ended 2015 and the six months ended 30 June 2016, respectively.

The Bank offers SMEs a range of services and products, including: overdraft accounts; loans of fixed maturity; invoice discounting and bills discounting; stock financing; domestic factoring and import and export factoring; trade finance; and hire purchase financing and leasing. The Bank also provides letters of credit and letters of guarantee.

Most of the Bank's SME lending takes the form of secured loans and overdraft accounts with predetermined credit limits. For SME lending, security is almost always taken from the owners/shareholders of the borrowing company and/or other persons in the form of personal and corporate guarantees, and additional security can be taken, such as mortgages over real property and/or pledges of shares and/or fixed and floating charges over corporate assets.

The Bank's SME Banking strategy is as follows:

- *Prudent new lending in recovering sectors of the economy.* SME Banking's strategy for new lending targets customers in certain recovering sectors of the Cypriot economy, including tourism, health, energy, trade, real estate, professional services, education, transport, manufacturing, agriculture, energy, green project and information and communication technology. SME Banking monitors the general economic and industry performance indicators through internal tools which allow it to assess and identify any growth potential as well as the credit and other risks of these economic sectors. Each customer's track record of repayment and other credit risk criteria are also assessed in line with the Bank's conservative lending policy and the Credit Granting Directive.

- *Improve quality of existing loans and collection processes and decrease non-performing loan portfolio.* Given the proportion of non-performing SME loans in the BOC Group's portfolio, which were 26.0% of the BOC Group's total NPEs as at 30 June 2016, the restructuring and recovery of these loans is of critical importance. The Bank has established targets on asset quality based on loans with arrears which are more than 30 days past due, 90+DPD loans and NPEs for each business centre. The Bank has developed tools and action plans for customers at an early stage of delinquency which have been implemented in order to improve collection prospects and to provide viable and sustainable restructuring solutions. Specialised restructuring products have also been utilised to facilitate the management of customers with arrears over 90+DPD. In addition to its own management of loans in arrears and delinquent customers, SME Banking also works closely with RRD through the Watch Forum (as defined in "Restructuring and Recoveries Division and Real Estate Management Unit") to discuss the transfer to RRD of SME loans which require more complex restructuring solutions and the return of rehabilitated SME loans from RRD to SME Banking. For more information on the Watch Forum, see "Restructuring and Recoveries Division and Real Estate Management Unit—Watch Forum".
- *Retain and increase deposits.* As part of its strategy to retain and increase deposits, SME Banking engages in marketing campaigns launched by Consumer Banking targeted at specific customer segments (e.g. "premier" customers, potential "premier" customers, and Greek depositors) using its SME business centres and online banking network to communicate the Bank's renewed strength and interest rate and other promotions for its deposit products. Deposit accounts are monitored daily in order to identify and contact customers who are potential depositors or have increased their rate or size of withdrawals or account activity.
- *Enhance profitability through fee generation.* The Bank will continue to use its leading market position in SME banking in Cyprus to increase its share of the customer's wallet and increase fee and commission income by cross-selling to customers with existing accounts, deposits or loans its fee-generating services and products, such as credit cards, trade finance, factoring, transaction banking services and corporate finance.

To implement its SME Banking strategy, the Bank seeks to provide superior quality of service and financing solutions for SMEs through the development and implementation of customer service standards across its branches and improvements to its existing systems and processes. The Bank also assists SME customers with their financial business planning, taking account of their banking activity, financial performance ratios and prospects. The Bank also participates in initiatives to encourage lending to SMEs and was the first bank in Cyprus to partner with national and supra-national organisations, such as the European Investment Fund, the European Investment Bank ("EIB") and the Cyprus Entrepreneurship Fund to provide financing to SMEs. In close cooperation with the European Bank for Reconstruction and Development ("EBRD") SME Banking has also expanded its initiatives to encourage lending to SMEs through the Trade Facilitation Programme ("TFP").

Corporate Banking

At 30 June 2016, the corporate banking division of the Bank ("Corporate Banking") served approximately 400 corporate groups comprising over 2,000 companies. Corporate Banking operates through five dedicated Corporate Banking centers which are staffed by a total of 63 employees.

At 30 June 2016, corporate banking of the Group accounted for deposits of €1.1 billion (7.2% of the BOC Group's total deposits) and for loans and advances to customers of €3.6 billion (17.3% of the BOC Group's total loans and advances to customers). Including loans and advances to customers serviced by SME Banking, the Bank is the largest provider of loans and advances to corporate customers and SMEs in Cyprus at 30 June 2016 based on CBC data.

For 2015 and the six months ended 30 June 2016, Corporate Banking contributed 7.8% and 8.1%, respectively, of the BOC Group's total revenue from continuing operations, of which 89.9% and 88.7%, respectively, was comprised of interest income on loans and advances to customers. Corporate Banking accounted for 9.1% and 10.8% of the BOC Group's net interest income for 2015 and the six months ended 30 June 2016 and 5.2% and 6.3% of the BOC Group's total net fee and commission income for 2015 and the six months ended 30 June 2016, respectively.

The Bank offers corporate customers a wide range of products and services, including: overdraft accounts; factoring services; term loans; asset finance or hire purchase facilities and project finance; savings

accounts; notice accounts; sight accounts; fixed term deposits and specialised deposit schemes; trade finance products such as short-term import finance; letters of guarantee; documentary credits; bills for collection; negotiation of foreign bills; spot and forward contracts in foreign exchange; and specialised trade finance schemes in cooperation with the EIB and EBRD; corporate finance advisory services in connection with CISCO; and cash management.

Most of the Bank's corporate lending takes the form of interest-bearing loans with rates which vary according to each customer's credit risk profile. Maturities of corporate loans in the Bank's portfolio typically range from a period of less than one year to fifteen years depending on the nature and purpose of the facility. In general, security is required in the form of fixed or floating charges on the assets of the borrower, mortgages over real property, pledges of shares, cash collateral and personal and/or corporate guarantees.

As of 1 November 2016, the Overseas Run-Down division ceased to be a division and became a department within Corporate Banking.

The Bank's Corporate Banking strategy is as follows:

- *Prudent new lending in recovering sectors of the economy.* Corporate Banking's strategy for new lending targets customers in certain recovering sectors of the Cypriot economy, including tourism, trade, information technology/telecom, health, real estate and construction, energy, infrastructure, professional services, agriculture and education, with tailored financing proposals to address their specific needs. Corporate Banking monitors the general economic and industry performance indicators through internal tools which allow it to assess and identify any growth potential as well as the credit and other risks of these economic sectors. Each corporate group's track record of repayment and other credit risk criteria are also assessed in line with the Bank's conservative lending policy and the Credit Granting Directive.
- *Managing and protecting the quality of the corporate loan portfolio.* "Early warnings", such as the reduction of inflows into current accounts, and credit monitoring tools are used to identify customers that are at risk of default and corporate banking centres are assisting customers in dealing proactively with their financial issues. Through the Watch Forum, Corporate Banking works closely with RRD to discuss the transfer to RRD of corporate loans which have defaulted or show signs of potential default as well as the return to Corporate Banking and the implementation of efficient post-restructuring procedures for corporate loans which have been rehabilitated by RRD. For more information on the Watch Forum, see "*Restructuring and Recoveries Division and Real Estate Management Unit—Watch Forum*".
- *Enhance profitability through fee generation.* The Bank will continue to use its leading market position in corporate banking in Cyprus to increase its share of the customer's wallet and increase fee and commission income by cross-selling to its existing corporate customer base its fee-generating services and products such as trade finance and factoring, which includes invoice discounting, debtor collection and assessment services, and ledger administration. Corporate Banking targets the working capital needs of customers to promote factoring services. Transaction banking and cash management services are also actively promoted to large corporate groups with high credit turnover who may need specialised electronic services such as payroll services, custom service agreements, deposit schemes or corporate credit cards. Corporate Banking has also introduced new products that address liquidity management, payments and reporting through 1bank and parallel campaigns have been introduced to divert customer transactions online to reduce operating costs. Corporate Banking engages in cross-marketing initiatives with other divisions of the BOC Group such as the promotion of corporate finance services in conjunction with CISCO and the promotion of credit cards and bancassurance in conjunction with Consumer Banking.
- *Protecting deposits and customer inflows.* Corporate Banking aims to increase its deposits with a greater emphasis on longer-term fixed deposits and promoting deposit flow and turnover in current accounts maintained by certain customers for liquidity management. Relationship managers closely monitor customer fund inflows and outflows in order to establish comprehensive relationships that span the full spectrum of cash management needs. For specific segments, such as high-net-worth individuals, promotion of specialised products and services is also pursued in cooperation with WBAM and the premier banking sub-division of Consumer Banking. This strategy has resulted in an increase of the BOC Group's total corporate customer deposit balances from €689.9 million at 31 December 2014 to €1,021.3 million at 31 December 2015 and €1,055.1 million at 30 June 2016.

To implement its Corporate Banking strategy, the Bank continues to focus on communicating the Bank's renewed strength and reputation to its existing customer base, promoting new products and services (such as project finance and syndication, cash management and specialised products) and strengthening its relationships with customer groups through relationship managers. At 30 June 2016, Corporate Banking had 9 relationship managers who served as a single point of contact for each corporate group. Relationship managers are responsible for the development and implementation of pro-active contact and account plans which identify and address each corporate group's financing needs and promote the cross-selling of other products. The most experienced relationship managers have been assigned to "prime" corporate groups with advances above €20 million, an annual credit turnover of more than €25 million and/or significant market influence. In order to maintain the quality of service, each relationship managers is assigned no more than 10 "prime" corporate groups and no more than approximately 20 other corporate groups.

International Banking Services and Wealth, Brokerage and Asset Management Division

The International Banking Services and Wealth Brokerage and Asset Management division ("IBS & WBAM") is composed of IBS and WBAM, which, prior to 28 April 2016, had operated as separate divisions and which, subsequently, have been combined. The aim of the combination of the divisions is to take advantage of operational and business development synergies through the implementation of a new organizational structure. That process is nearing completion and as part of that process the BOC Group also intends to change the name of IBS to 'International Banking (IB)' and the name of WBAM to 'Wealth & Markets (W&M)'. IBS & WBAM contributed 13.2% of the Bank's total income in Cyprus for the six months ended 30 June 2016.

International Banking Services

IBS specialises in the offering of banking services in Cyprus to the international corporate and individual customers of the Bank, particularly international business companies whose ownership and business activities lie outside Cyprus. Facing challenges unique from those faced by Consumer and SME Banking and Corporate Banking, IBS has focused on providing efficient transaction services and customer service as a key means of increasing customer retention and fee income. As part of the wider drive by the Bank to have high corporate governance standards and the nature of IBS's business with international customers, IBS has a dedicated anti-money laundering ("AML") risk management department in order to enhance "know-your-customer" and other compliance procedures and controls.

IBS operates eight international business units in Cyprus which are staffed with a total of 266 employees comprised of experienced and multilingual personnel, including Russian and Chinese speakers. IBS also manages four representative offices outside of Cyprus (two in Russia and one in each of Ukraine and China) which support business relations through marketing activities and provision of information about Cyprus and the Bank. The Bank has long-standing arrangements with Introducers who are an important source of customer referrals for IBS. IBS is a primary contributor of fee and commission income for the Bank and a contributor of liquidity for the Bank.

IBS's revenue is derived primarily from interest income as well as fee and commission income generated from international payments, foreign exchange transactions and debit card-related transactions. IBS accounted for loans and advances to customers of €0.4 billion (1.9% of the BOC Group's total loans and advances to customers) at 30 June 2016. For the year ended 31 December 2015 and the six months ended 30 June 2016, IBS contributed 10.7% and 11.0%, respectively, of the BOC Group's total revenue from continuing operations. IBS accounted for 7.4% and 8.7% of the BOC Group's net interest income for the year ended 31 December 2015 and the six months ended 30 June 2016 and 30.6% and 33.8% of the BOC Group's total net fee and commission income for the year ended 31 December 2015 and the six months ended 30 June 2016. IBS accounted for deposits of €3.9 billion (26.5% of the BOC Group's total deposits) at 30 June 2016, which is a significant source of funding and liquidity for the BOC Group. The majority of deposits originated through IBS are from individuals and entities domiciled in Greece, Russia and other Central and Eastern European countries such as the Ukraine.

The Bank's IBS strategy is as follows:

- *Rebuilding relationships with, increasing the deposits of, and income from transactions of, large corporate customers.* Because large corporate customers were the most affected by the bail-in of the Bank's depositors pursuant to the Recapitalisation and still constitute a significant portion of the Bank's shareholders, a key focus for IBS has been the strengthening of relationships with its large corporate customers by offering dedicated and superior service. Through its experienced and dedicated

relationship officers, IBS's objective is to offer high-quality customer service based on its understanding of the needs and characteristics of each particular customer segment. IBS utilises digital service channels and products to offer fast, reliable, cost-effective and customised banking solutions based on each customer segment's needs.

- *Rationalising international business unit network and becoming more cost-efficient.* IBS has reduced the size of its international business unit network from 13 in March 2013 to eight in June 2016, which includes an international business unit specialising in the service of shipping customers. The IBS network also includes two international lending units. IBS staff levels had increased from approximately 232 immediately prior to the Recapitalisation to approximately 530 due to the absorption of employees of Laiki Bank. As a result of the voluntary retirement scheme implemented in 2013 and 2016, as well as staff transfers to other divisions, IBS has reduced its staff to 308 at 30 June 2016.
- *Increasing business from non-traditional markets:* IBS continuously evaluates new opportunities for attracting business from new markets by expanding its international network of business associates, mainly in countries which maintain double taxation treaties with Cyprus.

Wealth, Brokerage and Asset Management

WBAM oversees the provision of institutional wealth, private banking, global markets, brokerage, asset management, investment banking and depository services. WBAM operates on a capital efficient business model with the goal of leveraging the Bank's extensive branch and customer network to expand brokerage and management services among the Bank's current customers and to target potential new customers. Income is mainly derived from fees and commissions from the provision of investment products and services and the provision of custody services.

Including CISCO, WBAM accounted for 2.1% and 2.7% of the BOC Group's net fee and commission income for the year ended 2015 and the six months ended 30 June 2016. WBAM in Cyprus accounted for 2.3% of the BOC Group's total deposits at 30 June 2016. Assets under management (including off-balance sheet assets) was €1.3 billion as at 30 June 2016. Assets under management include customer deposits and assets of the customers which are under execution, advisory or discretionary management of WBAM.

The Cyprus Investment and Securities Corporation Limited

CISCO was established in 1982 by the International Finance Corporation of the World Bank and Cyprus Development Bank as the first investment and securities house in Cyprus. Since 1988, CISCO has been a wholly-owned subsidiary of the BOC Group. CISCO provides a range of specialised financial services encompassing investment banking, asset management and brokerage services. CISCO is regulated by CySEC as a Cyprus Investment Firm and is a member of the CSE and a remote member of ATHEX. Its market share for brokerage activities on the CSE reached 23.0% in 2015, as compared with 17.0% in 2014.

Institutional Wealth and Global Markets

Institutional wealth and global markets focuses on the provision of investment and risk management solutions and is split in three distinct areas at activity: institutional wealth management, global markets execution and treasury sales.

Private Banking

Private banking focuses on the provision of investment and banking services to high net worth individuals, both Cypriot and non-Cypriot. The services provided include execution, advisory and discretionary asset management services, with booking centres in Cyprus. The range of investment products offered include equities, bonds, foreign exchange, commodities, mutual funds, hedge funds and structured products.

Wealth Management Services

Wealth management services is an operations service centre for the other sub-divisions of WBAM that is responsible for custody and trust services, banking and credit services, regulatory reporting and operations. Custody and trust works with internal customers of private banking, institutional wealth and global markets in respect of off-balance sheet investments. Custody and trust also has an external customer base consisting of private funds, investment companies and pension funds.

Investment Strategy

Investment strategy serves WBAM in the areas of investment research and management. It formulates the department's investment strategy for the management of customer assets and structures model investment portfolios for WBAM customers.

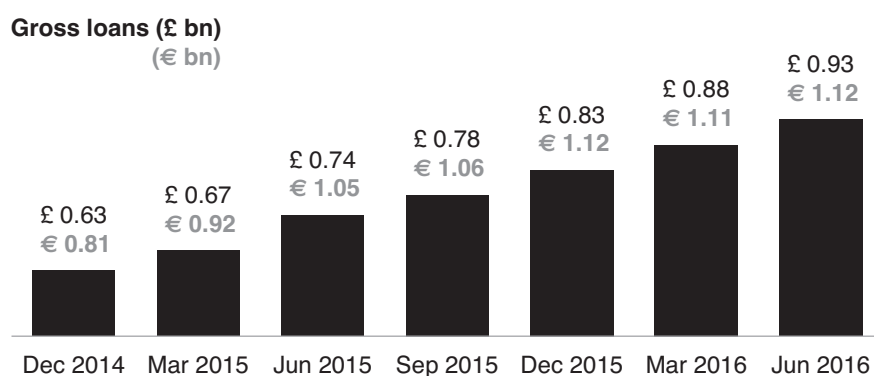
Bank of Cyprus UK Ltd

As a member of the Commonwealth, Cyprus and its citizens have and continue to enjoy close ties with the United Kingdom. In order to serve the Cypriot community residing or conducting business in the UK, the Bank established a presence in London in 1955. As the needs of this customer base evolved, the Bank specialised in the provision of real estate financing and banking services to small businesses and property entrepreneurs, particularly in the London buy-to-let market. On 25 June 2012, the banking business carried out by the UK operations of the Bank was transferred to Bank of Cyprus UK Ltd ("**BOC UK**"), a wholly-owned subsidiary of the Bank.

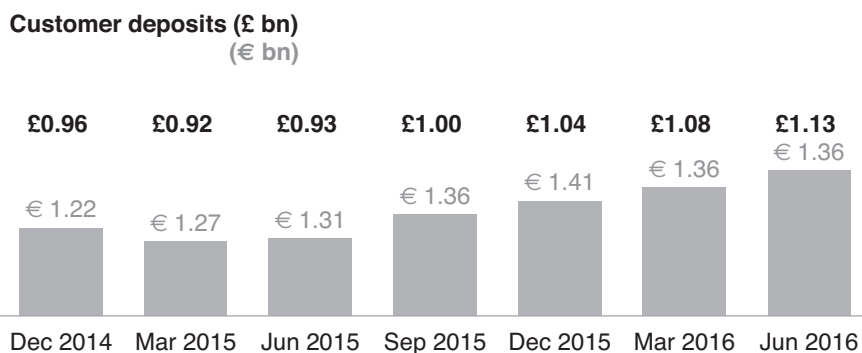
BOC UK is incorporated in the United Kingdom and is an independent and separately ring-fenced bank, which is authorised and supervised by the Prudential Regulation Authority ("**PRA**"). Under the SSM framework, the ECB effectively supervises BOC UK along with the PRA and, therefore, may issue joint decisions with the PRA in terms of BOC UK's capital requirements. On 1 April 2013, pursuant to the Laiki Transfer Decrees, BOC UK acquired customer deposits amounting to €325.2 million and certain liquid assets from the United Kingdom branch of Laiki Bank. With the exception of these customer deposits and certain liquid assets, no other assets, liabilities, premises, staff or other obligations of the United Kingdom branch of Laiki Bank were transferred to BOC UK.

As at 30 June 2016, BOC UK had approximately 54,000 customers serviced by a total of 190 employees through a branch in North London and business centres in Central London, South London and Birmingham. As at 30 June 2016, BOC UK accounted for deposits of €1.4 billion (9.2% of the BOC Group's total deposits) and for loans and advances to customers of €1.1 billion (5.3% of the BOC Group's total loans and advances to customers). For the year ended 31 December 2015 and the six months ended 30 June 2016, BOC UK contributed 3.0% and 3.2%, respectively, of the BOC Group's total revenue from continuing operations, and 81.3% of this comprises net interest income. BOC UK accounted for 3.1% and 4.0% of the BOC Group's net interest income for 2015 and the six months ended 30 June 2016 and 3.8% and 3.8% of the BOC Group's total net fee and commission income for 2015 and the six months ended 30 June 2016.

The following chart illustrates BOC UK's gross loans and customer deposits, expressed in billions of pounds sterling and euros, quarter-on-quarter over the period from 31 December 2014 to 30 June 2016:



The following chart illustrates BOC UK's customer deposits, expressed in billions of pounds sterling and euros, quarter-on-quarter over the period from 31 December 2014 to 30 June 2016:



BOC UK is an integral part of the BOC Group's overall strategy for recovery and growth, see “—Competitive Strengths and Strategies” above. BOC UK has developed a detailed action plan to support this broader strategy, which is based on the following key elements:

- *Focus on core strength.* BOC UK is a professional buy-to-let lender (at 30 June 2016, 76% of the £924 million book was buy-to-let, predominantly to professional investors) with a quality lending book (average loan-to-value of 55%) concentrated in London and South East England. BOC UK has been relatively successful in this market and has identified further growth potential.
- *Diversifying the business.* BOC UK's objective is to reposition itself as a bank for entrepreneurs and business owners by establishing three business lines within the bank: property, consumer and business:
 - *Property:* The property division will continue its mortgage business financing buy-to-let properties to professional investors or SMEs investing in either single properties or in a portfolio of properties. The division will provide commercial financing and investment property products to meet the needs of professional investors or SMEs, including commercial mortgages, light refurbishment loans or bridging loans and development finance in addition to landlord, property and key man insurance.
 - *Consumer:* The consumer division will provide mortgages, current accounts and savings products to meet the personal needs of professional investors or SME owners, self-employed individuals or Cypriot residents (through international variants).
 - *Business:* The business division will service the professional and SME market by providing products and services to meet their business needs through a range of current or savings accounts, lending, which includes overdraft facilities, working capital lending and acquisition finance, insurance, which includes critical, life, business, professional indemnity, key-man, and employer's liability insurance, and general business services, which includes foreign exchange, import/export services and payments.
- *Building sustainable funding.* BOC UK has continued to source cost-effective deposits from the retail market. However, it intends to develop a more diversified product base for its customers to increase deposit-taking.
- *Broaden distribution channels.* BOC UK's objective is to broaden its distribution channels by increasing the number of brokers used and to increase the number of business centres from the current four serving the customer base in London, South East England and Birmingham to potentially eight, expanding regional coverage northwards to Leeds and Manchester, southwest to Bristol and south to Brighton.
- *Increase the lending base.* BOC UK's lending customer base is relatively small in comparison with the overall market. While BOC UK will continue to serve the UK banking needs of its Cypriot residents and its current buy-to-let customers, it intends to focus on building relationships with the underserved UK professional investor market.

Bank of Cyprus (Channel Islands) Ltd

In 1996, the Bank established Bank of Cyprus (Channel Islands) Ltd (“**BOC CI**”), a wholly-owned subsidiary incorporated in the Bailiwick of Guernsey and which is licensed under the Banking Supervision

(Bailiwick of Guernsey) Law of 1994 and the Protection of Investors (Bailiwick of Guernsey) Law of 1987. At 30 June 2016 and 31 December 2015 and 2014, BOC CI had total assets of £129.3 million, £125.5 million and £133.9 million, respectively. BOC CI's main activities are deposit-taking and lending, as well as the provision of minimal private banking and international investment and brokerage support services. On 30 August 2016, as part of the BOC Group's strategy focusing on its core businesses and markets, the BOC Group decided to close the operations of BOC CI.

Insurance Operations

The BOC Group engages in the provision of insurance through two wholly-owned subsidiaries: EuroLife and GIC. The Bank acquired a stake in CNP as part of the acquisition of the Laiki Bank operations under the Laiki Transfer Decrees, though it does not exercise any active control over CNP.

Both EuroLife and GIC are leaders in the life assurance and general insurance businesses in Cyprus, respectively. According to the Insurance Association of Cyprus, EuroLife had a 27.2% and 29.3% share of premiums generated in the life assurance market in Cyprus for 2015 and the six months ended 30 June 2016, respectively, while, for premiums generated in the general insurance market in Cyprus, GIC ranked second with a market share of 11.0% and 10.8% for 2015 and the six months ended 30 June 2016, respectively (source: Directory & Statistical Information for 2015 of Insurance Association of Cyprus at 31 December 2015 and unaudited statistical information of Insurance Association of Cyprus at 30 June 2016).

EuroLife and GIC use the extensive branch and customer network of the Bank to sell insurance products with a focus on maintaining margins in the competitive market through sound underwriting and claims-handling. In addition, they aim to increase market share through a wider product and service offering, particularly by targeting customers below the age of 40.

Insurance services accounted for 4.3% of the BOC Group's revenue from continuing operations for 2015 and the six months ended 30 June 2016.

Life Assurance (EuroLife)

The total operations of EuroLife Ltd. ("**EuroLife**") generated an income net of claims, commissions and expenses of €17.3 million and €7.6 million for 2015 and the six months ended 30 June 2016, respectively. At 30 June 2016, EuroLife's net asset value and value of in-force was €66.1 million and €166.0 million, respectively.

EuroLife offers a range of unit-linked protection and savings products, augmented by a number of supplementary benefits which include, amongst others, disability and critical illness cover. EuroLife distributed its products through a network of 202 tied agents, at 30 June 2016, and the Bank's branch network. For 2015 and the six months ended 30 June 2016, the Bank estimates that approximately 70.6% and 62.0%, respectively, of EuroLife's new business was exclusively attributable to its agency network and that referrals from the Bank accounted for approximately 29.4% and 38.0%, respectively, of new business.

Lapse rates on EuroLife's policies historically have been low. This largely is explained by the tax-driven nature of the unit-linked investment policies. In the event of a lapse in premiums within the first six years of the life of the policy, investors are required to refund part of the accumulated tax credits accrued since the date of inception of the policy.

EuroLife's risk on individual life insurance policies in excess of €51,258 per life is reinsured with major European reinsurance companies.

As at 30 June 2016, EuroLife had total funds of €484.8 million, of which €373.5 million represented funds attributable to unit linked policies where the investment risk is passed on to policyholders. A further €94.2 million represented the deficiency reserve of EuroLife which is invested in short-term money market instruments, corporate bonds and government bonds. In addition, €4.8 million represented funds attributable to group pension contracts under EuroLife's management. The remaining €12.3 million represented non-unit-linked funds which are invested primarily in government bonds and bank deposits, with relatively small percentages invested abroad or in the Cypriot equity market.

EuroLife operates a branch in Greece under the name Kyprou Zois, which offers credit insurance and savings products to the Bank's customers. Kyprou Zois has been operating in Greece since 2001 and offers bancassurance products with no independent distribution network. Following the sale of the BOC Group's Greek banking operations to Piraeus Bank pursuant to the Greek Operations Decree (as defined in

“History of the BOC Group, the Restructuring; the Recapitalisation and Disposals”), Kyprou Zois is currently operated as a run-off business. In June 2015, the Bank reached a provisional agreement to sell the Kyprou Zois portfolio to another insurance company subject to regulatory approvals.

General Insurance of Cyprus

The operations of General Insurance of Cyprus Ltd. (“GIC”) generated income net of claims, commissions and expenses of €10.4 million and €3.7 million for 2015 and the six months ended 30 June 2016, respectively. For 2015 and the six months ended 30 June 2016, GIC’s net claims ratio in Cyprus was 36.5% and 30.6%, respectively, and its combined ratio in Cyprus was 83.9% and 92.4%, respectively.

At 30 June 2016, GIC offered its products through the Bank’s branch network (57.4%), by direct channels (20.9%) and through agents (21.7%), GIC had 167 agents and brokers who are paid on a commission basis and also employs a small number of salaried sales force who are based in GIC’s head office and branches throughout Cyprus.

GIC possesses a licence and offers insurance cover under the primary non-life insurance business classes, including: accident, liability, motor, goods in transit, miscellaneous, fire, natural forces, and other damage to property.

The class of policies underwritten for fire and other damage to property is GIC’s main business, accounting for approximately 46.2% and 45.4% of gross premium income for 2015 and the six months ended 30 June 2016, respectively.

GIC’s claims ratio for the fire business is historically very low, with risk being spread across Cyprus. Risks are spread among a large number of smaller policies and GIC has traditionally had a relatively low maximum retention level. However, because of the low value of much of the property insured, approximately 85.3% of GIC’s fire policies as at 30 June 2016 fall within its retention level. The remaining business is principally reinsured on a treaty and facultative basis with Munich Re and other international reinsurers.

GIC sells motor and home insurance to customers directly through its salaried sales force and via its agents and the Bank’s branch network. Applications for these products are evaluated automatically through the use of a front-end system which also determines the premium at the same time.

GIC’s investments amounted to €63.5 million at 30 June 2016, of which approximately €16.1 million was invested in equities and mutual funds, €1.6 million in properties and the remainder in bank deposits. GIC’s equities and mutual funds investment portfolio is managed by CISCO in accordance with conservative investment guidelines.

GIC’s branch in Greece, Kyprou Asfalistikiki, is in a run-off status, pursuant to the portfolio transfer agreement with an insurance provider in Greece, following the sale of the BOC Group’s Greek banking operations to Piraeus Bank.

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of the Laiki Bank operations under the Laiki Transfer Decrees, 49.9% of CNP, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the BOC Group. CNP Assurances S.A., a French insurance company, owns the other 50.1% of CNP. At 30 June 2016, CNP held deposits with companies within the BOC Group amounting to €15.1 million.

CNP is a major competitor of GIC and EuroLife. According to the Insurance Association of Cyprus, for the six months ended 30 June 2016, CNP ranked first in terms of premiums generated in the general insurance market in Cyprus with a market share of 10.9% and ranked second in terms of premiums generated in the life insurance market in Cyprus with a market share of 26.1% (source: Directory & Statistical Information for 2015 of Insurance Association of Cyprus at 31 December 2015 and unaudited statistical information of Insurance Association of Cyprus at 30 June 2016).

Restructuring and Recoveries Division (“RRD”)

For a description of RRD, see “Restructuring and Recoveries Division and Real Estate Management Unit”.

Real Estate Management Unit (“REMU”) and Overseas Run-Down (“ORD”) Division

Up until 1 November 2016, the REMU and ORD division was composed of two separate units: REMU and ORD, which reported together. For a description of REMU and ORD, see “*Restructuring and Recoveries Division and Real Estate Management Unit*”. As of 1 November 2016, ORD ceased to be a division and became a department within Corporate Banking.

Information Technology (“IT”)

The BOC Group’s information technology department (IT) supports the operations of the BOC Group’s commercial divisions and is responsible for hardware, software and services. As a critical function, IT supports commercial, revenue-generating operations of the BOC Group, such as mobile banking and digitalisation, back office functions, compliance and finance.

IT is led by the IT Manager who was supported by a staff of 205 as at 30 June 2016. IT staff are continuously trained on relevant programmes and new technologies. IT is housed at a dedicated facility owned by the BOC Group that is approximately 14 kilometers from the BOC Group’s primary headquarters in Nicosia. At each of the BOC Group’s primary headquarters and the IT facility, two live data centres host the BOC Group’s IT infrastructure equipment and each site functions as a disaster recovery site for the other. There is full resiliency between the two data centres.

IT prepares an annual budget, covering both operational and capital expenditures, which is submitted to and approved by the Board of Directors. The 2016 annual budget accounted for €27.8 million of IT expenditures, including €13.3 million for operational expenses and €14.5 million for capital expenditures, to be allocated over a three-year period from 2016–2018.

The main areas at focus include the following:

- *Risk, security and compliance:* Risk, security and compliance represents one of the most significant areas at focus not only for IT, but for the BOC Group more generally. Areas at focus include a new AML system, a new credit-scoring system for customers and loans, a new operational risk system and a new loan origination system. In addition, the BOC Group is also focused on cyber security and conducts cyber crime audits, penetration tests and vulnerability scans.
- *Card payments systems and ATMs:* The Bank is in the process of deploying a new card management system, new ATMs, a new loyalty scheme system and a new cards fraud monitoring system. In addition, IT is focused on bringing the Bank into compliance with PCI DSS.
- *Payments systems:* The Bank is in the process of deploying a new payments system, upgrading its treasury system and implementing a trade services customer portal. The Bank has also deployed a new exceptions, investigations and commissions system and upgraded its trade finance back-office system.
- *Technical infrastructure:* Technical infrastructure maintenance is a significant operational expense for the BOC Group and is required to cover the normal growth of technical infrastructure, scalability of systems, data storage capacity, systems optimization, ageing of systems and other special projects.
- *Mobile and internet banking:* To provide superior quality of service to its customers, the Bank is reviewing and upgrading its mobile and internet banking platforms and offerings. IT works with the relevant banking division in these projects.

Information technology is a significant factor in the BOC Group’s risk management and related regulatory and compliance framework, see “*Risk Management*.”

The management of the Bank is currently conducting a feasibility and business case study into a digital transformation strategy for the Bank. However, this is at an early stage and preliminary findings are expected to be presented to the Board of Directors at the end of 2016. The current digital transformation programme proposes to deploy the following:

- an agile technology foundation infrastructure to support the new digital platform, including enterprise service business with an integrated rules based engine;
- advanced data analytics and big data capabilities;
- new advanced campaign management system;
- new customer relationship management (CRM) system and unified front-end platform;

- new advanced internet-based channels solutions internet and mobile applications;
- self-servicing machines within branches; and
- a five-year core modernization programme to replace legacy or aged core banking systems.

Property (including leased property)

As at 30 June 2016, 16 of the BOC Group's retail branch premises were owned by the BOC Group while the remaining 109 retail branch premises were leased. In addition, the BOC Group's head offices, including the BOC Group's headquarters in Nicosia, and BOC UK's offices are owned by the BOC Group.

The Bank does not currently plan to procure material tangible fixed assets including leased properties.

RESTRUCTURING AND RECOVERIES DIVISION AND REAL ESTATE MANAGEMENT UNIT

The challenging macroeconomic environment in Cyprus over the last three years has had a profound negative impact on BOC Group's asset quality and has resulted in the accumulation of a large stock of delinquent 90+DPD loans. The BOC Group's loan portfolio continues to include a material proportion of 90+DPD loans, with 90+DPD loans consisting of 44.0% of the BOC Group's gross loan exposure as at 30 June 2016, compared to 50.1% as at 31 December 2015. At 30 June 2016, the BOC Group managed a 90+DPD portfolio of €9.3 billion, reflecting an 18% reduction from €11.3 billion at 31 December 2015, principally as a result of increased restructuring activity, including debt for property swaps, which has resulted in loans being removed from the 90+DPD stock and a slowing growth rate of new 90+DPD loans.

The main component of the BOC Group's strategy to address its significant portfolio of 90+DPD loans was the establishment, in 2014, of the restructuring and recoveries division ("**RRD**") to restructure and recover the Bank's 90+DPD loans and in 2015, the real estate management unit ("**REMU**") to manage and monetise a portfolio comprised primarily of foreclosed real estate assets. In addition, in 2016 the BOC Group established the overseas run-down division ("**ORD**") to manage and run-down its remaining assets and exposures, including 90+DPD loans, in jurisdictions outside of Cyprus. As of 1 November 2016, ORD ceased to be a division and became a department within Corporate Banking.

Recent regulatory reforms in Cyprus, particularly the New Foreclosure Laws, the Insolvency Framework Laws, the Sale of Credit Facilities Law and a range of tax incentives, support Cypriot bank debt restructuring. These are expected to facilitate faster consensual restructuring solutions with borrowers, while reducing the costs associated with, and supporting faster, debt collection. Moreover, the BOC Group's more effective interaction with borrowers as a result of these measures and the broader range of restructuring options, combined with the improving fundamentals of the Cypriot economy, have played a significant role in assisting the BOC Group in slowing and reversing the trend in delinquent loans.

The majority of the BOC Group's 90+DPD stock is managed by RRD. At 30 June 2016, RRD managed its own 90+DPD portfolio of €7.6 billion (reflecting an 18.2% reduction from €9.3 billion at 31 December 2015). The decreases were principally a result of restructuring of loans resulting in such loans no longer being classified as 90+DPD, and a decrease in the number of loans being classified as 90+DPD loans. At 30 June 2016, Debt Recovery managed a further 90+DPD portfolio of €5.0 billion.

Restructuring and Recoveries Division

RRD is comprised of independent, centralised and specialised restructuring units through which the BOC Group aims to manage its exposure to borrowers in distress and arrears across all customer segments, and to reduce the level of 90+DPD loans. At 30 June 2016, RRD was staffed by 482 full-time employees who were focused either on loan restructuring or debt recovery.

RRD is significantly impacted by the legal environment in Cyprus, in particular the New Foreclosure Laws, the Insolvency Framework Laws and the Sale of Credit Facilities Law, with respect to its ability to recover on delinquent loans and to encourage borrowers to proactively restructure their loans. The Arrears Management Directive issued by the CBC also plays a role in the operations of RRD and interactions with defaulting borrowers and other credit institutions. For more information, see "*Financial Services Regulation and Supervision—Arrears Management Directive*". At 30 September 2016, RRD had completed nine private foreclosures and conducted 12 auction events under the New Foreclosure Laws. For more information, see "*Financial Services Regulation and Supervision—Laws relating to Foreclosures*".

RRD Structure

RRD is organised as follows:

- **Consumer and SME arrears management units:** The consumer arrears management unit focuses on consumer loans, comprised of housing and consumer lending (e.g., car loans and credit cards). The SME arrears management unit focuses on smaller, owner-managed businesses. Three call centres and six consumer arrears management units cover consumer loans and provide collection and restructuring services to consumer clients. A standardised set of restructuring solutions for the consumer arrears management units are provided for exposures below €225,000 (from 25 August 2016, the previous threshold having been €125,000). At 30 June 2016, the consumer arrears management units were responsible for managing a loan portfolio of €173.7 million, with 90+DPD loans of €83.6 million, compared to a loan portfolio of €227.3 million, with 90+DPD loans of

€137.1 million, at 31 December 2015. Eight business support units, spread across Cyprus, focus on debt collection and restructuring in relation to SME loans. At 30 June 2016, the SME arrears support units were responsible for managing a SME portfolio of €1.3 billion, with 90+DPD loans of €0.8 billion, compared to a SME portfolio of €1.4 billion, with 90+DPD loans of €1.0 billion, at 31 December 2015.

- **Major corporate management unit:** All large corporate exposures are currently managed by the major corporate management unit within RRD. The major corporate management unit focuses on loans to large diversified corporate groups with a total exposure greater than €100 million. The major corporate management unit is served by 13 experienced restructuring officers.

Major corporate exposures are assigned to small teams of officers, who develop and execute a tailored action plan, based on size and complexity. Portfolio allocation is managed so as to ensure that each corporate group receives appropriate attention and resources. In addition to the Bank's staff, the major corporate management unit is supported by external consultants including internationally experienced restructuring specialists and external legal counsel in Cyprus and the United Kingdom. At 30 June 2016, the major corporate management unit was responsible for managing a total corporate loan portfolio of €2.5 billion, with 90+DPD loans of €1.3 billion, compared to a total corporate loan portfolio of €2.9 billion, with 90+DPD loans of €2.0 billion, at 31 December 2015.

- **Other corporate management unit:** All other corporate exposures are managed by four corporate management teams focusing on loans to mid-market businesses of between €6 million and €100 million. At 30 June 2016, these teams were responsible for managing a total corporate loan portfolio of €1.4 billion, with 90+DPD loans of €0.4 billion, compared to a total corporate loan portfolio of €1.8 billion, with 90+DPD loans of €1.0 billion, at 31 December 2015. As with the major corporate management unit, these teams are supported by external consultants, including international experienced restructuring specialists and external legal counsel in Cyprus and the United Kingdom.
- **Debt recovery services unit:** The debt services recovery unit ("**Debt Recovery**") includes centralised and regional teams dedicated to debt collection, including legal repossession. Debt Recovery supports the other units within RRD described above. Debt Recovery was expanded in late 2015 by the addition of international recovery specialists and experienced recovery officers from the other management units with the aim of increasing the pace of recoveries. At 30 June 2016, corporate loans managed by Debt Recovery amounted to €2.1 billion, as compared with €2.4 billion at 31 December 2015, and consumer and SME loans managed by Debt Recovery amounted to €2.9 billion, as compared with €2.9 billion at 31 December 2015.
- **Other supporting departments:** The strategy and analytics department analyses and defines delinquent portfolio segments based on the status of borrowers and the size of exposures and is also in charge of monitoring the performance of loan portfolios under management by RRD.

Collection process for delinquent loans

RRD has designed and implemented the following collection processes for delinquent loans:

- **Consumer:** In the early delinquency stage, the branch officer assigned to the borrower concerned may contact the borrower to assess the situation and provide advice to the borrower if deemed appropriate. However, in general, once the loan concerned is five days past due, it is automatically actioned by the call centres which employ a client contact strategy for collection. If the loan concerned remains overdue for more than 60 days, responsibility for the collection and the provision of restructuring solutions is assumed by the consumer arrears management units or, for loans greater than €225,000, the relevant branch. At any stage during the process, if deemed necessary, the client can be transferred to a consumer arrears management unit or branch for restructuring; however, the front-line customer relationship always remains with the branch. The consumer arrears management units are focused on standardising the restructuring process in order to make it as cost and time efficient as possible.
- **SME:** In the early delinquency stage, the business centre officer assigned to the business concerned is responsible for making contact and offering collection and restructuring solutions. In general, once the loan (in an amount between €2 million to €6 million) concerned is 45 days past due, it is transferred to the business support units of RRD for restructuring. A loan may also be transferred to the business support units even if there are no arrears depending on the risk profile and portfolio

segment to which the borrower or loan is assigned (e.g., a loan requiring further restructuring when a previous restructuring has been performed in the preceding 18 months for such client). Unlike retail consumer clients who maintain a front-line customer relationship with the branch, SME clients are transferred to RRD on a group basis, which includes all client relationships within SME Banking. Once the client relationship is rehabilitated, the client may, depending on evidence of the sustainability of the debt restructuring, be returned to SME Banking.

- **Major Corporate:** The largest corporate exposures were moved out of the corporate loan book and into RRD in 2013. Currently, the major corporate loan book remains with RRD at all times and is managed by the dedicated major corporate management units. However, as restructured loans return to viability and indicate strong performance, especially when additional lending opportunities arise, these relationships can be returned to Corporate Banking. RRD maintains a flexible approach to restructuring major corporate accounts.
- **Other Corporate:** For the other corporate management units, in the early delinquency stage, the corporate banking centre officer assigned to the corporate group concerned is responsible for making contact and offering collection and restructuring solutions. In general, if at least 25% of the loan (in any amount of €6 million or more) concerned is 30 days past due, it is transferred to another corporate management team at which point meetings are scheduled with the borrower to discuss restructuring solutions. RRD maintains a flexible approach to restructuring corporate accounts and delinquent loans may be transferred to a corporate management team depending on the circumstances. Similar to SME clients, clients are transferred by the Watch Forum to RRD on a group basis, which includes all client relationships within the corporate group (see “—*Watch Forum*” below).

Once loans are at the latest stage of potential recovery, they are transferred to Debt Recovery based on objective criteria. In general, loans are transferred when they are determined by the appropriate BOC Group credit committee to be non-viable. Debt Recovery is further developing recovery techniques, including accelerated settlement actions whereby court and settlement or restructuring actions are taken in parallel to full legal actions or, in the case of large exposures, the appointment of a receiver, in each case, depending on the portfolio segment to which the relevant borrower or loan is assigned.

Restructuring tools

Taking into consideration current economic circumstances and the financial difficulties of its borrowers, RRD considers the employment of a series of restructuring tools that are suitable for the individual borrower, acceptable to the BOC Group and provide the borrower with the ability to, either partially or fully, service the debt or refinance the loan. Restructuring tools may be short-term and/or long-term in nature and are seldom used in isolation. Consumer and SME exposures are most commonly restructured with payment rescheduling, whereas larger corporate exposures are often restructured using more complex techniques such as mezzanine financing and accelerated consensual foreclosure.

Restructuring tools include the following:

- **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.
- **Reduced payments:** The amount of repayment instalments are decreased over a defined short-term period in order to accommodate the borrower’s new cash flow position.
- **Interest rate reduction:** The interest rate (fixed or variable) is permanently or temporarily reduced into a sustainable rate.
- **Extension of maturity:** The maturity of the loan is extended which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- **Arrears and/or interest capitalisation:** Arrears and/or accrued interest arrears are capitalised into the principal. This constitutes forbearance of the arrears and the addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled programme.
- **Interest only:** During a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- **Grace period:** An agreement allows the borrower a defined delay in fulfilling the repayment obligations, usually with regard to the principal.

- *Forbearance of penalties in loan agreements:* Penalties are waived, temporarily or permanently, for violations of covenants in the loan agreements.
- *Debt consolidation:* The combination of multiple exposures into a single loan or limited number of loans.
- *Collateral or security strengthening:* This restructuring solution may take different forms and involves improving the collateral or security underlying a loan. For example, additional security or additional liens on unencumbered assets may be sought. The additional collateral or security, among other things, compensates the Bank for higher risk exposure, reduced interest rates (if applicable) and/or to balance the advantages the borrower receives from the restructuring.
- *Accelerated consensual foreclosure:* The BOC Group and the borrower agree to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the BOC Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- *Cash sweeps:* The borrower agrees to use any excess cash flow to repay debt ahead of schedule.
- *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 BOC Group in providing new financing to a distressed borrower.
- *Equity-linked instruments:* A portion of the debt is converted into equity-linked instruments such as payment-in-kind, or PIK, notes or a preferred equity interest.
- *Split and freeze:* The borrower'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.
- *Debt/equity swaps:* The debt is partially set-off and an equivalent amount of equity is obtained by the BOC Group, with the remaining debt restructured with the expectation that cash flows of the borrower on the restructured debt will repay the BOC Group together with the proceeds 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 (as defined in "*Financial Services Regulation and Supervision*").
- *Debt write-off:* Part of or the whole amount of debt outstanding by the borrower is cancelled. The BOC Group applies this 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.

Watch Forum

Through the Watch Forum, RRD works closely with both Consumer and SME Banking and Corporate Banking, to monitor SME and corporate customer groups for potential transfers from the relevant banking division to RRD, or from RRD back to the relevant banking division. The Watch Forum meets periodically and is comprised of representatives from RRD, the BOC Group's Risk Management Division and the relevant banking divisions.

The criteria for exposures to be considered during Watch Forum meetings for transfer to RRD are that the borrower has one or more loans with arrears which are more than:

- 45 days past due, in the case of SME exposures, and that these loans have been restructured within the previous 18 months; and
- 30 days past due, in the case of corporate exposures, and that the amount in arrears is at least 25% of the total exposure.

In reviewing whether a borrower qualifies to move from RRD back to the relevant Consumer, SME or Corporate Banking Division, respectively, the Watch Forum considers the borrower's restructuring performance, operating performance and compliance with the new repayment schedule. The Watch Forum considers each case individually. In particular, for SME exposures, the Watch Forum considers whether the borrower has made payments of interest and principal for at least six months or, in the case of interest only

loans, payments of interest for at least 12 months. For corporate exposures, the Watch Forum considers whether the borrower:

- made a payment of the first instalment in the case of restructured loans with a capital milestone;
- made payments after the expiration of the grace period of interest due monthly for at least three months, payment of interest due quarterly for a period of at least six months or payment of interest due annually for a period of at least 12 months, as applicable, in the case of restructured loans with a capital grace period; and
- made payments of interest and principal due monthly for a period of at least six months, payment of interest and principal due quarterly for a period of at least nine months or payment of interest and principal due annually for a period of at least 12 months, as applicable, in the case of all other restructured loans.

Factors affecting NPEs and the 90+DPD portfolio and RRD's impact on the BOC Group operating results

Non-performing exposure reporting

NPL data for the period ending 31 December 2013, including loan portfolio quality, provisioning policy and levels of provisions, were reported to the CBC retrospectively in accordance with the CBC's Directive on Loan Impairment and Provisioning Procedures of 2014 (the "**Loan Provisioning Directive**").

For the period ending 31 December 2014 and thereafter, the BOC Group reported data on its loan portfolio quality, provisioning policy and levels of provisions to the CBC in accordance with EBA reporting standards and, in respect of NPEs, the Loan Provisioning Directive. As a result, the Bank's historic NPL data for 2013 based on the CBC Governance Directive are not directly comparable to the NPE data disclosed for 2014, 2015 and the first half of 2016 respectively, which are based on the EBA's reporting standards.

At 31 December 2014, the BOC Group's NPEs were concentrated in Cyprus, mainly in major corporate clients and SMEs, and totalled €15.0 billion. NPEs decreased to €14.0 billion at 31 December 2015 (including those held in Debt Recovery), primarily due to an overall improvement in the quality of the Bank's Cyprus loan book, an improvement in the Cypriot economy and write-offs in Cyprus amounting to €341.0 million. NPEs decreased further to €12.5 billion at 30 June 2016 (including those held in Debt Recovery), principally as a result of the consensual foreclosure process in the first half of 2016 and the recent regulatory reforms described below.

Recent regulatory changes have provided the RRD with a broader range of restructuring solutions and greater latitude to enforce security and dispose of collateral. In addition, the Government's relaxation of tax measures relating to real estate closing costs supports debt restructurings and are expected to deliver a number of benefits to the Bank, including encouraging borrowers to agree to consensual solutions faster, reducing the costs of restructuring, and providing a broader range of options for the Bank and the borrowers to deleverage and facilitating faster cash collection. These measures have played a significant role in assisting the BOC Group to arrest and reverse the prior trend in problem loans. In response to these changes, and with the aim to maximise recoveries for the BOC Group on NPEs, the BOC Group decided to pursue a policy of purchasing properties from borrowers whose related loans were 90+DPD. See "*Operating and Financial Review—Key Factors Affecting Financial Condition and Results of Operations—Transformational Events during the Periods under Review*". Additionally, a new law governing the sale of loans and, if passed, a securitisation law may also facilitate the disposal of NPE portfolios by banks in Cyprus. The BOC Group may seek to dispose of portfolios of NPEs or, through REMU, repossessed properties in order to further accelerate the reduction of NPE levels and the monetisation of its property portfolio.

The ratio of NPE's to gross loans decreased from 62.9% at 31 December 2014 to 59.3% at 30 June 2016 driven by the downward trend in the number and aggregate value of NPEs during the period (resulting from restructuring) and the decrease in the number and aggregate value of performing loans as the rate of origination of new loans did not match the rate of final repayment of existing loans.

The following table shows the share of total gross loan exposure and NPEs as a percentage of the BOC Group's total exposure by geography at the dates indicated:

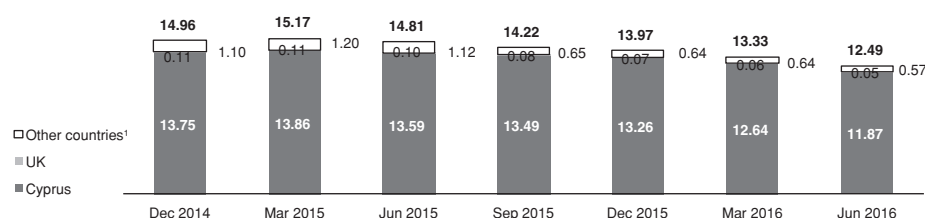
	30 June 2016		31 December			
			2015		2014	
	Gross	NPE	Gross	NPE	Gross	NPE
Cyprus	91%	95%	91%	95%	89%	92%
Russia	1%	2%	1%	2%	4%	3%
UK	6%	—	5%	1%	4%	1%
Other countries*	2%	3%	3%	2%	3%	4%
Total	100%	100%	100%	100%	100%	100%

* 'Other countries' include Greece and Romania.

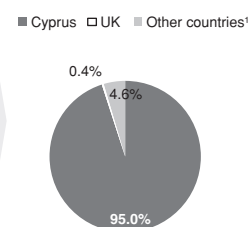
The share of NPEs in Cyprus increased over the periods set out above whilst the share of NPEs for overseas exposures declined from 46.9% at 31 December 2014 to 36.6% at 31 December 2015, in each case as the BOC Group completed its disposals of overseas operations. The share of NPEs in Cyprus was stable in the calendar year to 31 December 2015 and subsequently declined from 64.2% at 31 December 2015 to 61.6% at 30 June 2016 due to the restructuring efforts of the BOC Group.

The following chart illustrates BOC Group's NPEs, expressed in billions of euros, by geography quarter-on-quarter over the period from 31 December 2014 to 30 June 2016:

NPEs by geography (€ bn)



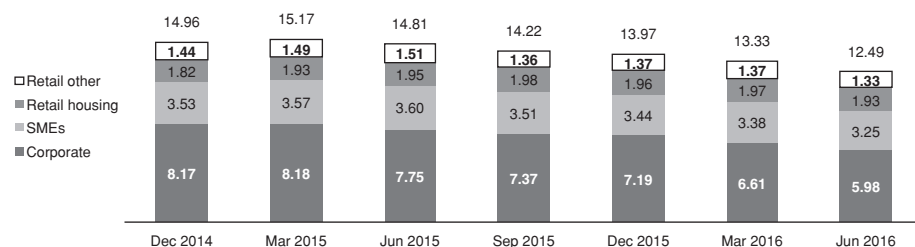
As at Jun 2016



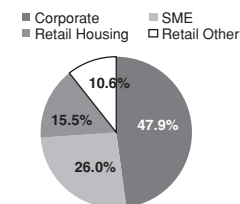
(1) Other countries: Russia, Greece and Romania

The following chart illustrates BOC Group's NPEs, expressed in billions of euros, by customer sector quarter-on-quarter over the period from 31 December 2014 to 30 June 2016:

NPEs by customer type (€ bn)

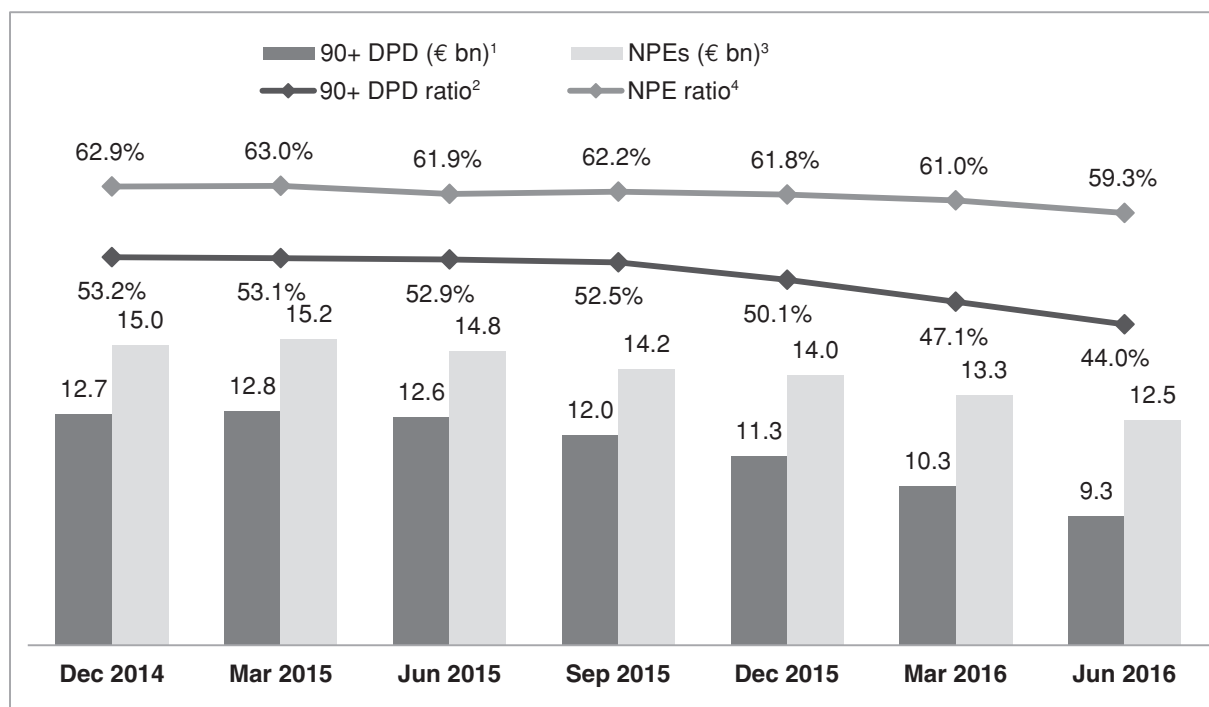


As at Jun 2016



Due to the technical reporting requirements of the EBA standards and the Loan Provisioning Directive, the NPE ratio is a lagging indicator of NPE performance as compared to the 90+DPD data prepared by the Bank. For example, in circumstance where 90+DPD loan balances indicate improvement, the NPEs balances lag behind as illustrated in the table below. An analysis of the 90+DPD balance provides an alternative measurement of the pace of restructuring 90+DPD loans within RRD.

The following table shows the respective 90+DPD and NPE balances and ratios at the dates indicated:



- (1) Loans in arrears for more than 90 days (90+DPD) are defined as loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery).
- (2) 90+DPD ratio means loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery) divided by gross customer loans (gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired)).
- (3) Non-performing exposures are calculated in accordance with EBA reporting standards and the Loan Provisioning Directive in respect of NPEs.
- (4) NPE ratio is calculated as the product of NPEs divided by gross loans, gross at fair value adjustment on initial recognition.

90+DPD portfolio management and performance

90+DPD loan balance amounted to €12.7 billion, or 53.2% of BOC Group gross loans, at 31 December 2014, compared to €11.3 billion, or 50.1% at 31 December 2015, and €9.3 billion, or 44.0%, at 30 June 2016. The reduction of the 90+DPD stock by 26.7% from 31 December 2014 to 30 June 2016 was primarily driven by the increased restructuring activities in relation to corporate loans and recoverability of the 90+DPD portfolio, aided by the recent changes to foreclosure legislation and the new insolvency framework as well as a range of tax incentives. See above and “*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—Laws relating to Foreclosures and —Insolvency Framework Laws*”. An average of €1.2 billion of loans were restructured over the period from 30 June 2015 to 30 June 2016.

In addition, the overall improvement in asset quality and 90+DPD balance has been further supported by a recovering Cypriot economy. For more information, see “*The Macroeconomic Environment in Cyprus*”.

The following table sets forth the total amount of loans in each division and the total amount of loans in RRD arranged by division at the dates indicated:

	30 June 2016		31 December			
			2015		2014	
	Division	RRD	Division	RRD	Division	RRD
	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion
Corporate	3.7	6.0	3.7	7.1	3.1	7.5
SMEs	1.7	2.8	1.8	2.9	2.1	2.8
Retail housing*	3.6	0.7	3.7	0.6	3.8	0.6
Retail other*	1.4	0.7	1.4	0.7	1.5	0.7
IBS/WBAM	0.5	—	0.6	—	0.7	—
Total	10.9	10.2	11.2	11.3	11.2	11.6

* “Retail housing” and “retail other” loans are separated for credit risk reporting purposes since “retail housing” loans are collateralised, whereas “retail other” are not.

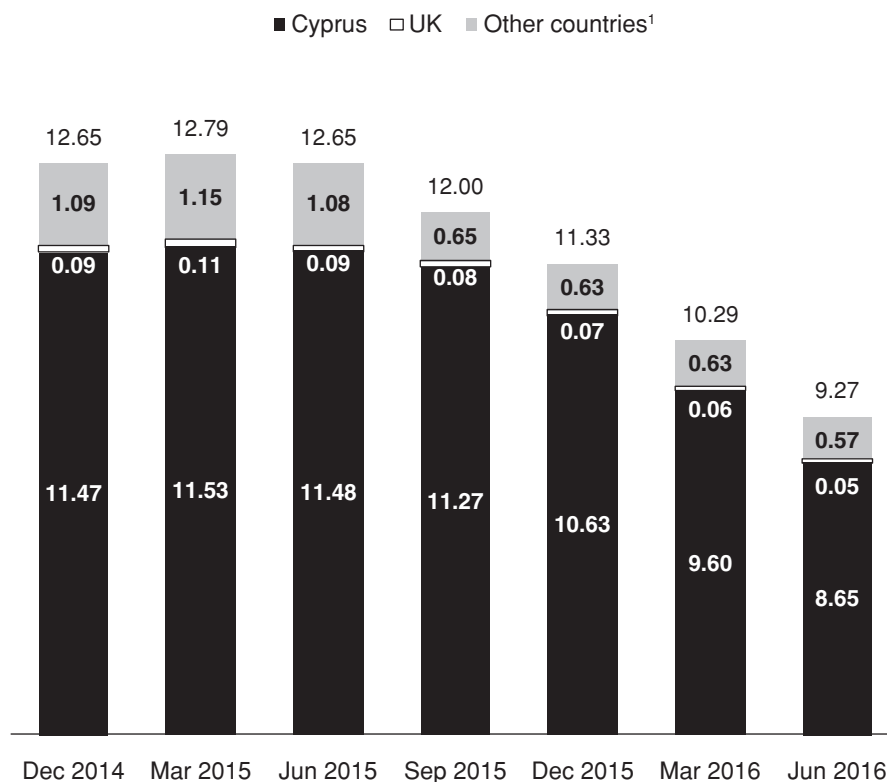
The proportion of corporate loans under management by RRD stood at 65.0% at 31 December 2014, 62.8% at 31 December 2015 and 58.8% at 30 June 2016, with the downward trend being the result of restructuring of loans. The total amount of the corporate loan portfolio was €9.7 billion at 30 June 2016, compared to €10.8 billion at 31 December 2015, €10.6 billion at 31 December 2014, respectively. The high proportion of corporate loans within RRD is due to the BOC Group’s overall exposure to corporate loans and the management of corporate loans on a customer group basis which results in the transfer of both performing and non-performing loans to RRD. Equivalent retail loans are transferred to Debt Recovery. The performance of corporate borrowers may also be more significantly affected by macroeconomic factors than that of retail borrowers. For example, historically a large number of the Bank’s corporate loans were made to borrowers in the construction and real estate industries and consequently decreases in demand for new properties and declining real estate prices are likely to impact the financial position of borrowers in these sectors more significantly.

SME balances have remained constant over the period since 31 December 2014, with balances of €2.8 billion at 31 December 2014, €2.9 billion at 31 December 2015 and €2.8 billion at 30 June 2016. The balance of loans classified as “retail housing” and “retail other” decreased from €4.4 billion and €2.2 billion, respectively, at 31 December 2014 to €4.3 billion and €2.1 billion at 31 December 2015 and 30 June 2016, respectively, mainly due to transfers of distressed loans to management by RRD.

The following table sets forth the BOC Group’s total amount of 90+DPD loans arranged by economic activity at the dates indicated:

	31 December		
	30 June 2016	2015	2014
	€ billion	€ billion	€ billion
Trade	0.9	1.1	1.2
Manufacturing	0.4	0.5	0.5
Hotels and Catering	0.5	0.7	0.9
Construction	2.2	3.1	3.2
Real estate	1.3	1.6	1.5
Private individuals	2.5	2.6	2.9
Professional and other services	0.8	1.0	1.0
Other sectors	0.6	0.7	1.4
Total	9.3	11.3	12.7

The following chart illustrates the BOC Group's 90+DPD loans, in billions of euros, arranged by geography quarter-on-quarter over the period from 31 December 2014 to 30 June 2016:



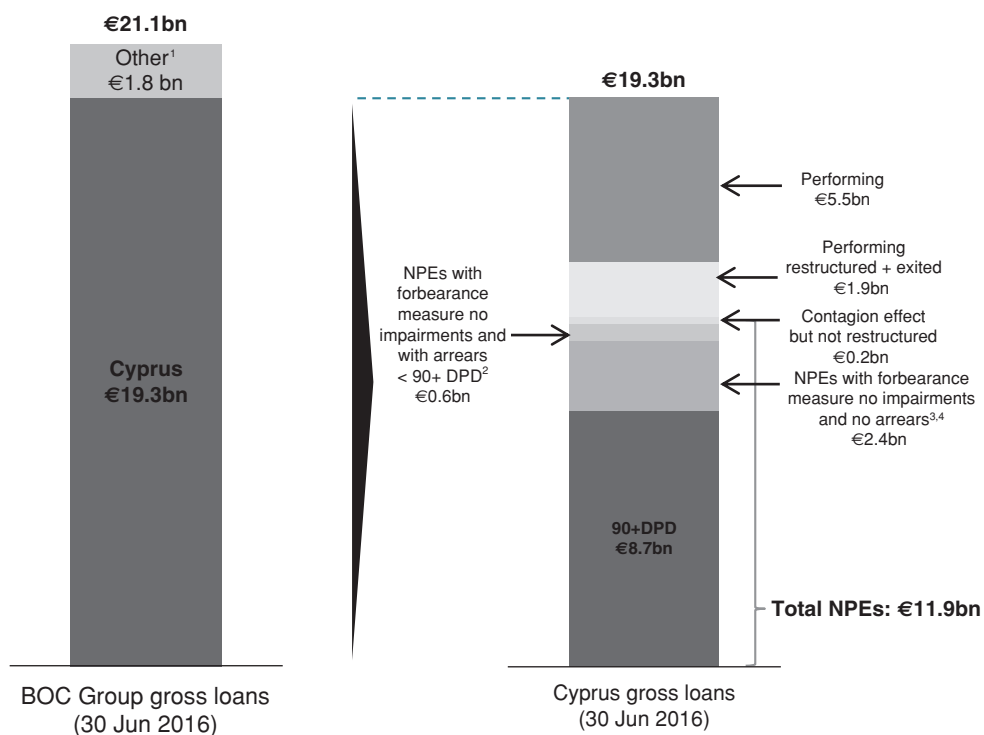
(1) Other countries includes Russia, Romania and Greece.

The following table sets forth the BOC Group's 90+DPD loans arranged by business line at the dates indicated:

	<u>30 June</u> <u>2016</u>	<u>31 March</u> <u>2016</u>	<u>31 December</u> <u>2015</u>	<u>30 September</u> <u>2015</u>	<u>30 June</u> <u>2015</u>	<u>31 March</u> <u>2015</u>	<u>31 December</u> <u>2014</u>
	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion	€ billion
Corporate	0.7	0.8	0.9	1.0	1.2	1.3	1.4
SMEs	0.3	0.3	0.4	0.4	0.6	0.6	0.6
Housing	0.4	0.5	0.5	0.5	0.6	0.6	0.6
Consumer Credit	0.3	0.3	0.3	0.4	0.5	0.6	0.5
RRD—Major Corporations	1.3	1.7	2.0	2.4	2.4	2.4	2.4
RRD—Corporates	0.4	0.6	1.0	1.1	1.2	1.3	1.3
RRD—SMEs	0.8	0.9	1.0	1.1	1.1	1.1	1.1
RRD—Recoveries Corporates	2.1	2.2	2.4	2.3	2.2	2.2	2.1
RRD—Recoveries SMEs & Retail	2.9	3.0	2.9	2.8	2.8	2.7	2.6
Total	<u>9.3</u>	<u>10.3</u>	<u>11.3</u>	<u>12.0</u>	<u>12.7</u>	<u>12.8</u>	<u>12.7</u>

The following chart illustrates as at 30 June 2016 (1) a breakdown of the BOC Group's gross loans, expressed in billions of euros, by geography and (2) a break down of the BOC Group's gross loans in Cyprus, expressed in billions of euros, by (a) performing loans, (b) performing restructured loans which have exited RRD and (c) NPEs, which is further broken down into (i) NPEs that are on probation and subject to a contagion effect, but are not currently restructured, (ii) NPEs that are restructured and performing, but still on probation period with arrears less than 90+DPD, (iii) NPEs with forbearance

measures, but with no impairment and no arrears and (iv) NPEs that are more than 90 days past due and are impaired:



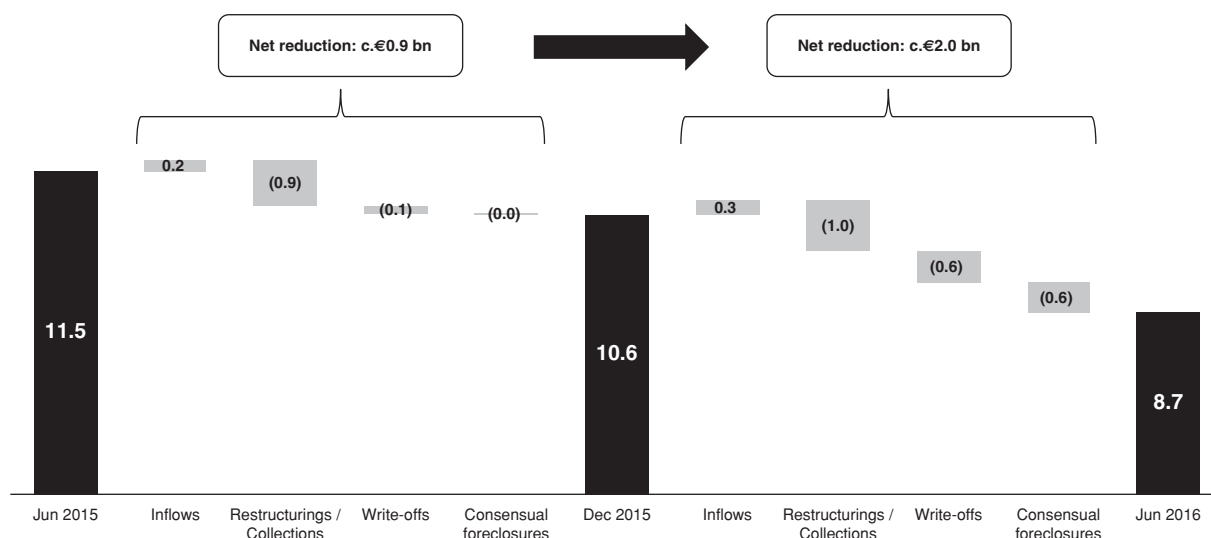
- (1) Other countries includes Russia, Romania and Greece.
- (2) Restructured and performing but still on probation period with arrears < 90+DPD.
- (3) Restructured loans and performing, but still on probation period.
- (4) Includes €0.2bn of loans with a contagion effect.

The following table shows an asset quality and 90+DPD analysis of the BOC Group at the dates indicated:

	30 Jun 2016	31 Mar 2016	31 Dec 2015	30 Sep 2015	30 June 2015	31 Mar 2015
	(€ billion)	(€ billion)	(€ billion)	(€ billion)	(€ billion)	(€ billion)
Gross Loans after Fair value on Initial recognition	20,040	20,719	21,385	21,597	22,575	22,540
Fair value on Initial recognition ⁽¹⁾	1,043	1,130	1,207	1,266	1,351	1,545
Gross Loans	21,083	21,849	22,592	22,863	23,926	24,085
Of which:						
Loans with no arrears	10,879	10,551	10,443	9,925	10,178	10,038
Loans with arrears but not impaired	2,607	2,901	3,049	3,611	4,105	4,627
Up to 30 DPD	574	623	469	585	668	662
31-90 DPD	361	386	351	355	435	596
91-180 DPD	121	133	144	200	227	344
181-365 DPD	175	183	259	374	529	758
Over 1 year DPD	1,376	1,576	1,826	2,097	2,246	2,267
Impaired Loans	7,597	8,397	9,100	9,327	9,644	9,420
With no arrears	647	860	876	848	969	1,006
Up to 30 DPD	25	36	78	66	91	68
31-90 DPD	41	57	24	60	121	275
91-180 DPD	95	49	65	152	167	181
181-365 DPD	123	157	310	464	489	445
Over 1 year DPD	6,666	7,238	7,747	7,737	7,807	7,445
(90+DPD)⁽²⁾	9,269	10,289	11,329	11,998	12,646	12,789
90+DPD ratio(%)⁽³⁾	44.0%	47.1%	50.1%	52.5%	52.9%	53.1%
Accumulated provisions⁽⁴⁾	4,875	5,076	5,445	4,933	5,381	5,354
Gross loans provision coverage (%)⁽⁵⁾	23.1%	23.2%	24.1%	21.6%	22.5%	22.2%
90+DPD provision coverage ratio (%)⁽⁶⁾	52.6%	49.3%	48.1%	41.1%	42.5%	41.9%

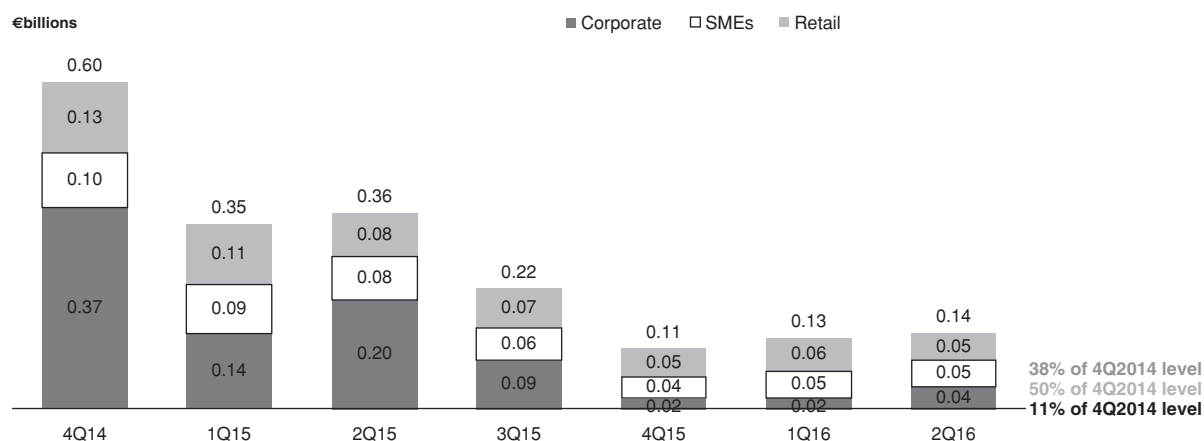
- (1) The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is presented separately for gross balances of loans and advances.
- (2) Loans in arrears for more than 90 days (90+DPD) are defined as loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers under management by Debt Recovery).
- (3) 90+DPD ratio means loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers under management by Debt Recovery) divided by gross customer loans (gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired)).
- (4) Accumulated provisions is calculated as the sum of collective and specific and fair value adjustments on initial recognition plus provisions for off-balance sheet exposures.
- (5) Provisioning coverage ratio for gross loans is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, divided by gross loans.
- (6) Provisioning coverage ratio for 90+DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, divided by 90+DPD.

The following chart illustrates the manner in which the BOC Group's 90+DPD loans have been reduced, in billions of euros, half-on-half during the period from 30 June 2015 to 30 June 2016:



As at 30 June 2016 RRD reduced the BOC Group's 90+DPD loans by approximately €3.4 billion since 30 June 2015. The reduction in the 90+DPD loan balance was primarily driven by the reduction in corporate loans due to increased restructuring activity, with an average of €1.2 billion of loans restructured during the four quarters (to 30 June 2016) (€2.8 billion in aggregate amount of loans restructured during the first six months of 2016) and the slower creation of 90+DPD loans (€0.14 billion at 30 June 2016). A contributing factor to the decrease in the overall size of the 90+DPD portfolio was the substantial increase in the pace of loan restructuring by the RRD. The aggregate value of loans restructured in the first six months of 2015 was €1.5 billion, compared to €2.1 billion in the second half of 2015, reflecting a 40.6% increase from the first six months of 2015 compared to the last six months of 2015, and was €2.8 billion for the first half year of 2016, reflecting a further increase of 28.7%. The pace of restructuring remained steady during the six months ended 30 June 2016 with improvements in most customer segments: 50.9% in corporate, 18.4% in SME and -2.3% in consumer. Corporate loans represented the largest class of restructured loans, 47.1% of all loans restructured in the year ended 31 December 2015 (46.5% of these corporate restructurings took place in the last quarter of 2015) and 61.5% in the half year ended 30 June 2016.

The following chart illustrates the inflow of the BOC Group's 90+DPD loans, in billions of euros, arranged by the corporate, SME and retail divisions quarter-on-quarter during the period from 31 December 2014 to 30 June 2016:

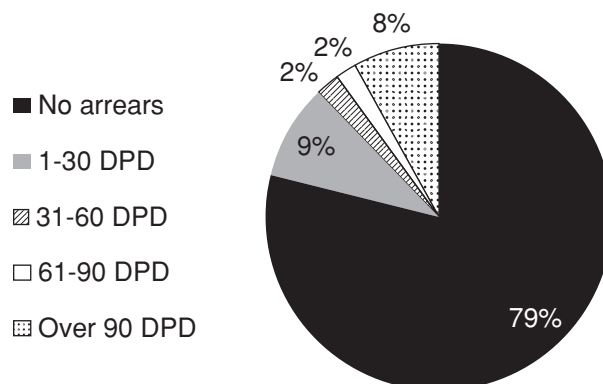


In Cyprus, the net inflow into the 90+DPD loan stock for the six months ended 30 June 2015 was €700 million, compared to a net inflow of €1.0 billion for the year ended 31 December 2015, which was the first time since the financial recession in Cyprus that net inflows into 90+DPD loan stock decreased. For the six months ended 30 June 2015, this reflected corporate net inflows of €337 million, SME net inflows of

€169 million and consumer net inflows of €194 million, as compared to the period ended 31 December 2015, during which corporate net inflows were €443 million, SME net inflows were €273 million and other net inflows were €319 million. The net inflow into 90+DPD loan stock for the six months ended 30 June 2016 amounted to €269 million. This reflected corporate net inflows of €61 million, SME net inflows of €94 million and consumer net inflows of €113 million, reflecting a continuing decreasing trend in net 90+DPD inflows across all customer segments.

The Bank has been successful in engineering sustainable restructuring solutions, especially in the corporate loans segment. As at 30 June 2016, 79% of loans restructured after 31 December 2013 for Cyprus operations have no arrears (restructurings performed in the second quarter of 2016 were excluded).

The following chart illustrates the overall performance of restructured Cypriot loans of the BOC Group during the period from 31 December 2014 to 30 June 2016. On average, 79% of the Bank's Cypriot loans restructured since 31 December 2013 have presented no arrears.



Further, the BOC Group's 90+DPD coverage ratio, improved to 52.6% at 30 June 2016, as compared to 48.1% at 31 December 2015 and 42.5% at 30 June 2015, respectively. This improvement was driven by over €1 billion of additional provisions for impairment of loans and gains on de-recognition and changes in expected cash flows on acquired loans during the year 2015 and a reduction in the 90+DPD loan balances since 30 June 2015.

The provisioning charge² (cost of risk) for 90+DPD loans for the six months ended 30 June 2016 was 1.4%, compared to 4.3% for the year ended 31 December 2015 and 2.2% for the six months ended 30 June 2015, respectively.

Between 30 June 2016 and 30 June 2015, the RRD restructured €4.91 billion of loans.

Real Estate Management Unit

In December 2015, the BOC Group changed its business model with respect to real estate assets acquired from customers as part of the BOC Group's efforts to provide solutions to distressed borrowers and properties acquired through repossession. The BOC Group has moved to a model that involves on-boarding a larger volume of properties than it had in prior years and created a specialised unit to actively manage such properties with an intention to sell them. To execute its strategy, in December 2015, the Bank established REMU in order to more effectively manage monetisation of the Bank's real estate assets and portfolios in Cyprus, Greece and Romania. Historically these properties were classified as investment properties. Properties transferred or scheduled to be transferred to REMU are now classified as stock of property. In addition, REMU provides on-going support to management and related operational teams and units of the Bank. For example, for accelerated consensual foreclosures, REMU supports RRD in the carrying out of due diligence on any real estate assets securing the NPEs to ensure that a reasonably accurate market value is ascribed to these assets. REMU operates as a separate business unit with its own brand. Its operations are organised under asset on-boarding, property management, asset management and asset disposal departments.

² IFRS 9 impact, which is effective as from 1 January 2018, has not been taken into account for the purpose of the targets. Targets are set on the basis of the present regulatory environment. Provisioning charge (cost of risk) (year to date) is calculated as the provisions for impairment of customer loans and provisions for off-balance sheet exposures, including provisions of discontinued operations, net of gain on derecognition of loans and advances to customers and changes in expected cash flows divided by average gross loans (the average balance calculated as the average of the opening balance and the closing balance). The ratio for the six months ended 30 June 2016 is annualised.

REMU has engaged Resolute Asset Management (Cyprus) Limited (“**Resolute**”), a subsidiary of Resolute Asset Management LLP, a specialist property asset manager focused on distressed real estate, to assist in the development of this business line. Resolute provides executive support as required, including representatives for any governance committee or advisory board, if requested by the Bank. Resolute also supports REMU in preparing its organisational, staffing and training requirements and in developing systems, procedures and policies. As at 30 June 2016, REMU was staffed by 21 full-time employees of the Bank, and had additional Resolute employees.

The Bank has developed a detailed strategy for REMU, which is based on the following key elements:

- *Converting to cash:* REMU’s ultimate objective is to realise value for the Bank by disposing of real estate assets which previously secured the Bank’s distressed loan book. The Bank’s goal is to eventually dispose of all real estate assets that have been obtained through the accelerated consensual foreclosure or court foreclosure processes. REMU has developed and implements a specific sales framework through which property assets are promoted to the market and potential interested parties.
- *Protecting and adding value:* REMU’s objective is to establish ‘best in class’ asset management processes in order to maintain and/or increase the value and viability of the Bank’s real estate stock.

During the first half of 2016 REMU on-boarded a portfolio of properties with an asset transfer price of €689.4 million. The on-boarding transfer price of the assets in the REMU portfolio is generally based on the forced sale value of the relevant properties which are calculated by taking into account valuations from professional external valuers. The asset transfer price of the legacy portfolio that was on-boarded prior to December 2015 was €19.3 million based on the open market value of the properties. Impairment is recognised if the net realisable value is below the cost of the stock of property. Overall portfolio balances are subject to on-going review and may change from time to time.

Overseas Run-Down

ORD manages and runs-down the BOC Group’s remaining assets and exposures in jurisdictions outside of Cyprus. ORD is a department within the Corporate Banking division as of 1 November 2016. To achieve this ORD manages, assesses, negotiates, selects and implements strategic objectives in relation to the international operations and assets of the BOC Group, as well as acting as the liaison between BOC Group operations and divisions in Cyprus and local management of the international operations, assets or subsidiaries concerned, which are as follows:

- The management of several international exposures and international/multi-jurisdictional syndicated loans through its sub-division, the International Corporate Banking Unit (“**ICB**”). At 30 June 2016, the ICB’s loan portfolio totalled €160.1 million (€221.5 million gross book value);
- The management, winding-down and disposal of the BOC Group’s remaining loan portfolio, related collateral and other assets in Romania (see “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals—Disposal of Non-Core Assets and Historical Operations (2013-2016)—Romania*”). At 30 June 2016, this portfolio totalled €262.3 million (€497.7 million gross book value);
- The management, winding-down and disposal of the BOC Group’s remaining loan portfolio, related collateral and other assets in Russia (see “*History of the BOC Group, the Restructuring, Recapitalisations and Disposals—Disposal of Non-Core Assets and Historical Operations (2013-2016)—Russia*”). At 30 June 2016, this portfolio totalled €45.3 million (€197.4 million gross book value);
- The management and collection of the BOC Group’s remaining exposures and related collateral in Ukraine (see “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals—Disposal of Non-Core Assets and Historical Operations (2013-2016)—Ukraine*”). At 30 June 2016, this portfolio totalled €59.5 million (€59.5 million gross book value);
- The management of the remaining loan portfolio that was transferred to the Bank from Laiki Bank’s branch in the United Kingdom on 1 April 2013, after the sale of the UK Loan Portfolio (as defined in “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*”) which was completed on 31 October 2014 (see “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals—Disposal of Non-Core Assets and Historical Operations (2013-2016)—United Kingdom branch of Laiki Bank*”). At 30 June 2016, this portfolio totalled €6.4 million (€32.8 million gross book value before fair value adjustment on initial recognition); and

- Supporting the BOC Group's Treasury division in the management of funding gaps and amounts owed to the BOC Group by Laiki Bank's international subsidiaries as a result of the 2013 decrees (see, *History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*). At 30 June 2016, these exposures totalled €118.0 million (€328.7 million gross book value).

HISTORY OF THE BOC GROUP, THE RESTRUCTURING, THE RECAPITALISATION AND DISPOSALS

History and Development of the BOC Group

Establishment and Expansion (1899–2012)

On 1 January 1899, a group of Cypriot businessmen, headed by Ioannis Economides, founded the “Nicosia Savings Bank”. In December 1912, after a petition by its members to the British High Commissioner, “Nicosia Savings Bank” was converted into a company and changed its name to “Bank of Cyprus”. In 1930, the Bank of Cyprus was registered as a limited liability company and started to offer a full range of banking services as Cyprus’ main local bank. In 1951, the Bank of Cyprus entered the insurance sector with the founding of GIC. In 1955, it opened its first overseas branch to serve the Cypriot community in London. The Bank of Cyprus established its first branch in Greece in 1991 and, in 1994, the Bank established the life insurance company, EuroLife.

Following a restructuring in August 1999, the Bank became the holding company in the place of Bank of Cyprus (Holdings) Limited (“**BOCH Cyprus**”) (which had itself been established in 1973). Under the terms of the restructuring plan, the share capital of BOCH Cyprus was cancelled and all assets and liabilities of BOCH Cyprus were transferred to the Bank. As part of the restructuring, the Bank’s ordinary shares were listed on the Cyprus Stock Exchange, replacing the shares of BOCH Cyprus. In November 2000, the Bank became the first non-Greek company to have its shares listed on the Athens Stock Exchange.

In 2007 and 2008, the Bank secured licences for the provision of banking services in Romania and Russia and acquired two banks, one in the Ukraine and one in Russia. In June 2012, the banking business carried out by the Bank’s United Kingdom branch was transferred to a banking subsidiary of the Bank, BOC UK.

Recapitalisation and Restructuring (2012–2013)

In June 2012, the Bank applied to the Government for capital support as a result of capital ratios which were lower than the regulatory minimum levels, primarily as a result of the impairment of its exposures to Greek government debt (which resulted in the Bank recording a €1.7 billion impairment loss in 2011) and the deterioration of its loan portfolio quality, primarily in Cyprus and Greece, due to ongoing weak economic conditions.

On 25 March 2013, the Government and the Eurogroup reached an agreement on the key elements and principles necessary for a future macroeconomic adjustment programme to aid the struggling Cypriot economy, including consolidation and downsizing of the financial sector and restructuring of the banking sector. Following the decisions of the Eurogroup meeting, the Cyprus resolution authority (comprised at the time of the Governor of the CBC, together with the appointed executive directors of the CBC) (the “**Resolution Authority**”) appointed a special administrator for the Bank on 25 March 2013. On 29 March 2013, all the then members of the Bank Board of Directors resigned from office and the Resolution Authority issued the first set of Laiki Transfer Decrees and Bail-in Decrees under the Resolution of Credit and Other Institutions Law of 2013 (the “**Cypriot Resolution Law**”). The Bank was under resolution until 30 July 2013, a period during which it was restructured and recapitalised in accordance with the terms of the Bail-in Decrees. For a more detailed description of the recapitalisation and restructuring of the BOC Group during this period, see “—*The 2013 Restructuring of the Bank and Laiki Bank*” below.

Disposal of Non-Core Assets and Historical Operations (2013–2016)

Pursuant to the Bail-in Decrees and the BOC Group’s strategic decision to dispose of non-core assets and operations in order to focus on its core business in Cyprus, the BOC Group exited its businesses and/or disposed of most of its operations and assets in Greece, Romania, Ukraine and Russia during the course of 2013 to 2015. The remaining operations, assets and exposures are being managed and run down over time by REMU or ORD.

Greece

The BOC Group exited Greece, a market in which it had operated for 22 years, through the disposal of loans, fixed assets and deposits of its banking and leasing operations in Greece to Piraeus Bank pursuant to a decree issued by the Resolution Authority on 26 March 2013, the Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013 (the “**Greek Operations Decree**”) for a total cash

consideration paid by the BOC Group to Piraeus Bank of €1.2 billion. The loans and fixed assets sold amounted to €7.9 billion and the deposits sold amounted to €7.7 billion. The BOC Group's loss on the disposal was €1.4 billion and, as a result of this disposal, the BOC Group recognised a write-off for the year 2012 of a deferred tax asset of €0.3 billion in Greece as this was no longer considered as recoverable.

The BOC Group's remaining activities and assets in Greece following the disposal to Piraeus Bank include the maintenance of insurance services through the Greek branches of EuroLife and GIC, the management of contingent off-balance sheet exposure comprised of letters of guarantee issued by the Bank before the date of the Greek Operations Decree (which no longer have the benefit of security and collateral as a result of the disposal of the related loans to Piraeus Bank) and the management of a real estate portfolio, consisting of repossessed properties that were not part of the assets sold to Piraeus Bank under the Greek Operations Decree. Responsibility for the management of the BOC Group's real estate assets and letters of guarantee exposure in Greece has been assumed by the BOC Group's REMU division. See "*Restructuring and Recoveries Division and Real Estate Management Unit*" above for more detail on the BOC Group's real estate in Greece.

The BOC Group's Net Exposure to Greece as at 30 June 2016 was limited to: (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €12.8 million which was principally comprised of funding exposures to Laiki Bank subsidiaries in Greece, (b) 639 foreclosed properties with a book value of €164.2 million (primarily due to financial and other guarantees), (c) off-balance sheet exposures totalling €118.6 million, and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €81.4 million and lending exposures in Cyprus with collaterals in Greece totalling €144.3 million.

Romania

On 25 April 2013, in accordance with a relevant decree issued by the Resolution Authority, certain assets (including customer loans and related collateral, cash and other liquid assets) and liabilities of the Romanian branch, as well as all staff related to servicing the relevant contracts, were transferred to Marfin Bank Romania. The carrying value of the gross assets and customer deposits transferred amounted to €82.0 million and €77.0 million, respectively as at 25 April 2013. The loss on disposal was €4.5 million.

In April 2014, the Bank completed the sale of its 9.99% equity stake in Banca Transilvania, a Romanian bank, for approximately €82.0 million. The gain on disposal was €47.5 million. On 11 September 2014, the BOC Group disposed of its interest in Grand Hotel Enterprises Society Ltd ("**GHES**"), a company incorporated in Romania that owned the JW Marriott Bucharest Grand Hotel, consisting of (i) a facility agreement between GHES and the Bank's Romanian branch, (ii) the BOC Group's 35.3% shareholding in GHES and (iii) a subordinated loan agreement between GHES, as the borrower, and an affiliate of the BOC Group, as the lender. The sale consideration was €95.0 million, which improved the Bank's liquidity position. The loss on disposal was approximately €1.4 million.

In line with the BOC Group's objective for the disposal of non-core assets, the Bank's Romanian branch has not engaged in new loan origination activities and is concentrating on the management and deleveraging of its remaining loan portfolio and the disposal of real estate assets in Romania obtained as part of customer loan settlements. The BOC Group's Net Exposure to Romania as at 30 June 2016 was €262.3 million, comprised primarily of loans and real estate property and a funding exposure to Laiki Bank's Romanian bank. The BOC Group's loans and advances to customers before fair value adjustment on initial recognition in Romania decreased from €657.4 million as at 31 December 2013 to €407.2 million as at 31 December 2015, before decreasing to €390.9 million as at 30 June 2016 mainly as a result of loan disposals, repayments and write-offs. On 28 January 2016, the BOC Group signed an agreement with Banca Transilvania for the sale of its portfolio of performing retail loans.

As at 30 June 2016, the BOC Group had a real estate portfolio in Romania with a book value of €45.4 million.

On 26 September 2016, the BOC Group decided to deregister Cyprus Leasing Romania IFN SA as a non-banking financial institution in Romania and to terminate the company's leasing and credit activities.

United Kingdom branch of Laiki Bank

On 1 April 2013, £718.4 million customer loans and advances as well as the premises (6 properties), of the United Kingdom branch of Laiki Bank were transferred to the BOC Group pursuant to the Laiki Transfer Decrees. Through redemptions and refinancing, the Bank significantly reduced its exposure to these loans and advances to £298.9 million as at 30 June 2014.

In line with the BOC Group's objective for the disposal of non-core assets, on 31 October 2014 the BOC Group sold the UK loan portfolio ("UK Loan Portfolio"), to purchasers selected through a competitive process. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million. The UK Loan Portfolio was not related to the BOC Group's wholly-owned subsidiary, BOC UK.

As at 31 December 2015 and 30 June 2016, the remaining gross customer loans and advances amounted to £30.4 million and £20.8 million, respectively (using an exchange rate of €1:£0.7357, calculated on 31 December 2015 and €1:£0.8285, calculated on 30 June 2016). These customer loans and advances are administered by BOC UK under a service level agreement with the Bank. In addition to the sale of the UK Loan Portfolio, the premises of the United Kingdom branch of Laiki Bank have been sold.

With the exception of customer advances, customer deposits, and certain liquid assets, no other assets, liabilities, staff or other obligations of the United Kingdom branch of Laiki Bank had been transferred to the Bank or BOC UK.

Ukraine

In April 2014, the Bank completed the sale of its Ukrainian business, consisting of its holding of 99.8% in PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, a Russian banking group, for approximately €198.9 million, comprising €98.9 million received and €100.0 million deferred until 31 March 2015. On 30 May 2015, the terms of the deferred consideration and the related interest rate were amended. The deferred consideration will be paid to the BOC Group under a repayment programme which extends until 1 June 2019. This sale allowed the BOC Group to de-risk its balance sheet and the impact on the BOC Group's capital was around €75 million or 30 basis points negative on the BOC Group's capital ratio. The loss on disposal was €114.2 million.

Russia

The BOC Group operated in the Russian market primarily through CB Uniastrum Bank LLC and also provided leasing services through a Russian subsidiary.

In September 2015, the Bank completed the sale of the majority of its Russian operations, comprising (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, (ii) its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC and (iii) certain other Russian loan exposures, to Mr. Artem Avetisyan, the majority shareholder in Bank Regional Credit, and to entities under his control. The Russian operations sold accounted for 31.1% of the BOC Group's staff at 30 June 2015. The aggregate loss on disposal was €23.0 million. This sale allowed the BOC Group to de-risk its balance sheet by approximately €600 million and allowed the release of risk weighted assets of approximately €600 million. The sale improved the BOC Group's regulatory capital position, with a positive impact of approximately 33 basis points on its CET 1 capital ratio. As a result of the transaction, the remaining Net Exposure (on and off-balance sheet) of the BOC Group in Russia was €113.7 million as at 31 December 2015 and €45.3 million as at 30 June 2016 following the full settlement in cash of the deferred component included in the agreement in respect of the disposal of the Russian operations.

Other significant disposals

In May 2014, the Bank sold loans extended to a Serbian real estate management company (at the time representing one of the BOC Group's largest concentrations of NPLs), to Piraeus Bank for approximately €165.0 million. The gain on disposal was €27.2 million. These loans were previously transferred to the Bank following the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees.

In April 2015, the Bank sold its investment in Marfin Diversified Strategy Fund Plc ("MDSF") for a consideration of US\$92 million. At the time of the sale, the sale had a positive impact of approximately 0.1 percentage points on the BOC Group's CET 1 capital ratio due to the reduction of risk weighted assets. The gain was approximately €10 million and represented the recycling of the related foreign currency reserves into the income statement.

On 31 August 2015, the Bank disposed of its investment in Byron Capital Partners Ltd (a former investment of Laiki Bank which was transferred to the Bank pursuant to the Laiki Transfer Decrees) through a share buyback agreement with Byron Capital Partners Ltd in return for consideration of £3.85 million.

In June 2016, the BOC Group completed the sale of 100% Kermia Hotels Ltd and adjacent land for €26.5 million, realising a profit on disposal of €2.5 million.

On 30 August 2016, as part of the BOC Group's strategy focusing on its core businesses and markets, the BOC Group decided to close the operations of BOC CI.

Capital Raising (2014–2015)

On 4 July 2014, the Bank Board of Directors resolved to explore investor interest for a potential capital raise to further strengthen the BOC Group. Following this decision, senior management of the Bank met with a number of international institutional investors and determined that there was sufficient interest to proceed with a capital raise. The capital raise for the Bank was structured in three phases, a placing to institutional investors on 28 July 2014, an open offer to existing shareholders from 31 July to 21 August 2014 and a retail offer from 15 December 2014 to 9 January 2015.

The placing and the open offer of the Bank's shares completed on 18 September 2014 and raised total gross proceeds of €1 billion for the Bank. On 16 December 2014, the trading suspension on the Bank's existing ordinary shares, which had been in place since 19 March 2013, was lifted and the shares issued pursuant to the Recapitalisation and the placing and open offer were admitted to listing and to trading on the CSE and ATHEX. The retail offer was completed on 14 January 2015, as a result of which €56,718 of share capital was issued. The ordinary shares that resulted from the retail offer were listed and commenced trading on the CSE and ATHEX on 2 February 2015.

The 2013 Restructuring of the Bank and Laiki Bank

In line with the Eurogroup Statement on Cyprus, the MoU required the restructuring of Cyprus' banking sector which required, amongst other things:

- the immediate resolution of Laiki Bank into a “good” bank and “bad” bank; and
- the recapitalisation of the Bank through a bail-in of uninsured depositors, shareholders and other creditors of the Bank.

Resolution of Laiki Bank

The split of Laiki Bank into a “good” bank and a “bad” bank was achieved by the transfer of certain assets and liabilities of Laiki Bank (which constituted the “good” bank) to the Bank while Laiki Bank remains as the “bad” bank left with a portfolio of assets and liabilities which includes uninsured deposits and hybrid capital instruments.

From 29 March 2013 to 20 December 2013, the Resolution Authority issued the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013, the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd (Supplementary) Decree of 2013, the Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013 and the Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013 (the “**Laiki Transfer Decrees**”) which, amongst other things, effected:

- the transfer to the Bank of:
 - certain assets (including a €1.2 billion receivable owing to Laiki Bank from the Bank in connection with the sale of the BOC Group's Greek operations) and liabilities in Cyprus of Laiki Bank, including its shares in subsidiaries incorporated in Cyprus;
 - certain of Laiki Bank's liabilities, mainly comprising €4.2 billion of insured deposits and €9.1 billion of ELA;
 - certain assets and liabilities of the United Kingdom and Greek operations of Laiki Bank, comprising mainly loans and any related security originated by Laiki UK, shares in Laiki Bank's subsidiary Marfin Capital Partners Ltd (UK), interbank deposits and real property in the United Kingdom and Greece; and
 - contracts of employment of employees of Laiki Bank in Cyprus; and
- on 1 April 2013, the acquisition of customer deposits amounting to €325.2 million and certain liquid assets of the United Kingdom branch of Laiki Bank by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the BOC Group.

Under the Laiki Transfer Decrees, the Resolution Authority was required to determine the final value of the assets and liabilities of Laiki Bank transferred to the Bank and, if the final value of the transferred assets exceeded the final value of the transferred liabilities, to determine the number of Class A shares in the Bank to be issued to Laiki Bank as fair compensation for such excess value with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of Laiki Bank's transferred assets and liabilities and, based on this valuation, the Resolution Authority issued a further decree on 30 July 2013 which required the Bank to issue Class A Shares representing 18.056371% of the total share capital of the Bank outstanding at the time. As a result of the Recapitalisation as further described in "*—Recapitalisation of the Bank*" below, Laiki Bank's holding of Class A Shares was converted into ordinary shares of the Bank.

Recapitalisation of the Bank

From 29 March 2013 to 30 July 2013, the Resolution Authority effected the Recapitalisation through the issue of the Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013 (the "**Bail-in Decrees**") which can be summarised as follows:

Holder of debt securities of the Bank as at 29 March 2013

The Bail-in Decrees provided that claims in respect of the subordinated debt of the Bank would be converted into Class D Shares at a conversion rate of 1 share of €1.00 nominal amount for each €1.00 of principal amount of such subordinated debt and claims. Claims in respect of the Bank's subordinated debt were composed of the following subordinated debt securities:

- Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Bank in December 2007 of which the outstanding principal amount as at 29 March 2013 was €22,169,560; (the "**2007 Capital Securities**");
- Convertible Bonds 2013/2018 (ISIN: CY0140740115) issued by the Bank in July 2008 of which the outstanding principal amount as at 29 March 2013 was €27,283,632 (the "**2008 Convertible Bonds**");
- Convertible Capital Securities (ISIN: CY0141000212) issued by the Bank in May 2009 of which the outstanding principal amount as at 29 March 2013 was €73,088,145 (the "**2009 Convertible Capital Securities**");
- Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in euro by the Bank in May 2011 of which the outstanding principal amount as at 29 March 2013 was €428,521,983 (the "**2011 EUR CECS**"); and
- Convertible Enhanced Capital Securities (ISIN: CY0141900114) issued in U.S. dollars by the Bank in May 2011 of which the outstanding principal amount as at 29 March 2013 was \$39,711,653 (the "**2011 USD CECS**" and, together with the 2011 EUR CECS, the "**CECS**").

(collectively, the "**Capital Securities**").

In accordance with the Bail-in Decrees, the 2011 USD CECS were converted to Class D Shares using a conversion rate of 1 share of €1.00 nominal value for each equivalent of €1.00 principal amount of these securities calculated based on the euro to U.S. Dollar exchange rate of €1 to \$1.2861 as specified in the reference exchange rates published by the ECB on 26 March 2013.

Holder of ordinary shares of the Bank as at 29 March 2013

The Bail-in Decrees suspended all shareholder rights in relation to the ordinary shares in issue as at 29 March 2013 (the "**Existing Shares**") until 30 July 2013, the date on which these ordinary shares were subject to a share capital reduction as further described in "*—Conversion into shares*".

Holder of deposits and other products of the Bank as at 26 March 2013

The Bail-in Decrees required the calculation of a total "excess amount" per holder of conventional cash deposits, capital guaranteed structured deposit products, investment products and/or schuldschein loans (i.e., fixed-term German law governed loans entered into by the Bank as borrower) of the Bank. This excess amount was subject to conversion into shares of the Bank and cash deposits with the Bank under the Bail-in Decrees.

As the calculation of the excess amount was made per holder and not per product, the calculation of the excess amount for each holder depended on what combination of products and/or deposits it held because:

- any credit claims that the Bank had against the holder (e.g. an outstanding advance or loan by the Bank to the holder) were netted against the total amount of products and/or deposits held by it at the Bank; and
- there were different exemptions from bail-in under the Bail-in Decrees for investment products as compared to capital guaranteed structured deposit products and conventional cash deposits.

The investment products subject to conversion under the Bail-in Decrees consisted of the following products issued by the Bank:

- Exantas USD Index Linked Redemption Notes due 2016;
- Exantas EUR Index Linked Redemption Notes due 2016;
- SEK Autocallable Equity Linked Redemption Notes Linked to a Basket of Shares due 2014; and
- Dual currency products: Non-capital guaranteed structured products convertible under certain conditions into another currency.

The capital guaranteed structured deposit products consisted of the following products issued by the Bank:

- BOC Compass EUR: euro-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Compass USD: U.S. Dollar-denominated capital guaranteed structured product linked to a basket of equity indices;
- BOC Horizon EUR: euro-denominated capital guaranteed structured product linked to a euro-denominated equity index;
- SEK 100% Capital Guaranteed, 100% Participation Himalayan World Index Linked Deposit: SEK-denominated capital guaranteed structured product with 100% participation in the performance of a basket of equity indices; and
- Avantage: euro-denominated capital guaranteed structured product linked to the performance of a basket of indices.

The Bank had two schuldschein loans due March 2038 with a total principal amount of €20 million.

The final conversion of the excess amount for each holder into ordinary shares of the Bank and cash deposits involved prior interim conversions in accordance with the Bail-in Decrees as summarised below:

- *Excess amount conversion*
 - 37.5% of the excess amount was converted into Class A Shares;
 - 22.5% of the excess amount was converted into a “title” governed by the terms of Annex A to the Bail-in Decrees (“**Title A**”); and
 - 40% of the excess amount was converted into a “title” governed by the terms of Annex B to the Bail-in Decrees (“**Title B**”).
- *Title A conversion*

Each holder’s Title A was converted in accordance with its terms as follows:

- $\frac{4}{5}$ ths of the principal amount of Title A was converted into Class A Shares; and
- $\frac{5}{5}$ ths of the principal amount of Title A, together with an additional amount representing interest (if any) thereon as calculated in the manner provided in Annex A to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted (“**Deposit A**”).

- *Title B conversion*

Each holder's Title B was converted in accordance with its terms as follows:

- $\frac{1}{4}$ th of the principal amount of Title B, together with accrued interest (if any) thereon as calculated in the manner provided in Annex B to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted ("**Deposit B**"); and
- $\frac{3}{4}$ ths of the principal amount of Title B, together with accrued interest (if any) thereon as calculated in the manner provided in Annex B to the Bail-in Decrees, was converted into a deposit at a conversion rate of €1.00 for each €1.00 of the aggregate amount so converted (together with Deposit A, the "**Affected Deposits**").
- *Deposits conversion*
 - All of Deposit B and 12% of the Affected Deposits were converted into deposits with no fixed term; and
 - 88% of the Affected Deposits were converted, in equal proportions, into three new fixed term deposits with terms of 6, 9 and 12 months, respectively, with the Bank,

(collectively, the "**New Deposits**").

Accordingly, 15.1% of the excess amount (plus amounts equivalent to accrued interest on Title A or Title B, if any) for each holder have been converted into current cash deposits and 37.4% of the excess amount (plus amounts equivalent to accrued interest on Title A or Title B, if any) for each holder have been converted into fixed term cash deposits.

Class A Shares conversion

All of the Class A Shares resulting from the interim conversions described above (comprising 47.5% of the excess amount for each holder) were further converted into ordinary shares of the Bank. For more details on the conversion of the Class A Shares into ordinary shares, see "*—Conversion into shares*" below.

Residual holdings

A holder of deposits and other products of the Bank may be only partially converted pursuant to the Bail-in Decrees. Whether or not a holder has a residual holding of deposits or products following the bail-in and conversion described above depended on whether such holder was eligible for:

- in relation to conventional cash deposits and capital guaranteed structured deposit products, €100,000 in protection under the Operation of Deposit Protection and Resolution of Credit and Other Institutions Scheme Regulations of 2013;
- in relation to conventional cash deposits and capital guaranteed structured deposit products, protection pursuant to the provisions of Annex D to the Bail-in Decrees, which provides, amongst other things, additional exceptions for deposits of credit institutions and the Government and lower conversion percentages for deposits of insurance companies (and joint venture insurance companies and supplementary pension funds) and charities approved by the Cypriot Ministry of Finance; and/or
- in relation to investment products, €20,000 in protection under the Establishment and Operation of an Investor Compensation Fund for Clients of Banks Regulations of 2004 to 2007.

Conversion into shares

The Bail-in Decrees effected a reduction in share capital, a share split and the conversion and consolidation of Class A Shares and Class D Shares into only one class of shares, the ordinary shares of the Bank as described in the following paragraphs. Although contemplated by the Bail-in Decrees, there were no conversions into Class B Shares or Class C Shares.

- *Share capital reduction*

The nominal value of each:

- ordinary share was reduced from €1.00 to €0.01; and
- Class D Share was reduced from €1.00 to €0.01.

- *Share split*

Following the share capital reduction, each Class A Share with nominal value of €1.00 was split into 100 Class A Shares with nominal value of €0.01 each.

Share capital conversion and consolidation

Following the share split described above, each Class A Share and Class D Share with nominal value of €0.01 was converted into one ordinary share with nominal value of €0.01.

Following the conversion of Class A Shares and Class D Shares into ordinary shares, every 100 ordinary shares with nominal value of €0.01 held by each shareholder were converted into one ordinary share of €1.00 each. Any remaining ordinary shares of a nominal value of €0.01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the ordinary shares which was cancelled was applied to write off the accumulated losses of the Bank up to 29 March 2013.

The ordinary shares resulting from the conversion of the classes of shares issued under the Bail-in Decrees are the sole class of the Bank's share capital and have the same rights and equal ranking with the Existing Shares.

Share premium reserve

In accordance with the Bail-in Decrees, the balance of the Bank's share premium reserve was reduced to zero and the total amount of the reduction was applied to write off accumulated losses of the Bank up to 29 March 2013.

Impact of the Recapitalisation

The Bank's accumulated losses of €2,786.9 million were written off through a reduction in the Bank's share capital of €2,353.3 million, the utilisation of the Bank's share premium reserves of €428.3 million and the write off of the equity component of convertible subordinated loan stock of €5.3 million. Because the Bank was not able to establish a reliable measure of the fair value of the ordinary shares issued pursuant to the Recapitalisation as a result of the suspension from trading of the ordinary shares of the Bank, the unavailability of financial information and the continued negotiations between the Government and the Troika that resulted in the MoU and EAP, the Bank assigned a fair value to the ordinary shares issued by reference to the carrying value of uninsured deposits, subordinated securities and other products of the Bank extinguished pursuant to the Recapitalisation. In relation to the ordinary shares issued to Laiki Bank in compensation for its assets and liabilities transferred to the Bank, the Bank accounted for this transaction by reference to the fair value of the individually identifiable assets and liabilities acquired for which a reliable fair value could be established. As a result of the above accounting treatment, no profit or loss arises from these transactions.

Following the Recapitalisation, the Bank was in compliance with the minimum requirement for Core Tier 1 capital ratio and the Resolution Authority announced, on 30 July 2013, that the Bank was no longer under resolution.

The following tables show the composition of the Bank's share capital as at 30 July 2013 in the following categories:

- ordinary shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and schuldschein loans (the "**Bail-in Shares**");
- diluted Existing Shares and ordinary shares issued to the bailed in holders of Capital Securities (the "**Diluted Shares**"); and
- ordinary shares issued to Laiki Bank in compensation for the assets and liabilities of Laiki Bank transferred to the Bank pursuant to the Laiki Transfer Decrees (the "**Laiki Shares**").

The Bail-in Shares, Diluted Shares and Laiki Shares comprised all of the ordinary shares of the Bank as at 30 July 2013. Following the issue of the Bail-in Decrees, certain depositors secured (on an ex-parte basis) interim orders from the Cypriot courts restricting the Bank from taking any steps for the implementation of the Bail-in Decrees in respect of their deposits. Accordingly, as at 30 July 2013, deposits totalling approximately €297 thousand were subject to these interim orders and appeared in the books of the Bank as if the Bail-in Decrees were not applicable to them.

Share capital of the Bank as at 30 July 2013⁽¹⁾

<u>Category</u>	<u>No. of ordinary shares</u>	<u>Percentage of total share capital %</u>
Bail-in Shares	3,873,269,066	81.4
Diluted Shares	23,732,848	0.5
Laiki Shares	858,708,764	18.1
Total	<u>4,755,710,678</u>	<u>100.0</u>

(1) This table includes the shares that as at 30 July 2013 did not yet appear in the books of the Bank as if the Bail-in Decrees were applicable to them, allocated as and in the proportions that they were in fact allocated, following the application of the Bail-in Decrees to them.

Release of New Deposits

The Bank has released all of the New Deposits issued by the Bank pursuant to the Recapitalisation.

RISK MANAGEMENT

Risk Management Governance

Risk management is a key priority for the BOC Group and the BOC Group has established a centralised and independent Risk Management Division (“RMD”) under the BOC Group Chief Risk Officer (“GCRO”) with a direct reporting line to the BOC Group Chief Executive Officer (“GCEO”) and BOCH’s Board Risk Committee. The GCRO is instrumental in delivering the Bank’s strategy and attends key management committees, including, the Asset and Liabilities Committee of the BOC Group (the “ALCO”), the BOC Group Executive Committee, the BOC Group Acquisition and Disposal Committee, BOCH’s Board Risk Committee and the recently created Operating Committee. BOCH’s Board Risk Committee examines, amongst other things, the BOC Group’s risk policy and systems and annually assesses the adequacy and effectiveness of the risk management policy and makes recommendations to the BOCH Board of Directors regarding these matters. The RMD is also involved in direct risk monitoring of international and domestic subsidiaries and has been mandated to design policies reflecting the risk appetite of the BOC Group, monitor risks in a proactive manner across the different business segments, taking into account all relevant guidelines and regulatory requirements.

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

- *Credit Appraisal.* This department reviews and recommends or approves credit applications, by applying the limits and criteria set by the Bank. The Credit Appraisal department reports to the GCRO (in addition see “—Recent Developments” below).
- *Credit Risk Management.* This department is divided into three sub-departments:
 - the Credit Risk Policy department (“CRP”) develops the BOC Group’s credit risk policy, lending policies and approval limits;
 - the Credit Risk Reporting & Control department (“CRR&C”) is responsible for preparing both internal and external (for regulatory purposes) reports on the quality of the assets held by the Bank, monitoring the Bank’s compliance with its risk related targets and limits, calculating provisions for relevant assets, monitoring the implementation of credit policies and monitoring the portfolios of the Bank’s individual business units.
 - the Credit Risk Assessment department (“CRA”) manages credit risk at all stages of the credit cycle (in addition see “—Recent Developments” below).
- *Market Risk.* This department monitors risk from changes in market rates, liquidity risk and credit risk in relation to the BOC Group’s investments in liquid assets. For more detail on the market risk department, see “—Credit Risk—Asset and Liability Management” and “—Market Risk” below.
- *Operational Risk and Data Governance.* This department is responsible for identifying key operational risks which are both assessed and managed through the implementation of the BOC Group operational risk management policy. This policy includes the holding of risk control self-assessment workshops with employees of the BOC Group, the maintenance of an operational loss collection and analysis process, the maintenance of a “Key Risk Indicators” process and assessment of outsourcing activities, new products and systems implementations, new and amended procedures and new products and services of the BOC Group from an operational risk perspective. The operational risk department also cooperates with other departments of the BOC Group (such as information technology, legal, information security, physical security, health and safety, and compliance) and business lines in general in order to monitor and identify operational risks. The department is currently in the process of reinforcing its operational risk management framework by applying its revised risk control and self-assessment methodology across all units of the Bank, and by formalizing and further enforcing its incident and business resilience management framework before the end of 31 March 2017, see “—Operating and Financial Review—Capital Management—Regulatory capital (unaudited)—SREP”. The department was recently enlarged to cover data governance issues, including the data risk management framework and governance, in order to safeguard compliance with regulatory initiatives on data governance.
- *Information Security.* This department has established an information management programme in order to identify, assess and mitigate information security risks and ensure compliance with the applicable data protection laws and regulations issued by the CBC, the EBA and others.

- *International Risk Management and Other Subsidiaries.* This department's primary responsibilities are to ensure that the business conducted by the BOC Group's overseas operations (which include foreign subsidiaries) and local subsidiaries is consistent with the BOC Group's risk appetite and that these overseas operations and local subsidiaries implement risk management policies, procedures and methodologies which are consistent with the BOC Group's risk management guidelines.
- *Risk Analytics and Capital Risk.* This department is divided into two sub-departments:
 - *Capital Risk Management.* This department is responsible for the calculation and reporting, both regulatory and management, of the BOC Group's RWAs in line with the requirements of CRD IV/CRR (as defined in "*Financial Services Regulation and Supervision*"). The Capital Risk Management department is also involved in any regulatory or other management assessments involving the BOC Group's capital adequacy requirements; and
 - *Credit Risk Systems & Analytics ("CRSA").* This department is responsible for the development, evaluation and calibration of all risk-related models. The CRSA, among others, develops and runs the BOC Group's credit scoring models and credit rating systems.
- *Regulatory/Supervisory Coordination Office ("RSCO").* The RSCO was established in the first quarter of 2015 to coordinate and monitor the increased regulatory requirements and obligation resulting from the increasing regulations applicable to credit institutions following the commencement of ECB supervision of the BOC Group in November 2014. RSCO acts (together with the BOC Group Compliance Division) as the primary point of contact with the CBC, the ECB and other regulatory/supervisory authorities (i.e., CySEC, CSE., etc.), to supervise, monitor and report on the BOC Group's regulatory communication and its compliance with any instructions or requests from the CBC or the ECB, or other regulatory/supervisory authorities. RSCO also reports on regulatory developments and the current state of regulatory compliance to the Board Risk Committee on a semi-annual basis. The Regulatory Steering Group (the "**RSG**") is chaired by the GCEO and composed of the GCRO, the Finance Director, the Deputy CEO and Chief Operating Officer, the BOC Group Compliance Director, the Chief Legal Officer and Company Secretary, and the Director of Corporate Affairs. The RSG is responsible for overall oversight of the BOC Group's compliance with its regulatory obligations.

Recent Developments

From the beginning of 2017, certain changes will be implemented in relation to the Credit Appraisal department, following an ECB recommendation resulting from an on-site inspection on risk management and risk control systems. These changes are as follows:

- The current Credit Appraisal department will be dissolved and its personnel which had the responsibility of approving credit will be transferred to the Consumer and SME Banking division;
- The current CRA sub-department will be separated from the Credit Risk Management department and elevated into a department reporting directly to the GCRO. The new CRA will, in addition to the current credit risk assessment operations, perform the operations of the credit committees, the credit analysis of cases to be presented at the committees; and
- The new structure will ensure that, whilst RMD staff are not formally approving credit, they will still maintain full control over the operations of the credit committees and the on-boarding of new credit risk through the veto power of the GCRO. The veto power of the GCRO will be held by the new CRA department in the lower credit committees where the GCRO is not present.

Since its Recapitalisation in 2013 and under the close supervision of the CBC and, from November 2014, the ECB, the Bank has taken significant steps to transform its organisational structure, policies and procedures in order to ensure that its risk management framework is fully implemented within the Bank and effectively supported by a targeted compliance function and an independent third line of defence provided by GIA. While the BOC Group's risk management framework is fully embedded, it continues to refine and enhance its policies and procedures in dialogue with its regulators. Between 5 October and 15 December 2015, the ECB carried out an on-site-inspection in respect of the Bank's risk management and risk control system, as a result of which the ECB raised a number of observations and recommendations. Following this inspection, the BOC Board of Directors approved an action plan to address these recommendations. See, "*Operating and Financial Review—Capital Management—Regulatory capital—SREP*" for further details.

Overall Risk Strategy and Appetite

The BOC Group's overall risk strategy is to retain a conservative risk policy and appetite. In particular:

- *Credit risk.* The BOC Group has implemented robust credit risk policies and a proactive approach on the monitoring of credit risk. Through the establishment of RRD, the BOC Group has strengthened the management and recovery of its delinquent loans, as well as larger corporate exposures (regardless of delinquency status);
- *Liquidity and funding risk.* The Bank aims to eliminate its reliance on ELA funding;
- *Market risk.* The Bank does not run proprietary trading books and aims to maintain neutral or near neutral positions with respect to foreign currency risk and interest rate risk; and
- *Operational risk.* The BOC Group has implemented a “zero-tolerance” policy towards internal fraud, non-compliance with regulatory requirements and internal practices by management and employees that constitute, or could lead to, misconduct, (such as misselling of products or market abuse) as well as a low tolerance towards other operational risks/losses in accordance with the BOC Group's risk appetite.

Credit Risk

Credit risk is the risk that arises from the possible failure of one or more counter-parties to discharge their obligations towards the BOC Group. As part of its restructuring of the financial sector of Cyprus, the CBC has issued a number of directives that significantly impact the Bank's credit risk policy and the management of its credit risk. As a result of implementing new and stricter credit risk management policies and processes in line with the BOC Group's conservative risk appetite and strategy, the Bank is in compliance with the requirements of these directives. For more detail on these directives, see “*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—CBC Credit Risk Directives*”.

Credit Risk Management

The key elements of the BOC Group's credit risk policy and processes are:

- a clear and separate organisational responsibility for the management of credit risk for the BOC Group as follows:
 - credit origination is the responsibility of the relevant business division (for example, Consumer and SME Banking, Corporate Banking, IBS and WBAM);
 - credit appraisal is the responsibility of the Credit Appraisal department which is under the supervision of the GCRO. In addition, the majority of the credit approval limits of the BOC Group's retail branches, business centres, RRD, corporate banking centres and international banking centres have (other than in certain limited cases) been revoked (following the changes to be implemented from the beginning of 2017 as described in “*—Recent Developments*” above, retail and SME credit appraisers will be under the supervision of the director of Consumer and SME Banking division instead of the GCRO);
 - credit risk policies, lending policies and approval limits are the responsibility of the CRP; and
 - the monitoring of the quality of the BOC Group's credit portfolio and the implementation of the BOC Group's provisioning policy are the responsibility of the CRR&C.
- the implementation of conservative credit risk policies with increased focus on the ability of the borrower to repay and the viability of the project being financed, in addition to the value of the underlying collateral. In addition, these credit risk policies include strict credit criteria (such as restricted sectors of the economy and ratios such as EBITDA to annual debt service, interest rate cover, gearing and total leverage) for all lending segments as determined by the CRP. The application of these credit risk policies are combined with assessments of the customers' creditworthiness using credit scores and credit ratings obtained from systems maintained by the CRSA department. For more detail on the credit criteria and assessments for each lending segment, see “*—Credit Criteria by Lending Segment*” below; and
- an increase in the frequency of the review of credit limits on a continuous basis and the concentration limits on an annual basis; and

- the clear stratification of credit approval limits to allow for credit risk assessment by credit risk personnel of the appropriate experience and seniority. For more detail on these credit approval limits, see “—*Credit Approval Limits*” below.

The CRP is principally responsible for the establishment of the BOC Group’s credit risk and lending policies and approval limits. These policies and approval limits are reviewed and updated by the CRP on a regular basis to reflect any changes in the BOC Group’s strategy for its lending businesses, economic conditions and the applicable laws and CBC directives. The CRP also provides support to the business divisions in relation to any issues concerning the credit risk and lending policies of the BOC Group.

The CRR&C is mainly responsible for the continuous monitoring of the quality of the BOC Group’s credit portfolio and the implementation of the BOC Group’s provisioning policy. In general, the CRR&C’s monitoring of the BOC Group’s credit portfolio is based on a regular review of basic key performance indicators such as NPEs, 90+DPD Ratios, excesses and arrears. Credit exposures to related accounts are aggregated and monitored on a consolidated basis. The department also monitors any concentrations in the BOC Group’s credit exposure to different sectors of the economy and pays particular attention to any loans with an increased risk profile. Loans with an increased risk profile include restructured loans, loans showing early warning signs of default (such as interest or principal arrears or write-offs, credit accounts with debit balances and interest and/or large security gaps), loans to high risk customers and loans which require a scheduled review or a review triggered by an assessment of difficulty in the customer’s ability to repay its facilities. The Bank is currently undertaking modelling exercises for the early identification of borrowers in financial difficulty for the purpose of improving the link between the Bank’s early warning system and its NPE management process. In addition, the CRR&C, in cooperation with the business divisions, monitors compliance with the applicable loan quality targets and the transfer of delinquent loans from these divisions to RRD. The CRR&C establishes the BOC Group’s loan provisioning policy and calculates the level of loan provisions to be provided based on its review of the BOC Group’s credit portfolio. The CRR&C and CRA monitor the compliance of each business division with the applicable lending policy and approval limits and with decisions issued by loans committee members.

The CRA tests the management of credit risk at all stages of the credit cycle. In particular, the CRA reviews all customer credit applications over €6 million and provides an assessment of the risks associated with the proposed funding to the Bank’s three loan committees known as Credit Committee 1, Credit Committee 2 and Credit Committee 3. Each of the loan/credit committees meets regularly, makes approval decisions according to the Bank’s lending policies, circulars and guidelines, and operates under terms of reference which set out, among other items, their limits as well as the operational features of the committees, such as quorum and composition. The committees are made up of members of Credit Appraisal and the senior management of the Bank, and are numbered in ascending order, reflecting the size of the exposures which they are required to approve. The GCEO sits on the committee that approves the highest exposures (Credit Committee 3). The CRA also performs random checks of all credit approval authorities for compliance with the BOC Group’s lending policies, credit approval limits and the conditions for approval of the loan concerned. Additionally, the CRA reviews the execution of decisions made by the relevant credit committees on a regular basis, in order to verify the implementation of any terms and conditions imposed in approved applications. Sample testing of the quality of applications is also carried out in order to take corrective actions and identify any inefficiencies or training requirements.

The Credit Appraisal department reviews and recommends or approves all credit applications that are made to it under the credit approval limit structure set out below. This department is mainly staffed by experienced credit officers responsible for reviewing and, subject to the credit approval limits described below, approving credit applications for new facilities, debt restructurings, other credit requests submitted by various business units in Cyprus as well as, in the case of credit applications above the relevant local limits set by the BOC Board Risk Committee, the BOC Board of Directors, the GCEO and the GCRO, for the BOC Group’s banking subsidiaries in the United Kingdom and Guernsey.

Credit Approval Limits

Credit approval limits are determined by the total exposure of a customer group. Current approval limits are as follows:

Approval Limit	Approving Authority
For retail up to €1 million	Credit Appraisal Retail
For retail, SME, business support unit, international business unit, international lending unit and wealth management lines with credit exposures of: <ul style="list-style-type: none"> • up to €3 million • €3 million–€6 million • up to €6 million • €6 million–€25 million 	<ul style="list-style-type: none"> • credit appraisers (individually) • credit appraisers (jointly) • manager (for non-unanimous decisions) • Credit Committee 1
For corporate and mid-corporate lines that are under management by RRD, with credit exposures of: <ul style="list-style-type: none"> • up to €4 million • €4 million–€6 million • up to €6 million 	<ul style="list-style-type: none"> • credit appraisers (individually) • credit appraisers (jointly) • manager (for non-unanimous decisions)
For customers of overseas subsidiaries with credit exposures of €0 million–€25 million and for corporate and mid corporate, under management by RRD, with credit exposures of €6 million–€25 million:	<ul style="list-style-type: none"> • Credit Committee 1
For mid-corporate customers that are under management by RRD with credit exposures of €25 million–€50 million and for major corporate customers with credit exposures of €0–€50 million:	<ul style="list-style-type: none"> • Credit Committee 2
For all lines (other than above) with credit exposures of €25 million–€50 million:	<ul style="list-style-type: none"> • Credit Committee 2
For credit exposures of €50 million–€100 million:	<ul style="list-style-type: none"> • Credit Committee 3
For credit exposures of €100–€200 million:	<ul style="list-style-type: none"> • BOCH Board Risk Committee, following the recommendation of Credit Committee 3
For credit exposures of over €200 million:	<ul style="list-style-type: none"> • BOCH Board of Directors, following the recommendation of Credit Committee 3 and BOC Board Risk Committee

Membership and limits for Credit Committees 1 and 2 are jointly approved by the GCEO and GCRO. The composition of Credit Committee 3 and limits are approved by the BOCH Board of Directors through the BOCH Board Risk Committee. The GCRO's right of veto can be exercised at all credit committee meetings attended by him or his CRA department representatives. This right of veto can only be overruled by the GCRO or, in the case of the GCRO himself, the BOCH Board Risk Committee.

Credit Criteria by Lending Segment

The BOC Group's primary lending criterion is the borrower's repayment ability. The BOC Group's primary assessment is that of a prospective borrower's ability to meet repayment schedules.

Scoring systems are also used to assess both existing and prospective new retail customers. In relation to lending to existing customers, the Bank uses, amongst others, behavioural scoring which takes into account such factors as the conduct of existing accounts and whether the customer has been in arrears. The Bank currently maintains and monitors a behavioural credit scoring system for retail customers with five scorecards (customer level, mortgage loans, fixed term loans, cheque accounts and credit cards).

For all lending, the CRP has implemented the following additional credit criteria in line with its conservative credit risk policy:

- *Collateral coverage.* Increases in collateral coverage triggered by higher credit facility utilisations and increases in credit limits available under credit facilities;
- *Restricted sectors.* The CRP has defined economic sectors where lending is to be avoided (such as trade in tobacco, weapons and used cars), unless approved by credit appraisers or higher approving authorities, and which are determined based on the historical delinquent loan performance of that sector and on performance expectations from the BOC Group's economics department, and existing loans to borrowers in these sectors are managed with a view to decreasing the BOC Group's exposure to them; and
- *Foreign exchange disbursements.* No disbursements in foreign currencies are permitted, unless approved by credit appraisers or higher approving authorities.

In addition, SMEs and corporate customers are assessed by the Bank's credit rating system. The Bank's credit rating system calculates the following ratings for these customers:

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

In addition, the Bank has developed and uses models to identify potential problematic clients. The results of these assessments are channelled to the clients' home branch so that branch managers in turn are in a position to contact the clients in order to minimise any potential loss.

In addition, the Bank's credit assessment takes into account the availability of satisfactory security, mainly in the form of tangible collateral and personal/corporate guarantees. The main types of collateral obtained by the BOC Group include real estate mortgages, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of listed companies, fixed and floating charges over corporate assets, pledges granted by shareholders over shares in a corporate borrower, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

Over and above repayment ability, which is the primary lending criterion, in cases where collateral is sought, the Bank generally lends on the security of a first charge and takes a second charge only in exceptional circumstances (for example, where the Bank's primary security is taken in some other way and the second charge provides additional comfort). Often, customers borrow both in their personal capacity and in the capacities of companies they own, as SMEs, borrowing under a number of different facilities. In these cases, the security taken by the Bank in respect of each of a customer's borrowings is in effect "pooled" by a system of cross collateralisation and cross guarantees. The effect of this is that default under the terms of any one of the customer's personal or corporate facilities, can trigger enforcement of security granted in respect of the customer's other, personal or corporate, facilities. Each grant of collateral is originally linked to a specific facility or facilities and clearly described in the letter of offer. This pooling of security allows the Bank to have access to the maximum number of assets in respect of each facility. Security is held as a last resort for the recovery of the debt. Generally, the Bank requires a review of security if the borrower makes a request for a new loan or advance, if there is an application for restructuring or during the annual review of the facility.

Contingent liabilities and commitments

The BOC Group enters into various irrevocable commitments and contingent liabilities, particularly in relation to the provision of trade finance services to its customers. These contingent liabilities and commitments are principally comprised of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the BOC Group's balance sheet, these commitments expose the BOC Group to risks similar to those of loans and advances and are

therefore monitored by the same policies and control processes (see “—*Credit Risk Management*” above). Amounts outstanding in relation to trade financing for each customer are aggregated with any other outstanding amounts in relation to such customer in determining credit limits.

Loans to Shareholders, Directors and Key Management Personnel

There are no special terms on loans to shareholders. As regards limits on credit facilities granted to directors of the Bank and their connected persons, the Bank complies with the relevant provisions of the Banking Law and the relevant CBC directives, other than with respect to certain credit cards and loan facilities made available to certain members of the Bank Board of Directors which are, in each case, made on commercial terms to such directors and have been reported to the CBC. The relevant exposures are set out in the BOC Group’s Historical Financial Information (see “*Historical Financial Information*”).

Provisioning

A full review of the BOC Group’s portfolio is carried out quarterly under the supervision of the CRR&C in order to review all loans which meet certain criteria. These criteria are revised regularly to keep up with market developments and are specific to each country. The criteria for specific provisions currently include the following:

- customer groups for which the exposure exceeds 3% of the BOC Group’s capital;
- customer groups for which the exposure exceeds €40 million;
- customers with total direct facilities greater than €7.5 million which present one of the following trigger events:
 - classification as a non-performing loan;
 - performing and restructured (at least 20% of total direct facilities are restructured);
 - bullet loans (at least 20% of total direct facilities are bullet loans);
 - a 25% or more decrease in the customer’s annual overdraft turnover; and/or
 - a 25% or more decrease in the value of collateral securing the facilities when compared to the previous year;
- customers allocated specific provisions in the previous quarterly period;
- customers with a set-off or write-off greater than €2 million over within the past 12 months;
- customers who are shareholders of the Bank with a holding of 10% or more and their connected parties;
- customers who are members of the BOCH Board of Directors or the Bank Board of Directors and their connected parties;
- customers who are members of senior management (key management personnel) of the BOC Group and their connected parties;
- all customers in the construction and real estate sector (based on the NACE code definition) with total direct facilities of €10.0 million or more if the price of the property collateral securing the facilities has decreased by 10% or more within the year under review. The Bank determines the price of property collateral by reference to the RICS property price index and uses an annualised approximation if property prices are not available for the entire year; and
- customers issued with specific recommendations by credit risk officers. These are typically customers who have been identified as facing repayment or other financial difficulties.

In determining the level of provision for impairment required, the BOC Group considers the amount of security gap, as well as details of the financial position of personal guarantors, up-to-date valuations of the security, values assigned to fixed and floating charges, an assessment of the borrower’s general financial position, management accounts and audited accounts of the borrower, relationships with and amounts owing to other banks, the results of any legal actions against the relevant borrower, the probability of a liability crystallising and the level of non-collectible interest (if any).

In addition to provisions for impairment on an individual basis, the BOC Group also makes collective impairment provisions 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.

In relation to collective provisions, loans are grouped based on similar credit risk characteristics taking into account the type of the loan, past-due days and other relevant factors of the customer and whether the loan has been restructured.

Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Asset and Liability Management

The strategy for the management of the BOC Group's asset and liability position is established by the ALCO which meets on a monthly basis. In general, the BOC Group aims to hedge any exposure arising from interest rate and currency movements within certain limits approved by the BOC Board of Directors. In managing these interest rate and currency exposures, the BOC Group's Treasury Division uses both on balance sheet instruments and off-balance sheet derivative instruments. The overall asset/liability position is closely monitored by the Market Risk Department of the RMD ("MR").

MR is an independent department within RMD responsible for ensuring compliance at the level of individual units (through local market risk officers), as well as at BOC Group level, with both internal policies as well as with limits set by the regulatory authorities in the countries where the BOC Group operates. The MR and the ALCO monitor asset and liability management for the Bank and other BOC Group companies including the operations in the United Kingdom and Guernsey. There is also an ALCO in EuroLife, as well as in the United Kingdom, each of which monitor the implementation of asset and liability management for their operations.

Liquidity and Funding Risk

Liquidity risk is the risk that the BOC 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 BOC Group may have to raise funding at higher cost or sell assets at a discount. 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.

BOC Group Treasury is responsible for liquidity management at BOC Group level and for overseeing the operations of each banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. BOC Group Treasury assesses on a continuous basis, and informs the ALCO at regular time intervals, about the adequacy of the liquid assets and takes the necessary actions to enhance the BOC Group's liquidity position. BOC UK local treasury centre and the BOC CI management are responsible for managing liquidity in their respective units.

Liquidity is also monitored daily by MR. MR reports to the ALCO the regulatory liquidity position of the various units and of the BOC Group, at least monthly. The ALCO monitors, amongst other items, the stock of liquid assets, the level of ELA and the cash inflows/outflows of the Bank in Cyprus. BOCH's Board of Directors, through its Board Risk Committee, reviews at every meeting the liquidity of the BOC Group. Information on inflows/outflows and ELA evolution is also provided.

Liquidity stress testing is performed on a daily basis, based on the assumptions of the current liquidity policy. The current policy requires the Bank to hold enough liquidity to cover a period of two weeks under stress, and to be able to draw enough liquidity to cover a period of three months under stress.

As part of the BOC Group's procedures for monitoring and managing liquidity risk, there is a BOC Group funding crisis contingency plan for handling liquidity difficulties. The plan details the steps to be taken, in the event that liquidity problems arise, which escalate to a funding crisis meeting of the ALCO with the participation of other senior managers. The plan sets out a series of possible actions that can be taken. This plan, as well as the BOC Group's liquidity policy, are reviewed by the ALCO. The latter submits the updated policy with its recommendations first to the BOCH Board Risk Committee, then to the BOCH Board of Directors for approval. The approved policy is notified to the CBC and ECB.

The ECB carried out an on-site-inspection between 2 February 2015 and 3 April 2015 in respect of the Bank's liquidity risk management, internal liquidity adequacy assessment process and treasury functions. Following this inspection the BOC Board of Directors approved an action plan for implementing the various recommendations, which remains closely monitored by the Bank's management. See "*Operating and Financial Review—Overview—Key Factors Affecting Financial Condition and Results Of Operations—Transformational Events during the Periods under Review—Liquidity*" for a summary of the Bank's liquidity position. The Bank intends to submit a timetable for its compliance with its regulatory liquidity requirements and the repayment of ELA funding to the ECB and the CBC by 31 January 2017. See "*Operating and Financial Review—Regulatory Capital—SREP*" for further details.

The Bank prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP). The report for the year 2015 was approved by the Board and was submitted to the CBC and ECB during April 2016. See "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*".

The BOC Group continues to be in breach of many of its regulatory liquidity requirements as a result of prioritising the repayment of ELA funding (the most significant portion of which was assumed by the Bank pursuant to the Laiki Transfer Decrees) over meeting of its regulatory liquidity requirements. While reliance on ELA funding adversely affects the BOC Group's prescribed liquidity ratios because ELA funding is short-term and a significant portion of the BOC Group's liquidity is used to repay ELA funding, neither the ECB nor the CBC have imposed any fines or taken any other supervisory actions within their remit with respect to these breaches, other than having imposed strict reporting requirements on the Bank with respect to its cash flow and liquidity position. In addition, the ECB and the CBC have imposed a number of operating restrictions on the BOC Group, including prohibiting the distribution of dividends by the Bank and the provision of variable remuneration to BOC Group employees, as well as requiring the Bank to obtain the prior approval of the ECB before providing capital or funding to any subsidiary. Following SREP 2016, based on the pre-notification received in September 2016 and subject to final confirmation which is expected by the end of 2016, the BOC Group expects the ECB's prohibition on variable pay to be lifted and replaced with a limitation on variable remuneration to 10% of net revenues.

Funding and Liquidity Sources

The Bank currently has limited access to interbank and wholesale markets (although the Bank did complete its first wholesale funding transaction since 2013 by way of a repurchase agreement (secured financing transaction) in May 2016). As a result of this, the Bank's main sources of liquidity are its customer deposits and central bank funding, either through the Eurosystem monetary policy operations, or through ELA.

The Bank's reliance on central bank funding had increased in 2013 due to a general reduction in deposits in Cyprus (both prior to and following the bail-in of the Bank) and the transfer of a significant amount of ELA funding from Laiki Bank in March 2013. However, during 2014 and 2015, the BOC Group's reliance on central bank funding decreased significantly. As at 30 June 2016, the BOC Group's funding from ELA amounted to €2.4 billion compared to €3.8 billion and €7.4 billion as at 31 December 2015 and 2014, respectively. This reduction was as a result of an increase in customer deposits, the sales of non-core assets, repayments received under the Cypriot sovereign bond held by the Bank, the Capital Raising, the repurchase transaction in May 2016 described above and the Bank's increased access to ECB funding following the restructuring of the Bank's Covered Bond Programme (and the upgrade of the covered bonds' credit rating to an investment grade rating) and the Bank's access to ECB funding through the Additional Credit Claims framework determined in accordance with the implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

The liquidity received from central banks is subject to the relevant regulations and requires qualifying assets as collateral.

The funding provided to the BOC Group through ELA is short-term (typically provided for a period of two to four weeks). The BOC Group was informed by the CBC that, from the end of September 2016, ELA will be provided on a monthly basis. The funding via Eurosystem monetary policy operations ranges from short-term to long-term funding (currently short-term).

The funding provided by the Bank to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes, the prior approval of the regulator is usually required on any repayment before the maturity date, and for BOC UK, approval is also required for the final repayment. BOC UK and BOC CI cannot place funds with the BOC Group in excess of maximum limits set by their local regulator. Any new funding to subsidiaries requires approval from the CBC and the ECB.

Subsidiaries can proceed with dividend distribution in the form of cash to the Bank, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time and, in the case of BOC UK, express consent must be obtained from the United Kingdom's PRA before any dividend distribution.

Liquidity Reserves

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes.

The BOC Group's liquidity reserves are managed by BOC Group Treasury.

As at 30 June 2016, the BOC Group had liquidity reserves of €2.4 billion (unaudited) (€2.6 billion (unaudited) as at 31 December 2015), of which €1.3 billion (unaudited) (€1.2 billion (unaudited) as at 31 December 2015) were eligible for the purposes of calculating the Bank's Liquidity Coverage Ratio ("LCR") under the requirements of Delegated Regulation (EU) 2015/61.

The BOC Group is required to comply with the Liquidity Coverage Ratio (EU) 2015/61 (the "**LCR Regulation**") and also monitors its position against the Basel Quantitative Impact Study ("**QIS**") Net Stable Funding Ratio (the "**NSFR**"). See "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*" for a description of the regulations. The LCR Regulation is designed to promote short-term resilience of the BOC 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.

The CRR requires phased-in compliance with the LCR Regulation standard, having started with an initial minimum ratio of 60% on 1 October 2015, increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. In October 2014, the EC published a final delegated act for the LCR Regulation. During 2015, the monthly LCR was calculated as per the CRR and also quarterly as per the delegated act (as part of the Supervisory Review and Evaluation Process under the SSM Regulation (the "**SREP**") short term exercise). From January 2016, the LCR was also calculated monthly based on the final published LCR Regulation, which was enacted in September 2016. The LCR is currently calculated only in accordance with the final published LCR Regulation.

The NSFR (as proposed under Basel III) is defined as the amount of available stable funding relative to the amount of required stable funding. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet exposures. In October 2014, the Basel Committee on Banking Supervision published a final standard for the NSFR with the minimum requirement to be introduced in January 2018 at 100%. The methodology for calculating the NSFR is based on an interpretation of the Basel standards published in October 2014 and includes a number of assumptions which are subject to change prior to adoption by the EC through the CRR.

Based on the LCR Regulation and Basel QIS standards respectively, as at 30 June 2016, the BOC Group had an LCR of 0% (31 December 2015: 0%) and a Basel QIS NSFR of 85% (31 December 2015: 83%). Under the LCR Regulation, the ELA funding, as well as any other funding secured by non-LCR liquid assets and maturing within 30 days, is deducted from high quality liquid assets, thus resulting in a zero

LCR. It should be noted, however, that the Bank considers that it has sufficient available liquidity to meet its day-to-day needs and the zero ratio is due to the above adjustment.

See “*Operating and Financial Review—Liquidity and Capital Resources—Liquidity Ratios*” for a discussion of LCR, NSFR and other liquidity ratios.

Although the Bank has received no specific assurances, management expects that it will continue to have access to the central bank liquidity facilities, in line with applicable rules. In January 2014, the House of Representatives of Cyprus approved the issuance of up to €2.9 billion of guarantees. The EC announced in June 2016 the eighth extension of the bank guarantee scheme, which will see the scheme continue until 31 December 2016. At present, the Bank does not expect to utilise the Government’s guarantee scheme.

ELA is available to solvent Euro area credit institutions, and is therefore expected to remain available to the Bank (subsequent to its repayment of existing ELA funds) if it were to face a ‘stress event’ that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Bank could seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

Market Risk

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

In line with the BOC Group’s overall conservative risk strategy and appetite, the Bank does not run proprietary trading books.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises mainly as a result of timing differences on the repricing of assets, liabilities and off-balance sheet items.

Interest rate risk is measured using interest rate sensitivity gap analysis per currency, in order to calculate the impact, from assumed interest rate changes, on the BOC Group’s net interest income and economic value.

Interest rate risk is managed through maximum loss limits for positions repricing in less than 3 years, which are set for each banking unit of the BOC Group. These limits are set as a percentage of BOC Group capital and as a percentage of net interest income. Small limits for open interest rate positions for periods of more than three years are also in place, as well as a limit (based on the BOC Group’s Tier 1 capital) for the maximum acceptable change in the BOC Group’s economic value (i.e., a 200 basis points change in interest rates).

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 BOCH Board of Directors has approved open position limits for the total foreign exchange position limits, as well as for certain individual currencies. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are monitored daily by market risk officers in all the banking units of the BOC Group, who report the overnight foreign currency position of each unit to the MR daily.

Equity Securities Price Risk

Equity securities price risk is the risk of loss from adverse changes in price of equity securities held by the BOC Group. The BOC Group’s existing equity securities portfolio, primarily made up of small holdings in Cyprus companies, is regularly marked to market and monitored, with the objective of gradually disposing of it in full (subject to market liquidity). New purchases of equity securities require ALCO approval. New securities are, however, acquired following enforcement actions in respect of defaulted loans. Material holdings of equities obtained through enforcement are examined by ALCO semi-annually. This risk applies equally to the value of the BOC Group’s mutual fund holdings as these funds also hold equity securities.

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 BOC Group. Debt security prices change as the credit risk of the issuers changes and as interest rates change. The BOC Group holds a portfolio of debt securities issued mostly by governments. As at 31 October 2016 the average Moody's rating of the debt securities portfolio of the BOC Group was A3 (30 June 2016: Baa1; 31 December 2015: Baa2; 31 December 2014: Ba2). If debt securities issued by Cyprus were excluded, the average rating of the BOC Group's portfolio of debt securities would have been Aa2 as at 30 June 2016. This risk applies equally to the value of the BOC Group's mutual fund holdings as these funds also hold debt securities.

Operational Risk

Operational risk is defined as the risk of direct or indirect impacts resulting from human factors, inadequate or failed internal processes and systems or external events, including legal risk. Operational risks can arise from all business lines and from all activities carried out by the BOC Group. To enable effective management of all material operational risks, the operational risk management policy adopted by the BOC 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. Each business unit manager 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, facilitation of risk identification and assessment and independent and objective challenge to the first line of defence. The third line of defence comprises the Internal Audit function and the Audit Committee of the BOCH Board of Directors, which provide independent oversight of the integrity and effectiveness of the risk management framework throughout the BOC Group.

The BOC Group's operational risk management department ("GORM") is principally responsible for the management of operational risks arising from increased reporting requirements and regulatory supervision and new software and procedures development, in the context of recently applied regulatory changes and/or recently passed legislation. GORM addresses these risks in collaboration with other control functions, including BOC Group Compliance, BOC Group legal and the information security department, in order to minimise operational risks relating to data integrity, data aggregation, as well as non-compliance with regulatory provisions.

The main objectives of operational risk management within the BOC Group are: (i) the development of operational risk awareness and culture through ongoing staff training, (ii) the provision of adequate information to the BOC Group's management at all levels in relation to the operational risk profile at a BOC Group entity 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 BOC Group's franchise and have minimal impact on the BOC Group's profitability and corporate objectives.

GORM has implemented a revised, comprehensive operational risk management policy framework and a revised methodology for risk control self-assessment process that was initiated in the fourth quarter of 2014. In addition, proactive risk monitoring through key risk indicators was reinitiated during the second half of 2014, with the total number of key risk indicators being collected and monitored reaching approximately 200 as at 30 June 2016. Further, GORM has implemented and is currently in the process of deploying a new operational risk management system that will enable more effective implementation of its operational risk management methodologies (intended to be completed by the end of 2016). With regard to incident reporting, GORM focuses on root-cause analysis of reported incidents with particular emphasis on legal cases, information technology systems, fraud and credit-related operational risk incidents. In particular, operational risk management emphasises on assessing regulatory-related risks in processes and systems, in collaboration with the GCD to reflect the significant recent and on-going changes in regulatory obligations. Ongoing awareness workshops take place to raise awareness on operational risks across the Group.

Operational risk loss events are classified and recorded in the BOC Group's internal loss database to enable risk identification, root-cause analysis and corrective action. In 2015, 151 loss events with a gross loss over €1,000 (of which 25 related to a loss of over €10,000 and one related to a loss of over €1 million)

were recorded (compared to 387 in 2014). The BOC Group has adequate insurance policies to cover unexpected material operational losses.

Business Continuity Risk

Business Continuity Plans and Disaster Recovery Plans exist and are being continuously enhanced for all markets in which the BOC Group operates to ensure continuity and timely recovery after events that may cause major disruptions to the business operations. The Disaster Recovery Plan has been approved by the Bank's Operating Committee. It is based on industry standard procedures, Information Security policies, and the CBC Directive on Governance and Management Arrangements in Credit Institutions . As such, it defines in detail functions, roles, and responsibilities and contains the organisational sections (team structure and processes) as well as the technical information (recovery sequence and procedures). It is updated and tested annually.

Reputational Risk

Reputational risk refers to the risk arising from negative perception on the part of the Bank's stakeholders which may adversely affect the BOC Group's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. The Bank applies a comprehensive reputational risk management policy to all its activities which aims to safeguard its safety and soundness, competitiveness and business value, through strengthening the trust and confidence of its major stakeholders.

Information Security Risks

The growth of the BOC Group's business and the Bank's credibility with its customers is highly dependent on the BOC Group's ability to protect and safely process the confidential information it receives from its customers and in relation to its businesses.

The information security department is an independent function reporting directly to the Board Risk Committee and the GCRO. Information is protected in accordance with applicable international standards and regulations and certain information security policies approved by the BOC Board of Directors. A Security Awareness Programme has been completed, which aimed to increase the awareness of all staff to all information security matters. The BOC Group's systems are protected against electronic risks and a number of strict policies and baselines exist for the network, back-ups, emails and the internet. The information security department also conducts annual penetration tests and security assessments on all service providers. Data is also backed up in 'real-time' to the Bank's alternative recovery sites. The Bank maintains two such sites which are geographically dispersed.

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. In particular, the actual claims and benefit payments may exceed the amount of liabilities recognised in the financial statements. Insurance events are random and the actual number and amount of claims and benefits differs from year to year from those estimated using statistical and actuarial methods.

The BOC Group's insurance subsidiaries address their risk exposure through the diversification across a large portfolio of insurance contracts, careful selection of policyholders in accordance with underwriting strategy guidelines and assessment of credit risk and the use of reinsurance arrangements. Although reinsurance arrangements mitigate insurance risk, the BOC Group's insurance subsidiaries are not completely relieved of their direct obligations to their policyholders and a credit exposure exists to the extent that any reinsurer is unable to meet its contractual obligations. For this reason, the BOC Group's insurance subsidiaries regularly monitor the credit worthiness of reinsurance companies with which they cooperate.

MANAGEMENT AND CORPORATE GOVERNANCE

Corporate Governance

Following Admission, BOCH intends to comply with both the April 2016 Financial Review Council corporate governance code (the “**UK Corporate Governance Code**”) and the CSE’s Fourth Edition (Amended) Code of Corporate Governance issued in April 2014 (the “**CSE Corporate Governance Code**”) and all relevant Irish company law requirements. BOCH will report to its shareholders on its compliance with these codes in accordance with the UKLA Listing Rules, the CSE Corporate Governance Code and the Companies Act.

In addition, the Bank will continue to comply with the CBC Governance Directive and Fitness and Probity Directive (see “*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—CBC Governance Directives*”).

Compliance with the CSE Corporate Governance Code and the UK Corporate Governance Code is closely monitored by the Corporate Governance Compliance Officer (the “**CGCO**”), who reports to the nominations and corporate governance committee.

The BOCH Board of Directors has approved and maintains the following policies on corporate governance:

- Group corporate governance policy;
- Group policy on fitness and probity of directors, managers and key function holders;
- Group board nominations policy; and
- Group board diversity policy.

BOCH Board of Directors

The board of directors of BOCH (the “**BOCH Board of Directors**”) is currently composed of eight non-executive directors, seven of whom are independent, and two executive directors. The BOCH Articles allocate authority over day-to-day management of BOCH to the BOCH Board of Directors. The BOCH Board of Directors may then delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee consisting of such person or persons (whether directors or not) as it thinks fit, but regardless, the directors will remain responsible for the proper management of the affairs of BOCH. The primary role of BOCH’s Board of Directors is to provide entrepreneurial leadership of the BOC Group within a framework of prudent and effective risk management and internal controls. BOCH’s Board of Directors sets the BOC Group’s long-term objectives and strategy and seeks to ensure that the necessary financial and human resources are in place for the BOC Group to achieve such objectives and strategy. BOCH’s Board of Directors also sets the BOC Group’s values and standards, ensures it communicates with shareholders, identifies risks, approves the risk appetite and monitors risk management and internal control systems. The Bank’s board of directors (the “**Bank Board of Directors**”) is currently composed of the same members as BOCH’s Board of Directors and the intention of BOCH is to continue this replication following future appointments and resignations.

The BOCH Board of Directors and its committees will be subject to performance evaluations, both collectively and on an individual basis, at least annually in accordance with the Group corporate governance policy and the terms of reference of the Nomination and Corporate Governance Committee. The Nominations and Corporate Governance Committee, under the overall responsibility and supervision of the Chairman, will develop recommendations to address any issues identified as a result of these evaluations, including ensuring that any deficiencies are factored into searches for future appointments to the BOCH Board of Directors.

BOCH Board Committees

The terms of reference of each of the committees of BOCH’s Board of Directors are based on the relevant provisions of the UK Corporate Governance Code, the CSE Corporate Governance Code and applicable law. Pursuant to the relevant terms of reference, specific responsibilities have been delegated to committees of the BOCH Board of Directors, as follows:

- *Audit Committee*—The Audit Committee must comprise of at least three members, all of whom must be independent non-executive directors and one of whom must be an independent non-executive

director with competence in accounting or auditing and the members of the committee must as a whole have competence relevant to BOCH's sector. As at 31 October 2016, the committee comprised three non-executive directors, two of whom are independent. The chairman of the committee is Ioannis Zographakis. The role of the committee includes: oversight of the system of internal controls (including reviewing its effectiveness); monitoring the integrity of the BOC Group's financial statements and related announcements; monitoring the effectiveness of the internal audit function; responsibility for oversight, terms of engagement and remuneration of the external auditor, including advising the BOCH Board of Directors in relation to the appointment, re-appointment and (if necessary) removal of the external auditors, reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the external audit process; reviewing the BOCH's accounting policies and practices; reviewing the effectiveness of the BOC Group's whistleblowing procedures; monitoring the effectiveness of the BOC Group compliance function; and making recommendations to the BOCH Board of Directors on all such matters.

- *Human Resources and Remuneration Committee*—The Human Resources and Remuneration Committee (the “**HRRC**”) must comprise of at least three members, all of whom must be independent non-executive directors. As at 31 October 2016, the HRRC comprises three non-executive directors, all of whom are independent. The chairman of the committee is Michael Spanos. The committee is responsible for the development and periodic review of the BOC Group remuneration policy, which is proposed to the BOCH Board of Directors for approval, and for monitoring its implementation. The committee sets the remuneration of the Executive Directors and recommends and monitors the remuneration of other senior management. Every year, the committee will propose to the BOCH Board of Directors the annual remuneration policy as part of the annual report of the BOC Group, which is submitted to BOCH's annual general meeting for approval. The committee also reviews the related party transactions note, which appears as a note in the annual, audited consolidated financial statements of the BOC Group and the annual remuneration policy report itself.
- *Nominations and Corporate Governance Committee*—The Nominations and Corporate Governance Committee must comprise of at least three members, all of whom must be non-executive directors and a majority of whom must be independent non-executive directors. As at 31 October 2016, the committee comprises three non-executive directors, two of whom are independent. The chairman of the committee is Josef Ackermann. The role of the committee is to support and advise the BOCH Board of Directors in relation to recruitment to the BOCH Board of Directors, the induction and development of its members and succession planning. The committee evaluates the effectiveness of the BOCH Board of Directors, including its structure, size, diversity (including in relation to gender), composition and performance, on an annual basis and submits any recommendations to the BOCH Board of Directors. The committee also oversees the adoption of appropriate internal policies on the assessment of the fitness and probity of members of the BOC Group Executive Committee, other senior managers and heads of internal control functions. The committee keeps the BOCH Board of Directors' governance arrangement under review and makes appropriate recommendations to the BOCH Board of Directors to ensure that the BOC Group's arrangements are consistent with best practice corporate governance standards. The committee regularly reviews the BOC Group board diversity policy, including to determine whether to set any measurable targets and (if any targets are set), to determine the extent to which such targets have been achieved. In relation to this, plans are in progress aiming to achieve at least 40% female participation as from the year 2020. The CGCO also regularly attends meetings of the committee.
- *Risk Committee*—The Risk Committee must have a minimum of three members, all of whom must be non-executive directors and the majority must be independent. As at 31 October 2016, the committee comprised five non-executive directors, all of whom are independent. The chairman of the committee is Arne Berggren. The risk committee is responsible for advising the BOCH Board of Directors 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 main purpose of the committee is to review, on behalf of the BOCH Board of Directors, the aggregate risk profile of the BOC 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 BOCH Board of Directors on risk appetite and alignment with strategy; monitors the effectiveness of the BOC Group's risk management and internal controls systems except from financial reporting and compliance internal control systems; monitors the BOC Group's risk appetite and risk profile against key performance/risk indicators as set out in the BOC Group's risk appetite statement; identifies the potential impact of key

issues and themes that may impact the risk profile of the BOC Group; ensures that the BOC Group's overall risk profile and risk appetite remain appropriate given the external environment, any key issues and themes impacting the BOC 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 BOCH board committees; advises the BOCH Board of Directors on alignment of remuneration with risk appetite (through advice to the HRRC); and advises the BOCH Board of Directors on risks associated with proposed strategic acquisitions and disposals.

Members of the BOCH Board of Directors

The business address of each of the directors in their capacity as directors of BOCH is 51 Stassinou Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed to the BOCH Board of Directors are as follows:

<u>Name</u>	<u>Position</u>	<u>Committee Membership</u>	<u>Latest Appointment Date</u>
Josef Ackermann	Chairman and Independent Director	Nominations and Corporate Governance Committee	4 October 2016
Wilbur L. Ross, Jr.	Vice-Chairman and Independent Director	Nominations and Corporate Governance Committee Risk Committee	4 October 2016
Maksim Goldman	Vice-Chairman and Non-Independent Director	Audit Committee Nominations and Corporate Governance Committee	4 October 2016
Michael Spanos	Senior Independent Director	Human Resources and Remuneration Committee	
John Patrick Hourican	Group Chief Executive Officer and Non-Independent Executive Director		12 July 2016
Christodoulos Patsalides	Non-Independent Deputy Chief Executive Officer, Chief Operating Officer and Executive Director		12 July 2016
Arne Berggren	Independent Director	Audit Committee Risk Committee	4 October 2016
Marios Kalochoritis	Independent Director	Human Resources and Remuneration Committee Risk Committee	4 October 2016
Ioannis Zographakis	Independent Director	Audit Committee Risk Committee	4 October 2016
Michael Heger	Independent Director	Human Resources and Remuneration Committee Risk Committee	4 October 2016

Dr. Josef Ackermann. *Chairman and Independent Director.* Dr. Ackermann was born in 1948. He 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. Today, he still holds numerous mandates, amongst them, as the chairman of the Bank, as a member of the board of directors at Investor AB and Renova Management AG and as a member of the international advisory board of Akbank. Dr. Ackermann also serves as honorary chairman of the St. Gallen Foundation for International Studies, honorary senate member of the Foundation Lindau Nobel Prizewinners Meetings at

Lake Constance, vice chair of the board of trustees of The Conference Board, among other posts. Dr. Ackermann also served as chairman of the Institute of International Finance and as vice-chairman of the foundation board of the World Economic Forum. Dr. Ackermann 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. Dr. Ackermann is also 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.

Wilbur L. Ross, Jr. *Vice-Chairman and Independent Director.* Mr. Ross was born in 1937. He is the founder, chairman and chief strategy officer of WL Ross & Co. LLC, a private equity firm. Mr. Ross was also formerly the chief executive officer of WL Ross prior to 30 April 2014 when he became its chairman and chief strategy officer. In June 2016, Mr. Ross became a director of Nexeo Solutions, Inc. (formerly WL Ross Holding Corp, of which he was the chairman and chief executive officer). Mr. Ross is currently a member of the board of directors of: ArcelorMittal, the world's largest steel and mining company; EXCO Resources, Inc., a natural gas and oil exploration company; DSS Holdings LP, a shipping transportation company; Sun Bancorp, Inc., a bank holding company; and the Bank. Mr. Ross formerly served as a member of the board of directors of many banks, financial and other companies, including but not limited to The Governor and Company of the Bank of Ireland, a commercial bank in Ireland until June 2014, BankUnited, Inc., until March 2014; Talmer Bancorp., Assured Guaranty, an insurance company; International Textile Group; NBNK Investments PLC; PB Materials Holdings, Inc.; Ohizumi Manufacturing; Ocwen Financial Corp.; Navigator Holdings, a marine transport company, and International Automotive Components until November 2014; Plascar Participacoes SA, a manufacturer of automotive interiors, until January 2014 and Air Lease Corporation, an aircraft leasing company from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd., a reinsurance company, from 2006 to March 2010; The Greenbrier Companies, a supplier of transportation equipment and services to the railroad industry from June 2009 until January 2013. Mr. Ross was executive managing director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. Mr. Ross is a graduate of Yale University and of Harvard Business School. Through the course of Mr. Ross' career, he has served as a principal financial adviser to, investor in, and director of various companies across the globe operating in diverse industries, and he has assisted in restructuring more than \$500 billion of corporate liabilities. Mr. Ross is well qualified to serve as a director due to his over 35 years of experience in private equity, numerous public and private company directorship roles, and globally-recognised financial expertise having been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. Mr. Ross has been appointed by President Clinton to the board of directors of the U.S.-Russia Investment Fund and has served as privatisation advisor to New York City's Mayor Guiliani. He was awarded a medal by President Kim Dae Jung for assisting Korea during its financial crisis and in 2014 was awarded the Order of the Rising Sun with Gold and Silver Stars by the Japanese government.

Maksim Goldman. *Vice-Chairman and Non-Independent Director.* Mr. Goldman was born in 1971. He currently serves as director of strategic projects at Renova Group where he is responsible for coordinating the business development of various significant assets under management of the Renova Group. Mr. Goldman is currently the vice chairman of the Bank and a member of the board of directors of United Company Rusal Plc, OAO "Volga", FC "Ural" and United Manganese of Kalahari. Previously, Mr. Goldman served as deputy chief legal officer of Renova Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. During 2005 to 2007, he worked as vice president and international legal counsel of OAO Sual-Holding, which was the management company for OAO "SUAL", the second largest aluminium producer in Russia, and also participated in the creation of United Company 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).

John Patrick Hourican. *Group Chief Executive Officer and Executive Director.* Mr. Hourican was born in 1970. He currently serves as the GCEO of the Bank. He served as chief executive of The Royal Bank of Scotland Group's ("RBS") 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 RBS's leveraged finance business in Europe and Asia. Mr. Hourican started his career at Price Waterhouse and 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.

Michael Spanos. *Senior Independent Director.* Mr. Spanos was born in 1953. He currently serves as a senior independent director of the Bank; a managing director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008); the non-executive chairman of Lanitis Bros Ltd (since 2008); and the founding chairman of Green Dot (Cyprus) Public Co. Ltd (since 2004). 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 (Cyprus and Harvard School of Public Health). Mr. Spanos has also served on other boards, such as Heineken-Lanitis (Cyprus) Ltd. (2005 to 2007), Lumiere T.V. Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd. (2000 to 2007), Cyprialife Insurance Ltd (then known as Laiki Cyprialife Insurance Limited) (1995 to 2000) and Coca-Cola İçecek (2012–2016). Mr. Spanos is a former director of the CBC's board of directors. Mr. Spanos holds a master's degree and a bachelor of arts degree in economics from North Carolina State University.

Marios Kalochoritis. *Independent Director.* Mr. Kalochoritis was born in 1973. He currently serves as a non-executive, independent director of the Bank. He currently serves as the managing partner of Loggerhead Partners an investment consulting and advisory firm that he founded, based in Dubai. His expertise includes investment banking, hedge fund management, private equity, wealth management and as a chief financial officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnaround situations. Previously, he spent close to 6 years in Cyprus where, as a co-founder and a managing director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was a senior vice president for Bank Clariden Leu (now Credit Suisse) in Zurich and he headed business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the group chief financial officer for Amana Group in Dubai, a major regional construction and industrial group, where he led the group's corporate restructuring process. During 2001-2003 he was the co-founder and Vice President of a boutique financial intermediary in New York, backed by the Blackstone Group. He started his career at Enron in Houston where as a financial analyst and later an associate in the finance department, he worked and led investments and transactions in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan Chase (M&A team) in New York and McKinsey & Co in Athens. He holds a master's degree in business administration from Harvard Business School and a bachelor's of science degree in finance from Louisiana State University. He is a member of the Institute of Directors.

Arne Berggren. *Independent Director.* Mr. Berggren was born in 1958. He currently serves as a non-executive, independent member of the board of the Bank. He 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 chief executive officer 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 in economics of the University of Uppsala, Sweden and he continued at the Universities of Amsterdam, Geneva and New York for post graduate studies.

Ioannis Zographakis. *Independent Director.* Mr. Zographakis was born in 1963. He currently serves as a non-executive director of the Bank. He is a senior executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the United States, United Kingdom and Greece. His line/business positions and divisional/corporate responsibilities have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations. 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 Citibank Consumer Bank in Greece, before moving to the United

States in 1996 as the director of finance for Citibank CitiMortgage. In 1997, he became the financial controller for Citibank's consumer finance business in the United States and then he was the director of finance and acting 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 head of its UK Retail Bank. Deciding to move closer to home 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 SLC in the United States, 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 a bachelor's degree in civil engineering from Imperial College in London and a master's degree in business administration (management) from Carnegie Mellon University in the United States.

Christodoulos Patsalides. *Deputy Chief Executive Officer, Chief Operating Officer and Executive Director.* Dr. Patsalides was born in 1962. He currently serves as the BOC Group's deputy chief executive officer and chief operating officer. From 1989 to 1996, Dr. Patsalides previously worked for the CBC in the Management of Government External Debt and Foreign Exchange Reserves department. In 1996, Dr. Patsalides joined the Bank 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, economics research and procurement. In Dr. Patsalides' current capacities as the deputy chief executive officer and chief operating officer, he is responsible for human resources, corporate affairs, central operations, legal services, organisation and methods, information technology, business transformation and administrative operations. He has recently been appointed to the board of directors of the Cyprus anti-Cancer Society (a charity organisation). Dr. Patsalides holds a bachelor of science degree in economics from Queen Mary College in London and a master of science degree and a doctor of philosophy degree in economics from the London School of Economics.

Dr. Michael Heger. *Independent Director.* Dr. Heger was born in 1955. He currently serves as a non-executive, independent director of the Bank. 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. Between 2001 and 2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002 to 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. He occupied this role between 2004 and 2009, after which he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland until 2012. Since 2013, he has served 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. He 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.

Future Appointment

On 30 August 2016 the Bank announced its intention to appoint Ms. Lyn Grobler to the Bank Board of Directors and the BOCH Board of Directors. The appointment is subject to the approval at the ECB.

Ms. Lyn Grobler. *Independent Director.* Ms Grobler was born in South Africa. It is intended that she will serve as a non-executive independent director of the Bank. Ms. Grobler has worked in information technology for 30 years. Ms Grobler managed a number of large scale global technology projects and strategies based in both London and South Africa before joining British Petroleum in 2000. Ms. Grobler worked at British Petroleum for 16 years, holding a variety of different roles across information technology and global trading, exiting as Vice President & Chief Information Officer, Corporate Functions, where she led the transformation of both the organisation and the digital landscape through introducing sustained

change in process, capability and technology. Ms Grobler was appointed Group Chief Information Officer of Hyperion Insurance Group in 2016 and is a member of Hyperion's Group Executive Committee. Ms Grobler graduated in 1985 from Cape Peninsula Technology University in South Africa with a Higher National Diploma in Electronic Data Processing.

Executive Managers of the BOC Group

In addition to the executive management appointed to the BOCH Board of Directors, the Chief Risk Officer (who reports directly to the BOCH Board of Directors) and the Finance Director (together the "Executive Managers") are considered relevant to establishing that BOCH has the appropriate expertise for the management of its business. The business address of each of the Executive Managers in their capacity as Executive Managers of BOCH is 51 Stassinos Street, Ay. Paraskevi, Strovolos, 2002 Nicosia, Cyprus and their respective positions and date appointed are as follows:

Name	Position	Date of Appointment
Michalis Athanasiou	Chief Risk Officer	6 December 2013
Eliza Livadiotou	Finance Director	28 April 2016

Michalis Athanasiou. *Chief Risk Officer.* Mr. Athanasiou started his career in the treasury department of Laiki Bank in September 1995 and was appointed treasurer in 2003, where he, among other things, established Laiki Bank's first euro medium term note programme. From June 2006 until the beginning of 2011, he was seconded to Laiki Bank Australia (Ltd), as its chief executive officer and, between 2011 and 2014, was a member of its board of directors. On his return to Cyprus in 2011, he was appointed Marfin Popular Bank Public Co Ltd's director of international operations where he was responsible for subsidiaries in Romania, Serbia and Estonia. In January 2012, Mr. Athanasiou was appointed Marfin Popular Bank Public Co Ltd group chief risk officer and he was reappointed to the same role in November 2013 when he joined the Bank following the application of the Laiki Transfer Decrees. Mr. Athanasiou is a member of the board of directors of CLR investment Fund PLC, Kyprou Properties, Kyprou Services and LCP Holdings and Investments Public Ltd. Mr. Athanasiou holds a bachelor of science degree (with honours) in accounting and finance from the University of North London and a master of science degree (with distinction) from the University of Reading in international securities, investment and banking.

Eliza Livadiotou. *Finance Director.* Ms. Livadiotou was born in 1974. She currently serves as the finance director of BOCH. From 1995 to 1999, Ms. Livadiotou worked at Arthur Andersen in the United Kingdom, where she qualified as a chartered accountant. In 1999, she joined the Bank as an assistant to the BOC Group's chief general manager before becoming, from 2005 to 2012, the manager of BOC Group's finance and tax planning. From 2013 to 2016, she served as the BOC Group's chief financial officer. Ms. Livadiotou has been chairperson of the financial services committee of the Institute of Certified Public Accountants of Cyprus during 2014-2016 (having been a member since 2006). She holds a bachelor's degree and a masters degree (with honours) in economics from the University of Cambridge.

Participation of the BOCH Directors in the Boards of Directors of Other Companies

In addition to their positions within the BOC Group, the following BOCH Directors hold or have held the following directorships, and/or were members of the following partnerships, within the past five years:

Name	Position	Company/Partnership	Position still held (Y/N)
Dr. Josef Ackermann	Director	Investor AB	Y
	Director	Renova Management AG	Y
	Director	St. Gallen Foundation for International Studies (honorary Chairman)	Y
	Director	New York Metropolitan Opera (Advisory Board)	N
	Director	Deutsche Bank AG	N
	Director	Zurich Financial Services Ltd.	N
	Director	Zurich Insurance Group	N
	Director	Royal Dutch Shell plc	N
	Director	Siemens AG	N

Name	Position	Company/Partnership	Position still held (Y/N)
	Director	World Economic Forum.	N
	Director	EQT Holding AB	N
	Director	Belenos Clean Power Holding Ltd.	N
	Chairman	Institute of International Finance Inc.	N
	Director	Association of German Banks	N
Wilbur L. Ross, Jr.⁽¹⁾	Director	Nexeo Solutions, Inc.	Y
	Director	WL Ross & Co. LLC	Y
	Director	Arcelor Mittal	Y
	Director	Diamond S Shipping LLC	Y
	Director	Diamond S Shipping Group, Inc.	Y
	Director	DSS Holdings LP	Y
	Director	EXCO Resources, Inc.	Y
	Director	Sun Bancorp	Y
	Director	Sun National Bank	Y
	Director	Brookings Economic Studies Council	Y
	Member	Harvard University—Committee on University Resources	Y
	Director	Palm Beach Civic Association	Y
	Member	Partnership for New York City	Y
	Member	Yale University School of Management—Board of Advisors	Y
	Director	Harvard Business School, Dean's Advisory Board	N
	Director	Harvard Business School Club of New York, Inc.	Y
	Director	The Japan Society, Inc.	Y
	Director	Palm Beach Preservation Foundation	Y
	Director	Palm Beach Retirement Funds	Y
	Director	Briarcliffe Condominium Apartment Building	Y
	Director	Magritte Museum	Y
	Director	British American Business, Inc.	Y
	Director	Homeward Residential, Inc.	N
	Director	Compaigne Europeene de Wagons S.a.r.l.	N
	Director	Insuratex, Ltd.	N
	Director	Nano-Tex, Inc.	N
	Director	The Committee on Capital Market Regulation Inc.	N
	Director	Greenbrier Companies, Inc.	N
	Director	OCM, Ltd.	N
	Member	US-India Business Council	N
	Director	Air Lease Corp	N
	Director	Plascar Participacoes SA	N
	Director	BankUnited, FSB	N
	Director	BankUnited, Inc.	N
	Director	Governor and Company of the Bank of Ireland	N
	Director	Talmer Bancorp	N
	Director	NBNK Investments PLC	N
	Director	Assured Guaranty	N
	Director	PB Materials Holdings, Inc.	N

(1) In addition to the above, Mr. Ross is a director of Invesco, an asset management firm with equity investments in a significant number of portfolio companies. In order to oversee these investments, Mr. Ross is a non-executive director of a number of these portfolio companies.

<u>Name</u>	<u>Position</u>	<u>Company/Partnership</u>	<u>Position still held (Y/N)</u>
	Director	Ohizumi Mfg Co. Ltd.	N
	Director	Navigator Holdings Ltd.	N
	Director	Ocwen Financial Corp.	N
	Director	International Textile Group	N
	Director	International Automotive Group North America, Inc.	N
	Director	International Automotive Group North America, LLC	N
	Director	International Automotive Group North America Holdings, Inc.	N
	Director	International Automotive Group GmbH	N
	Director	International Automotive Group Japan, LLC	N
	Director	International Automotive Components Group, S.A.	N
	Director	IAC Asia Holdings, Inc.	N
	Director	IACNA International, Inc.	N
	Director	IACNA Korea, Inc.	N
	Director	IAC Mexico Holdings, Inc.	N
	Director	IAC Spartanburg, Inc.	N
	Director	IAC U.S. Holdings, Inc.	N
John Patrick Hourican	Director	Hourican1(SAR2)	Y
	Director	Atradius NV	Y
Dr. Christodoulos Patsalides	Director	Cyprus Anticancer Society	Y
Arne Berggren	Director	Bank of Pireaus Group	Y
	Director	LBT Varlik Yönetim AS	N
	Director	Valot Invest Holding AB	N
	Director	FABEGE	N
	Director	Skrindan/Norrvidden	N
	Director	Swedbank (Russia)	N
	Director	Swedbank (Ukraine)	N
	Director	DUTB Ltd.	N
Maksim Goldman	Director	United Manganese of Kalahari Limited	Y
	Director	United Company RUSAL plc	Y
	Director	OAo “Volga”	Y
	Director	FC “Ural”	Y
	Director	Independence Group	N
	Director	IBR International Ltd.	N
Marios Kalochoritis	Director	Loggerhead Holdings Limited(inactive)	Y
	General Manager	Loggerhead Management Consultants	Y
	Director	Carouge Investments	Y
	Director, Shadow Partner	Auvest Capital Management Limited	N
	Director	Auvest Opportunities I GP	N
	Director	Auvest Global Investments	N
	Director	Auvest Services Limited	N
	Director	Kaloprint	N

<u>Name</u>	<u>Position</u>	<u>Company/Partnership</u>	<u>Position still held (Y/N)</u>
Michael Spanos	Director	M.S. Business Power Ltd	Y
	Director	Lanitis Bros Ltd	Y
	Director	Green Dot (Cyprus) Public Co. Ltd	Y
	Director	Coca-Cola İçecek	N
	Director	Central Bank of Cyprus	N
	Director	Lumiere T.V. Public Ltd.	N
Ioannis Zographakis	—	—	—
Dr. Michael Heger	Director	Metal Trade Overseas AG	N

Participation of the Executive Managers in the Boards of Directors of Other Companies

In addition to their positions within the BOC Group, the following Executive Managers hold or have held the following directorships, and/or were members of the following partnerships, within the past five years

<u>Name</u>	<u>Position</u>	<u>Company/Partnership</u>	<u>Position still held (Y/N)</u>
Michalis Athanasiou	Director	Bank of Sydney	N
	Director	CB Uniastrum Bank LLC	N
Eliza Livadiotou	—	—	—

BOCH Directors' Terms and Conditions

The BOCH Board of Directors and their functions are set out in “—*BOCH Board of Directors*” and “*Members of the BOCH Board of Directors*.” It is expected that Dr. Josef Ackermann will enter into a letter of appointment with BOCH in respect of his duties as Chairman prior to Admission. It is expected that Mr. Wilbur L. Ross will enter into a letter of appointment with BOCH in respect of his duties as Vice Chairman prior to Admission. It is expected that Mr. Maksim Goldman will enter into a letter of appointment with BOCH in respect of his duties as Vice Chairman prior to Admission. It is expected that Mr. Michael Spanos will enter into a letter of appointment with BOCH in respect of his duties as Senior Independent Director prior to Admission. Each of the Non-Executive Directors will enter into a letter of appointment with BOCH by no later than prior to Admission. Mr. John Patrick Hourican, the BOC Group Chief Executive Officer, entered into a service agreement with the Bank on 25 November 2015, amended in November 2016. Dr. Christodoulos Patsalides, the Deputy Chief Executive Officer and Chief Operating Officer, entered into a service agreement with the Bank on 27 March 2001, amended in November 2016.

The Directors and Non-Executive Directors are also appointed to the Bank Board of Directors and are subject to the same terms and conditions as their appointments to BOCH as identified below.

BOCH Executive Directors

Mr. John Hourican is entitled to a salary of €1,600,000 per annum under his service agreement with the Bank. He is eligible to receive variable annual remuneration amounting to 60% of his fixed annual salary under such terms and parameters as shall be determined by the Bank as subject to regulatory and other necessary approvals. Mr. Hourican will be eligible to participate in the Share Option Plan. Mr. Hourican receives contributions to a defined contribution pension plan. He is entitled to private medical plan contributions, life insurance and relocation benefits. Mr. Hourican's service agreement is terminable by either party on service of four months' written notice and is subject to an overall fixed term which expires on 1 February 2018.

Dr. Christodoulos Patsalides is entitled to a salary of €195,000 per annum. Dr. Patsalides will be eligible to participate in the Share Option Plan. Dr. Patsalides receives contributions to a defined contribution pension plan. He is entitled to private medical contributions and life insurance. Dr. Patsalides' amended service agreement will be terminable by him on service of four months' written notice. The Bank may terminate Dr. Patsalides' employment by giving notice of one month plus 15 days for each additional year worked.

Chairman and Non-Executive Directors of BOCH

The appointment of the Chairman and each of the Non-Executive Directors commenced on 4 October 2016 and will continue until BOCH's first AGM. Each Non-Executive Director's term of office runs for an initial 3 year period. The initial terms of the Non-Executive Directors' positions are subject to their re-election by the BOCH Shareholders at the next annual general meeting of BOCH and to re-election at any subsequent annual general meeting at which the Non-Executive Directors stand for re-election. The Non-Executive Directors will be put forward for re-election by BOCH Shareholders on an annual basis. If the BOCH Shareholders do not confirm the Non-Executive Directors or do not re-elect the Non-Executive Directors, his or her appointment will terminate automatically. The appointment may be also be terminated at any time by BOCH in accordance with the BOCH Articles or the Companies Act. Upon termination, none of the Chairman or any of the Non-Executive Directors is entitled to any damages for loss of office and no fee shall be payable in respect of any unexpired portion of the term of the appointment. These appointments are otherwise subject to the provisions of the BOCH Articles.

The Chairman is entitled to an annual fee of €120,000 for his services. The Vice Chairman is entitled to an annual fee of €80,000 for his services. The Senior Independent Director is entitled to an annual fee of €70,000 for his services. The other Non-Executive Directors are each entitled to an annual fee of €45,000. The Chairmen of the Audit and Risk Committees receive annual fees of €45,000 and each member €25,000. The Chairmen of the HRRC and Nominations Committee receive annual fees of €30,000. Each member of the HRRC receives €20,000 per annum, while each member of the Nominations Committee receives €15,000 per annum. The BOC Group reimburses all directors for expenses incurred in the course of their duties. The letters of appointment confer no entitlement to participate in company bonus, pension or share plans.

The letters of appointment of the Chairman and Non-Executive Directors require them to devote sufficient time to the affairs of BOCH as are necessary to perform their respective duties. The BOCH Board of Directors has consented to the Chairman retaining his existing directorships as set out in "*—Participation of the BOCH Directors in the Boards of Directors of Other Companies*" and continuing to perform his duties in relation to such directorships. The Chairman has disclosed to BOCH all of his other significant commitments. The Chairman is not permitted, without BOCH Board of Directors consent, to accept any additional commitments that might affect the time he is able to devote to BOCH.

Executive Managers' Terms and Conditions

Mr. Michalis Anthanasiou, Chief Risk Officer, entered into a service agreement with the Bank on 1 March 1996, amended in November 2016. Mr. Athanasiou is entitled to a salary of €150,000 per annum. Mr. Anthanasiou will be eligible to participate in the Share Option Plan. He is entitled to private medical contributions and life insurance. Mr. Athanasiou's amended service agreement will be terminable by either party on service of four months' prior written notice.

Ms. Eliza Livadiotou, Finance Director, entered into a service agreement with the Bank on 16 August 1996, amended on 1 March 2000 and in November 2016. Ms. Livadiotou is entitled to a salary of €150,000 per annum. Ms Livadiotou will be eligible to participate in the Share Option Plan. She is entitled to private medical contributions and life insurance. Ms Livadiotou's amended service agreement will be terminable by her on service of four months' prior written notice. The Bank may terminate Ms. Livadiotou's employment by giving notice of one month plus 15 days for each additional year worked.

General

As at the date of this Prospectus, none of the BOCH Directors or Executive Managers has at any time in the five years preceding the date of this Prospectus:

- (a) save as disclosed above, been a director or partner of any companies or partnerships; or
- (b) had any convictions (whether spent or unspent) in relation to offences involving fraud or dishonesty; or
- (c) been adjudged bankrupt or entered into an individual voluntary arrangement; or
- (d) other than as disclosed immediately below, been a director of any company which has been placed in receivership, compulsory liquidation or creditors' voluntary liquidation, or administration, or which entered into any company voluntary arrangement or any composition or arrangement with its

creditors generally or with any class of its creditors at any time while he was a director of that company.

During the last five years, Mr. Ross has been the director of companies that have entered into arrangements with their creditors as part of strategic efforts to improve their financial condition. For many years, Mr. Ross has led the investment firm WL Ross & Co, LLC, which specializes in recapitalizing and turning around troubled companies. When WL Ross & Co, LLC invests in a troubled company, Mr. Ross is sometimes appointed to the board of directors of the portfolio company. As part of their turnaround efforts, some of these portfolio companies have worked with creditors to restructure their debt and improve their future prospects; or

- (e) been a partner or senior manager in any partnership which, while he was a partner or senior manager or after his ceasing to be a partner or manager, was put into compulsory liquidation or administration or entered into any partnership voluntary arrangement or had a receiver appointed over any partnership asset; or
- (f) had a receiver appointed with respect to any assets belonging to him or a partnership of which he has been a partner; or
- (g) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body) or been disqualified by a court from acting as a director or other officer of a company or from acting in the management or conduct of the affairs of any company.

None of the BOCH Directors has any family relationship with another BOCH Director.

Bank Board of Directors

The Bank Board of Directors is the same as the BOCH Board of Directors described above. The Bank Board of Directors operates using the same committee structure as BOCH, so that the committees of the Bank exactly replicate the committees of BOCH.

BOCH Directors' interests in BOC Shares

Set out below are the direct and indirect interests of the BOCH Directors in the issued share capital of the Bank as at 31 October 2016, being the last date practicable prior to the date of this Prospectus:

	Percentage of Issued Share Capital (%)
Josef Ackermann	0.03
Wilbur L. Ross Jr.	1.63
Maksim Goldman	0
Arne Berggren	0.01
Marios Kalochoritidis	0
Michalis Spanos	0.01
Ioannis Zographakis	0
John Patrick Hourican	0
Christodoulos Patsalides	0
Michael Heger.	0

BOCH Executive Managers' interests in BOC Shares

Set out below are the direct and indirect interests of the BOCH senior managers in the issued share capital of the Bank as at 31 October 2016, being the last date practicable prior to the date of this Prospectus:

	Percentage of Issued Share Capital (%)
Michalis Athanasiou	0
Eliza Livadiotou.	0

BOC Group related party transactions

	30 September	30 June	31 December			30 September	30 June	31 December		
	2016	2016	2015	2014	2013	2016	2016	2015	2014	2013
	(unaudited)						(€'000)			
Loans and advances to members of the Bank Board of Directors and connected persons										
—less than 1% of the BOC Group's net assets per director	<u>10</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>15</u>	<u>331</u>	<u>335</u>	<u>369</u>	<u>382</u>	<u>302</u>
	<u>10</u>	<u>10</u>	<u>9</u>	<u>10</u>	<u>15</u>	<u>331</u>	<u>335</u>	<u>369</u>	<u>382</u>	<u>302</u>
Loans and advances to other key management personnel and connected persons						<u>2,964</u>	<u>3,032</u>	<u>3,871</u>	<u>4,317</u>	<u>3,448</u>
Total loans and advances						<u>3,295</u>	<u>3,367</u>	<u>4,240</u>	<u>4,699</u>	<u>3,750</u>
Loans and advances:										
—members of the Bank Board of Directors and other key management personnel						<u>2,866</u>	<u>2,928</u>	<u>3,354</u>	<u>3,615</u>	<u>3,224</u>
—connected persons						<u>429</u>	<u>439</u>	<u>886</u>	<u>1,084</u>	<u>526</u>
						<u>3,295</u>	<u>3,367</u>	<u>4,240</u>	<u>4,699</u>	<u>3,750</u>
Deposits:										
—members of the Bank Board of Directors and other key management personnel						<u>2,730</u>	<u>2,960</u>	<u>3,366</u>	<u>18,368</u>	<u>1,881</u>
—connected persons						<u>3,108</u>	<u>2,926</u>	<u>3,147</u>	<u>11,206</u>	<u>36,536</u>
						<u>5,838</u>	<u>5,886</u>	<u>6,513</u>	<u>29,574</u>	<u>38,417</u>

	Nine months ended	Six months ended		Year		
	30 September 2016	2016	2015	2015	2014	2013
	(unaudited)			(€'000)		
Interest income for the period/year	<u>75</u>	55	69	138	205	929
Interest expense on deposit for the period/year	<u>54</u>	38	139	187	398	1,115

There has been no material change in related party transactions as at 31 October, 2016 being the last date practicable prior to the date of the Prospectus.

The above table does not include period or year-end balances for members of the Bank Board of Directors and their connected persons who resigned/were removed during the period or year.

Interest income is disclosed for the period or year end during which relevant individuals were members of the Bank 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 Bank Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend amounting to €231 thousand, €175 thousand and €135 thousand as at 31 December 2013, 2014 and 2015, respectively, €142 thousand and €48 thousand as at 30 June 2015 and 2016, respectively, and €47 thousand as at 30 September 2016. As at 31 December 2013, 2014, 2015, 30 June 2016 and 30 September 2016, there were no directors and their connected persons, whose total loans and advances exceeded 1% of the net assets of the BOC Group per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €743 thousand, €689 thousand and €856 thousand as at 31 December 2013, 2014 and

2015, respectively, €874 thousand and €358 thousand as at 30 June 2015 and 2016, respectively, and €382 thousand as at 30 September 2016.

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Bank 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 collateral) as at 31 December 2013, 2014 and 2015 amounted to €1,439 thousand, €1,586 thousand and €1,094 thousand, respectively, and €1,295 thousand and €684 thousand as at 30 June 2015 and 2016, respectively, and €663 thousand as at 30 September 2016.

At 30 September 2016 and 30 June 2016, the Group has an investment in Invesco Euro Short Term Bond Fund, in which Mr. Wilbur Ross Jr. is an Executive Director. The fair value of the investment at 30 September 2016 and 30 June 2016 amounted to €4,050 thousand and €4,010 thousand respectively. Additionally, at 30 September 2016 the Group has a deposit of €534 thousand with Piraeus Bank SA, in which Mr. Arne Berggren is a non-executive Director.

Transactions with connected persons of the current members of the Bank Board of Directors. There were no transactions during the nine months ended 30 September 2016 with the current members of the Bank Board of Directors or with any members who resigned during the period or with their connected persons.

Transactions in 2015 with connected persons of the directors who resigned during 2015. There were no transactions during the year with connected persons of the current members of the Bank Board of Directors nor with any members who resigned during the year.

Transactions in 2014 with connected persons of the directors who resigned during 2014. Mr. Xanthos Vrachas is the CFO of Universal Insurance Agency Ltd to which the BOC Group paid €137 thousand relating to insurance transactions (2013: €119 thousand).

Transactions in 2013 with connected persons of the Directors who resigned during 2013. During 2013 the BOC Group also had the following transactions with connected persons: reinsurance premiums amounting to €56 thousand paid to companies of the GIC in which Mr. Andreas Artemis held an indirect interest; purchases of equipment and services amounting to €1 thousand from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous held an indirect interest; purchases of equipment amounting to €89 thousand from Mellon Cyprus Ltd which was significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €29 thousand to D. Severis and Sons Ltd which was owned by Mr. Costas Z. Severis and rents amounting to €71 thousand paid by Tseriotis Group in which Mrs. Anna Diogenous held an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which the director Mr. Elias Neocleous was a partner, amounted to €14 thousand.

In addition, the BOC Group had the following transactions with connected persons in their capacity as members of the interim board: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr. Andreas Poetis was a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr. Philippos Mannaris was a partner.

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.

All transactions with members of the Bank Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the BOC Group's employees.

Except as disclosed with respect to the Bank Board of Directors and the Executive Managers above, there are no actual or potential conflicts of interest between the duties to the Bank of the members of the Bank Board of Directors and their private interests and other duties which are of material significance to the Bank and any of such members.

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

Detailed information on Bank director (executive and non-executive) and key management personnel remuneration for the years ended 31 December 2014 and 2015 and for the six months ended 30 June 2015 and 2016 follows:

	Six months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
	(€'000)			
Director emoluments				
<i>Executive directors</i>				
Salaries and other short term benefits	934	488	1,061	859
Termination benefits	—	—	—	—
Employer's contributions	46	30	66	51
Retirement benefit plan costs	84	64	128	113
	<u>1,064</u>	<u>582</u>	<u>1,255</u>	<u>1,023</u>
<i>Non-Executive directors</i>				
Fees	410	132	822	424
Emoluments of a non-executive director who is also an employee of the Bank	—	—	—	—
Total directors' emoluments	<u>1,474</u>	<u>714</u>	<u>2,077</u>	<u>1,447</u>
Other key management personnel emoluments				
Salaries and other short term benefits	1,524	1,891	3,328	2,231
Termination benefits	397	—	—	250
Employer's contributions	97	77	164	166
Retirement benefit plan costs	82	93	178	210
Total other key management personnel emoluments	<u>2,100</u>	<u>2,061</u>	<u>3,670</u>	<u>2,857</u>
Total	<u>3,574</u>	<u>2,775</u>	<u>5,747</u>	<u>4,304</u>

Fees and benefits are included for the period that relevant individuals serve as members of the Bank Board of Directors.

The termination benefits relate to compensation paid to members of the BOC Group Executive Committee who left the BOC Group under the VEP.

The salaries and other short term benefits of the Bank executive directors are analysed as follows:

	Six Months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
	(€'000)			
John Patrick Hourican (Chief Executive Officer—appointed on 1 November 2013)	836	422	910	844
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer—appointed on 28 April 2016, previously Finance Director from 20 November 2014 to 27 April 2016)	98	66	151	15
	<u>934</u>	<u>488</u>	<u>1,061</u>	<u>859</u>

For the years 2014 and 2015, no bonus was recommended or paid to the Bank executive directors.

The retirement benefit plan cost for the six months ended 30 June 2016 amounting to €84 thousand relate to: Mr. John Patrick Hourican (€73 thousand) and Dr. Christodoulos Patsalides (€11 thousand). The retirement benefit plan cost for the six months ended 30 June 2015 amounting to €64 thousand relate to: Mr. John Patrick Hourican (€55 thousand) and Dr. Christodoulos Patsalides (€9 thousand). The retirement benefit plan costs for 2015 amounting to €128 thousand relate to: Mr. John Patrick Hourican (€110 thousand) and Dr. Christodoulos Patsalides (€18 thousand). The retirement benefit plan costs for 2014 amounting to €113 thousand relate to: Mr. John Patrick Hourican (€111 thousand) and Dr. Christodoulos Patsalides (€2 thousand).

The fees of the Bank non-executive directors are as follows:

	Six Months ended 30 June		Year ended 31 December	
	2016	2015	2015	2014
	(€'000)			
Josef Ackermann	75	34	150	8
Wilbur L. Ross Jr.	60	25	120	6
Vladimir Strzhalkovskiy	—	21	21	50
Arne Berggren	58	10	107	2
Maksim Goldman	60	12	116	2
Michalis Spanos	50	8	100	2
Ioannis Zographakis	57	11	115	30
Christis Hassapis	—	—	—	60
Marios Kalochoritis	45	11	93	25
Andreas Yiasemides	—	—	—	32
Adonis Papaconstantinou	—	—	—	31
Anjelica Anshakova	—	—	—	24
Eriskhan Kurazov	—	—	—	12
Anton Smetanin	—	—	—	12
Dmitry Chichikashvili	—	—	—	20
Kirill Parinov	—	—	—	5
Konstantinos Katsaros	—	—	—	35
Marinos Gialeli	—	—	—	33
Xanthos Vrachas	—	—	—	28
Marios Yiannas	—	—	—	7
Michael Heger	5	—	—	—
	<u>410</u>	<u>132</u>	<u>822</u>	<u>424</u>

The fees of the Bank non-executive directors include fees as members of the Bank Board of Directors and its subsidiaries, as well as at committees of the Bank Board of Directors.

The Bank key management personnel emoluments include the remuneration of the members of the BOC Group Executive Committee for the period that each employee served as member of the BOC Group Executive Committee and other members of the management team who report directly to the GCEO or to the deputy chief executive officer.

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

For the years 2014 and 2015, no bonus was recommended or paid to other key management personnel.

As at 31 October 2016, the interests of the BOCH Directors together represented approximately 1.68% of the issued ordinary share capital of the Bank and are expected to represent approximately 1.68% of the issued ordinary share capital of BOCH following Admission.

Executive Committee

The executive committee consists of the following members:

<u>Name</u>	<u>Position</u>
John Patrick Hourican	Group Chief Executive Officer
Christodoulos Patsalides	Deputy Chief Executive Officer and Chief Operating Officer
Michalis Athanasiou	Chief Risk Officer
Eliza Livadiotou	Finance Director
Charis Pouangare	Director Consumer and SME Banking
Panicos Nicolaou	Director Corporate Banking
Louis Pochanis	Director International Banking Services and Wealth, Brokerage & Asset Management
Aristos Stylianou	Executive Chairman, Insurance
Nick Fahy	Chief Executive Officer, BOC UK & BOC Channel Islands
Anna Sofroniou	Director Real Estate Management Unit
Nick Smith	Director Restructuring and Recoveries

Employees

As at 31 October 2016, being the last date practicable prior to the date of this Prospectus, the BOC Group had 3,923 employees, the majority of whom were employed by the BOC Group in Cyprus.

The following table sets out the BOC Group's employees as at the dates indicated:

	<u>30 September</u>	<u>30 June</u>		<u>31 December</u>		
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Banking companies	4,034	4,076	6,445	4,394	6,505	7,624
Non-banking companies	195	203	223	211	221	218
Total	<u>4,229</u>	<u>4,279</u>	<u>6,668</u>	<u>4,605</u>	<u>6,726</u>	<u>7,842</u>

The following table sets out the BOC Group's employees by geographical region as at the dates indicated:

	<u>30 September</u>	<u>30 June</u>		<u>31 December</u>		
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cyprus	3,955	4,018	4,335	4,344	4,334	4,352
Greece	7	7	11	8	12	36
Russia	4	7	2,071	3	2,137	2,706
United Kingdom	227	207	206	206	192	176
Channel Islands	1	1	1	1	1	1
Romania	35	39	44	43	50	67
Ukraine	—	—	—	—	—	504
Total	<u>4,229</u>	<u>4,279</u>	<u>6,668</u>	<u>4,605</u>	<u>6,726</u>	<u>7,842</u>

The BOC Group's personnel in Cyprus and the United Kingdom belong to unions. Some of the BOC Group's remaining personnel in Greece are unionised and personnel in other countries are not unionised.

The Cyprus Union of Bank Employees (the "Union") is party to a collective agreement with the Cyprus Bankers Employers' Association (of which the Bank was a member until 31 December 2013). The Bank and the Union have entered into a bilateral agreement in 2013 and agreed on a package of salary reductions, which were implemented by the Bank in June 2013. In January 2014 the Bank exited the Cyprus Bankers Employers' Association and has renewed the collective agreement with the Union. The

Bank has good relations with its staff and has never suffered industrial action other than actions directed at the banking sector in general in Cyprus.

Pension Schemes

The BOC Group operates several retirement benefit plans in Cyprus, Greece and the United Kingdom.

Cyprus

The main retirement plan for the BOC Group's permanent employees in Cyprus (87% of total BOC Group employees) is a defined contribution plan. This plan provides for employer contributions of 9% and employee contributions of 3% to 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 BOC 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

As part of the disposal of the Greek operations in 2013, the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation.

All the benefits payable under this defined benefit plan were paid out of the BOC Group's assets because this plan is unfunded. A small number of employees of the BOC Group's Greek subsidiaries continue to be members of the defined benefit plans.

United Kingdom

The BOC Group's employees in the United Kingdom (5% of total BOC Group employees) are covered by a defined contribution plan for all current employees which provides 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

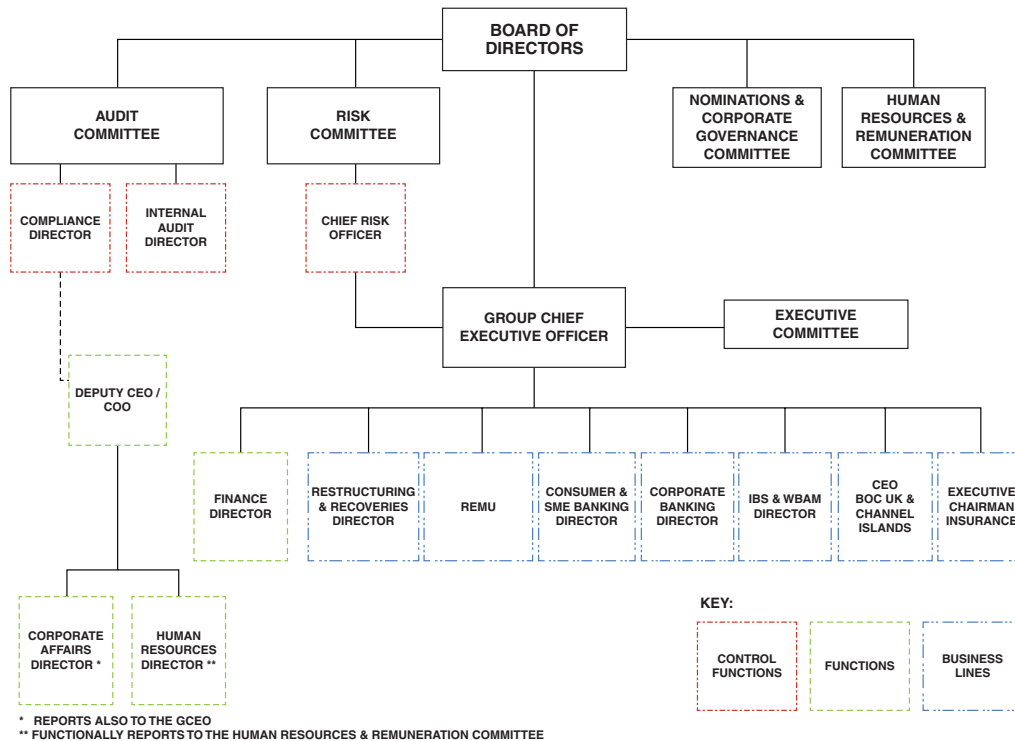
The BOC Group does not operate any retirement benefit plans in Romania and Russia.

Share Option Plan

The share option plan of the BOC Group is discussed in “*Additional Information—Share Option Plan*”.

BOC Group Management Structure

On 28 April 2016, the BOC Group announced a revision of its management organisational structure to simplify and drive synergies across its business. The structure chart below sets out the key officers, committees and divisions of the management structure:



BOC Group Compliance Division

The BOC Group Compliance Division (“GCD”) is an independent division responsible for facilitating the management of compliance risk and, with executive management, developing a corporate culture of ethics characterised by high standards of integrity, transparency, confidentiality and regulatory compliance through the implementation of an appropriate governance structure for the management and execution of the compliance function across the BOC Group. This entails the development and implementation of policies and controls for the prompt and on-going compliance by the Bank with the regulatory framework both in Cyprus and abroad. The compliance programme includes staff training at all levels, regular compliance reporting, cross-BOC Group communication on compliance matters and monitoring of the compliance function across the BOC Group.

Compliance risk is the risk of impairment to the BOC Group’s business model, reputation and financial condition from the failure to comply with laws and regulations, internal standards and policies. The scope of the compliance function also includes advising on compliance regulatory requirements, market conventions and codes of practice promoted by industry associations. Following the Scheme becoming Effective, GCD will bear the overall responsibility for the compliance function of the BOC Group and the Director of the GCD will report directly to the Audit Committee of the BOCH Board of Directors.

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

- *The Regulatory and Ethics Compliance Department.* The overall objective of this department is to establish and maintain an ethical corporate culture for the BOC Group and its primary responsibilities include facilitating the identification, management and monitoring of compliance risk, reporting on key compliance issues, monitoring and supporting key corporate governance responsibilities, monitoring new legislation and regulations, supporting BOC Group subsidiaries and branches with their compliance matters and managing the training of staff on regulatory and compliance matters; and

- *The Group Financial Crime Compliance Department.* This department is divided into four sub-departments:
 - (i) The Financial Crime Risk Monitoring Unit is primarily responsible for investigating alerts, carrying out internal investigations, submitting reports on suspicious transactions to the financial intelligence unit and responding to compliance queries;
 - (ii) The Financial Crime Assurance and Risk Management Unit is primarily responsible for onsite anti-money laundering visits and risk-control self-assessments. It is also responsible for monitoring overseas operations policy, the policy and procedures framework of the department and the training of staff in respect of anti-money laundering;
 - (iii) The Financial Crime Third Party Risk Assessment Unit performs due diligence on new and existing client accounts, reviews of introducers and reviews of politically exposed persons; and
 - (iv) The Financial Crime Customer Risk Assessment Unit performs reviews of high/significant risk clients, sanctions monitoring, correspondent banks assessments and handling of correspondent banks' inquiries.

In addition to the four units described above, the Operations Unit, which forms part of the overall compliance function, administers information technology systems as well as the required reporting to the CBC.

The following anti-money laundering policies have been approved by the Bank Board of Directors:

- *Risk Appetite Statement and Guidelines in Relation to Mitigating Risk Pertaining to Money Laundering and Terrorist Financing.* This policy provides a framework for executive management and the Bank Board of Directors to more clearly define a risk based strategy for the prevention and suppression of money laundering and terrorist activities.
- *Policy Relating to the Prevention of Money Laundering and Terrorism Financing.* This policy sets out rules on the appointment of a compliance officer for each subsidiary company, performance of due diligence on customers and transaction parties and the retention of appropriate records and data for at least 10 years.

For all BOC Group entities that are required by applicable rules and regulations to have a compliance division, a unit must be established with responsibility for the prevention and suppression of money laundering and terrorist financing. Where there is no requirement for a compliance division, the relevant compliance officer must have access to adequate resources. In each case, the functional reporting line of the relevant compliance officer is to the Director of BOC Group Compliance.

- *Customer Acceptance Policy.* This policy sets out the framework for the evaluation of customer risk, including establishing guidelines for identifying high-risk industries and entities (e.g. politically exposed persons, trusts and client accounts) and prohibiting the establishment of a business relationship with certain persons (e.g. persons connected with sanctioned countries).

For those politically exposed persons not caught by the general prohibition on the establishment of a business relationship, this policy requires enhanced due diligence to be performed and the approval of senior management before a business relationship is established and, thereafter, the monitoring of account activity.

- *Sanctions Policy.* This policy sets out instructions on the treatment of, and compliance, with sanctions administered by the United Nations, the European Union and other applicable bodies (e.g. Office of Foreign Assets Control of the U.S. Department of the U.S. Treasury). This policy includes information on affected countries, guidance on the type of transaction covered and instructions on internal reporting.

For more information, see “—*Risk Factors—Conduct and Reputational Risk—The BOC Group is exposed to the risk of fraud and illegal activities*”.

The Regulatory and Ethics Compliance Department has issued and the Bank Board of Directors has approved the following BOC Group policies:

- Group Customer Complaints Management Policy;
- Group Competition Law Compliance Policy;

- Group Whistleblowing Policy;
- Group Anti-Bribery Policy;
- Personal Data Protection Policy;
- Group Policy on Transactions on BOC Financial Instruments by Persons in Possession of Inside Information (Market Abuse);
- Policy on Regulatory Coordination and Communication with Competent Authorities;
- BOC Group MiFID Policy;
- Group Regulatory & Ethics Compliance Governance Policy;
- Conflicts of Interest Policy;
- Group Policy on the Exchange of Financial & Tax information;
- Group Corporate Governance Policy;
- Group Policy on Fitness and Probity of Directors, Managers and Key Function Holders;
- Group Board Nominations Policy; and
- Group Board Diversity Policy.

BOC Group Internal Audit

The BOC Group Internal Audit Division (“**GIA**”) is an independent division responsible for examining and evaluating the risk management, internal controls and corporate governance systems of the BOC Group. GIA had 43 staff at 30 June 2016.

GIA is led by the BOC Group Internal Audit Director (“**GIAD**”) who reports directly to the BOC Group’s Audit Committee and Board of Directors. In addition, the GIAD works closely with the Directors of GCD and RMD in relation to internal audits and GIA cooperates with the BOC Group’s external auditors in connection with the results of external audits, including the implementation and monitoring of any recommendations made by the external auditors.

Since 2015, GIA underwent a significant reorganisation to align itself with the International Professional Practices Framework (“**IPPF**”) of the Institute of Internal Auditors (“**IIA**”). Consistent with this framework, GIA expects to further improve its evaluation of the effectiveness of risk management, control and governance processes in line with international best practices. GIA is governed by the GIA Charter, which is formed in accordance with the aforementioned standards and complies with the requirements of the CBC on Governance and Management of Credit Institutions. With respect to the risk management framework, the BOC Group relies on a “three lines of defence” model. The first line of defence, the front line, is the individual business units are involved in day-to-day operations and are required to apply internal controls and other risk responses to address risks associated with those operations. The second line of defence, RMD and GCD, are both responsible for overseeing and testing risk management and compliance by the individual business lines and developing an appropriate risk management framework. As the third line of defence, GIA reviews the first- and second-lines to provide an objective, independent perspective, based on professional practice standards, and offer assurance of effective risk management and controls and corporate governance.

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

- *Information Systems Audit.* This department reviews and addresses risks pertaining to information systems within the Bank.
- *Network Audits and Investigations.* This department is comprised of two units:
 - Network Audit Unit is responsible for the network of the Bank, including branches, international banking units, and corporate and business centres.
 - Investigations Unit is responsible for the performance of investigations. In addition, this unit is responsible for monitoring and managing the Bank’s internal “whistleblower” hotline and any complaints raised thereby.

- *Central Functions and Subsidiaries.* This department is responsible for the Bank's central functions departments and the Bank's subsidiaries and is engaged in various regulatory audits of the foregoing departments and subsidiaries.

In addition to the departments above, the GIAD is assisted by the GIA Office, which is responsible for the Quality Assurance and Improvement Programme, all external communications and the provision of support to the GIAD.

BOC UK has a separate internal audit division. However, as part of its activities, GIA conducts quality reviews of BOC UK's internal audit division and assists by performing audits of BOC UK in areas where audit expertise is required, such as information systems audits.

Pursuant to its Charter, GIA prepares a triennial audit plan ("TAP") that formulates objectives and audit plans and engagements with a three-year horizon that is reviewed semi-annually. The TAP reviews and assesses the risks derived from BOC Group's operations that are subject to auditing, the audit universe, and addresses all internal and external factors that might affect the risk environment. The TAP also updates the internal risk register and prepares for the execution of an optimal audit plan. Prior to the finalisation of the TAP, the GIAD consults with senior management and the Board of Directors to confirm that the TAP is adequately responsive to and aligns with the BOC Group's goals and objectives.

In addition to the TAP, GIA is also focused on achieving full conformity with the IPPF and professional standards and has developed a Quality Assurance and Improvement Programme. The programme focuses on evaluating the internal audit activity, assessing the internal audit's efficiency and effectiveness, identifying opportunities for improvement, and complying with the IIA's Definition of Internal Auditing, the Code of Ethics and the IPPF professional standards. The programme includes ongoing monitoring of internal audit activity and policies, periodic assessments, and ensures that external assessment of the internal audit function is undertaken at least once every five years.

CAPITALISATION AND INDEBTEDNESS

The tables below set forth the BOC Group's consolidated capitalisation and indebtedness as at 30 September 2016.

BOCH was incorporated on 11 July 2016 with a nominal share capital of €1.00 and is expected to become the holding company of the BOC Group upon the Scheme becoming Effective as described under "*The Scheme of Arrangement*". BOCH has not traded or undertaken significant transactions since incorporation. As such, no historical financial information of BOCH has been provided.

The BOCH Directors declare that there were no major changes in the financial position of BOCH or the BOC Group that would affect the equity and borrowings, as listed in this section from 30 September 2016 to the date of this Prospectus.

Capitalisation (unaudited)

	As at 30 September 2016 (€'000,000)
Total current debt (maturity up to one year)	—
<i>of which: secured</i>	—
<i>of which: unsecured⁽¹⁾</i>	—
<i>of which: subordinated debt</i>	—
Total non-current debt (excluding current portion of long-term debt)	—
<i>of which: secured</i>	—
<i>of which: unsecured⁽²⁾</i>	—
<i>of which: subordinated debt</i>	—
Equity:	
Share capital	892
Share premium	553
Capital reduction reserve	1,952
Revaluation and other reserves	241
<i>Shareholders' equity</i>	3,063
Total capitalisation	3,103

(1) Current portion of medium term senior debt.

(2) Total of medium term senior debt with a remaining maturity of more than one year.

The following table shows the BOC Group's indebtedness as at 30 September 2016.

Net indebtedness (unaudited)

	As at 30 September 2016
	(€'000,000)
Liquidity:	
Cash and balances with central banks	1,587
Placements with banks ⁽¹⁾	936
Investments available for sale	54
Total liquidity ⁽²⁾	<u>2,577</u>
Current financial receivables ⁽³⁾	7,720
Current financial debt (maturity up to one year):	
Current bank loans ⁽⁴⁾	(2,305)
Current portion of non-current debt ⁽⁵⁾	<u>(14,842)</u>
Total current financial debt	<u>(17,147)</u>
Net current financial indebtedness	<u>(6,850)</u>
Non-current financial indebtedness:	
Non-current bank loans ⁽⁶⁾	(106)
Debt Securities in issue ⁽⁷⁾	—
Other non-current debt ⁽⁸⁾	<u>(1,493)</u>
Non-current financial indebtedness	<u>(1,599)</u>
Net financial indebtedness	<u>(8,449)</u>

(1) Placement with banks and investments available for sale with a remaining maturity of one month or less.

(2) Liquidity is not equal to the liquidity buffer held for liquidity contingency purposes.

(3) Total of financial assets with a remaining maturity up to one year, excluding cash and balances with central banks excluding investments available for sale with a remaining maturity up to one month and excluding placements with banks with a remaining maturity of up to one month.

(4) Total of obligations to central banks and amounts due to banks within one year.

(5) Total of financial, liabilities excluding obligations to central banks and amounts due to banks, with maturity due within one year, including repurchase agreements, derivative financial liabilities, customer deposits, debt securities in issue and financial liabilities included in disposal groups held for sale, all with a remaining maturity up to one year.

(6) Total of obligations to central banks and amounts due to banks with remaining maturity of more than one year.

(7) Total of debt securities in issue with a remaining maturity of more than one year.

(8) Total of repurchase agreements, derivative financial liabilities, customer deposits, and financial liabilities included in disposal groups held for sale, all with a remaining maturity of more than one year.

Indirect and contingent indebtedness (unaudited)

	As at 30 September 2016
	(€'000,000)
Contingent Liabilities:	
Acceptance and endorsements	7
Guarantees	806
Commitments:	
Documentary credits	25
Undrawn formal standby facilities, credit facilities and other commitments to lend . .	<u>1,993</u>
Total indirect and contingent indebtedness	<u>2,831</u>

SELECTED FINANCIAL INFORMATION

The selected financial and other information of the BOC Group provided below should be read in conjunction with the information contained in “Historical Financial Information”, “Q3 Review Report and Interim Condensed Consolidated Financial Statements of the BOC Group as at and for the Nine Month Period Ended 30 September 2016”, “Presentation of Financial and Other Information”, “Capitalisation and Indebtedness”, “Operating and Financial Review” and “Current Trading, Trends and Prospects” included in this Prospectus, in addition to the other financial information appearing elsewhere in this Prospectus.

The selected financial information of the BOC Group as at and for the six months ended 30 June 2016 and the years ended 31 December 2013, 2014 and 2015, respectively set out below has been extracted or derived without material adjustment from the Historical Financial Information and BOC Group’s accounting records and financial reporting systems. The selected financial information of the BOC Group as at and for the nine months ended 30 September 2016 and 2015 has been extracted or derived without material adjustment from the Third Quarter Financial Report and BOC Group’s accounting records and financial reporting systems. The selected financial information of the BOC Group as at and for the six months ended 30 June 2015 and as at and for the nine months ended 30 September 2016 and 2015 is unaudited. Additionally any other financial information which is unaudited is marked as such.

Consolidated Income Statement

	Nine months ended 30 September		Six months ended 30 June	
	2016 (unaudited) €000	2015 (unaudited) €000	2016 (€000)	2015 unaudited (€000)
Continuing operations				
Interest income	680,323	863,416	467,658	591,115
Interest expense	(155,836)	(219,068)	(107,196)	(152,529)
Net interest income	524,487	644,348	360,462	438,586
Fee and commission income	118,908	121,783	78,412	83,258
Fee and commission expense	(6,877)	(6,746)	(4,544)	(4,141)
Net foreign exchange gains	27,904	30,963	16,313	23,292
Net gains on financial instrument transactions	65,727	28,254	57,389	28,717
Insurance income net of claims and commissions	34,672	31,818	24,633	20,269
Gains/(losses) from revaluation and disposal of investment properties	5,649	(36,128)	5,806	(23,384)
(Losses)/gains on disposal of stock of property	(3,042)	647	(3,533)	243
Other income	10,421	12,045	7,577	8,846
Total income	777,849	826,984	542,515	575,686
Staff costs	(233,558)	(176,599)	(179,279)	(118,017)
Other operating expenses	(163,747)	(146,585)	(109,556)	(97,401)
	380,544	503,800	253,680	360,268
Gain on derecognition of loans and advances to customers and changes in expected cash flows	37,994	263,392	22,166	230,039
Provisions for impairment of loans and advances to customers and other customer credit losses	(304,876)	(592,764)	(179,925)	(463,926)
Impairment of other financial instruments	(11,822)	(37,105)	(12,228)	(31,168)
Impairment of non-financial instruments	(22,012)	—	(9,362)	—
Profit before share of profit from associates and joint ventures	79,828	137,323	74,331	95,213
Share of profit from associates and joint ventures	3,189	3,641	1,606	3,438
Profit before tax from continuing operations	83,017	140,964	75,937	98,651
Income tax	(17,839)	(17,631)	(13,695)	(10,475)
Profit after tax from continuing operations	65,178	123,333	62,242	88,176
Discontinued operations				
Loss after tax from discontinued operations	—	(65,107)	—	(36,267)
Profit for the period	65,178	58,226	62,242	51,909
Attributable to:				
Owners of the Bank—continuing operations	61,627	129,048	56,372	89,325
Owners of the Bank—discontinued operations	—	(55,839)	—	(29,105)
Total profit attributable to the owners of the Bank	61,627	73,209	56,372	60,220
Non-controlling interests—continuing operations	3,551	(5,715)	5,870	(1,149)
Non-controlling interests—discontinued operations	—	(9,268)	—	(7,162)
Total profit/(loss) attributable to non-controlling interests	3,551	(14,983)	5,870	(8,311)
Profit for the period/year	65,178	58,226	62,242	51,909

	Year ended 31 December		
	2015	2014	2013
	(€'000)	(€'000)	(€'000)
Continuing operations			
Interest income	1,122,105	1,343,014	1,421,505
Interest expense	(279,665)	(373,345)	(536,310)
Net interest income	842,440	969,669	885,195
Fee and commission income	162,557	159,827	159,120
Fee and commission expense	(9,100)	(7,960)	(19,481)
Net foreign exchange gains/(losses)	38,367	(14,793)	(9,808)
Net gains on financial instrument transactions	47,129	176,850	7,174
Insurance income net of claims and commissions	47,905	45,610	64,956
Losses from revaluation and disposal of investment properties	(53,080)	(12,021)	(75,428)
Gains on disposal of stock of property	882	126	85
Other income	16,725	11,942	12,268
Total income	1,093,825	1,329,250	1,024,081
Staff costs	(233,631)	(234,424)	(385,293)
Other operating expenses	(225,038)	(228,482)	(208,050)
	<u>635,156</u>	<u>866,344</u>	<u>430,738</u>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	305,089	47,338	26,643
Provisions for impairment of loans and advances to customers and other customer credit losses	(1,264,554)	(816,983)	(945,048)
Impairment of other financial instruments	(43,503)	(56,540)	(22,525)
Impairment of non-financial instruments	(18,103)	(33,295)	(410)
(Loss)/profit before share of profit from associates and joint ventures	(385,915)	6,864	(510,602)
Share of profit/(loss) from associates and joint ventures	5,923	4,852	(4,702)
(Loss)/profit before tax from continuing operations	(379,992)	11,716	(515,304)
Income tax	(9,203)	(10,877)	(1,778)
(Loss)/profit after tax from continuing operations	(389,195)	839	(517,082)
Discontinued operations			
Loss after tax from discontinued operations	(65,107)	(322,216)	(1,551,013)
Loss for the year	(454,302)	(321,377)	(2,068,095)
Attributable to:			
Owners of the Bank—continuing operations	(382,513)	19,162	(513,962)
Owners of the Bank—discontinued operations	(55,839)	(280,319)	(1,542,127)
Total loss attributable to the owners of the Bank	(438,352)	(261,157)	(2,056,089)
Non-controlling interests—continuing operations	(6,682)	(18,323)	(3,120)
Non-controlling interests—discontinued operations	(9,268)	(41,897)	(8,886)
Total loss attributable to non-controlling interests	(15,950)	(60,220)	(12,006)
Loss for the year	(454,302)	(321,377)	(2,068,095)

Consolidated Balance Sheet

	30 September	30 June	31 December		
	2016	2016	2015	2014	2013
	(unaudited)	(€'000)	(€'000)	(€'000)	(€'000)
	(€'000)				
Assets					
Cash and balances with central banks	1,587,386	1,518,663	1,422,602	1,139,465	1,240,043
Loans and advances to banks	1,183,579	1,174,123	1,314,380	1,646,886	1,290,102
Derivative financial assets	11,965	14,303	14,023	62,598	28,765
Investments	193,308	316,357	588,255	1,871,136	2,759,855
Investments pledged as collateral	401,914	523,386	421,032	669,786	672,809
Loans and advances to customers	15,939,593	16,253,237	17,191,632	18,168,323	21,764,338
Life insurance business assets					
attributable to policyholders	490,503	481,409	475,403	472,992	443,579
Prepayments, accrued income and					
other assets	232,731	238,118	281,780	322,832	413,005
Stock of property	1,304,628	1,128,793	515,858	12,662	14,110
Investment properties	37,519	37,505	34,628	488,598	495,658
Property and equipment	282,127	282,640	264,333	290,420	414,404
Intangible assets	142,297	138,537	133,788	127,402	130,580
Investments in associates and joint					
ventures	112,582	110,009	107,753	116,776	203,131
Deferred tax assets	450,397	451,126	456,531	456,871	479,060
Non-current assets and disposal					
groups held for sale	11,569	11,460	48,503	942,655	—
Total assets	22,382,098	22,679,666	23,270,501	26,789,402	30,349,439
Liabilities					
Deposits by banks	371,378	342,762	242,137	162,388	196,914
Funding from central banks	1,950,045	3,100,667	4,452,850	8,283,773	10,956,277
Repurchase agreements	329,325	398,408	368,151	579,682	594,004
Derivative financial liabilities	50,460	59,037	54,399	71,967	83,894
Customer deposits	15,642,924	14,746,473	14,180,681	12,623,558	14,971,167
Insurance liabilities	574,586	569,681	566,925	576,701	551,829
Accruals, deferred income and other					
liabilities	315,576	321,435	282,831	350,431	202,042
Debt securities in issue	—	—	712	693	1,023
Subordinated loan stock	—	—	—	—	4,676
Deferred tax liabilities	45,140	45,211	40,807	44,741	49,937
Non-current liabilities and disposal					
groups held for sale	—	—	3,677	614,421	—
Total liabilities	19,279,434	19,583,674	20,193,170	23,308,355	27,611,763
Equity					
Share capital	892,294	892,294	892,294	892,238	4,683,985
Share premium	552,618	552,618	552,618	552,539	—
Capital reduction reserve	1,952,486	1,952,486	1,952,486	1,952,486	—
Shares subject to interim orders	—	—	—	441	58,922
Revaluation and other reserves	240,647	240,004	258,709	146,809	72,251
Accumulated losses	(575,442)	(583,710)	(601,152)	(79,021)	(2,151,835)
Equity attributable to the owners of					
 the Bank	3,062,603	3,053,692	3,054,955	3,465,492	2,663,323
Non-controlling interests	40,061	42,300	22,376	15,555	74,353
Total equity	3,102,664	3,095,992	3,077,331	3,481,047	2,737,676
Total liabilities and equity	22,382,098	22,679,666	23,270,501	26,789,402	30,349,439

Selected Financial Ratios and Other Data

“The selected financial ratios and other data presented below are measures that are not defined under IFRS. Such measures are defined by, and calculated in compliance with, the various EU and Cypriot regulations that apply to the Bank. The methodologies prescribed under such regulations provide for the exercise of certain discretions by the Bank in calculating the relevant measures. Such discretion means that these measures may not be directly comparable with those prepared by other banks.

	As at and for the nine months ended 30 September 2016	As at and for the six months ended 30 June 2016	As at and for the year ended 31 December		
	(unaudited)	(unaudited)	2015 (€000,000, except % and leverage ratio) (unaudited)	2014 (unaudited)	2013 (unaudited)
Key figures and ratios					
Net interest margin ⁽¹⁾	3.5%	3.6%	3.8%	3.9%	3.2%
Cost to income ratio ⁽²⁾	41.7%	41.8%	40.0%	36.5%	42.6%
Gross loans	19.6	21.1	22.6	22.8	26.7
Customer Deposits	15.6	14.7	14.2	12.6	15.0
Net Loans to deposits ratio ⁽³⁾	101.9%	109.9%	120.9%	141.5%	145.4%
Provisioning charge (cost of risk) ⁽⁴⁾	1.6%	1.4%	4.3%	3.6%	4.0%
90+DPD provision coverage ratio ⁽⁵⁾	53.6%	52.6%	48.1%	40.6%	38.3%
90+DPD ⁽⁵⁾ loans	8.8	9.3	11.3	12.7	13.0
90+DPD ratio ⁽⁵⁾	42.6%	44.0%	50.1%	53.2%	48.6%
Leverage ratio ⁽⁶⁾	7.2x	7.3x	7.6x	7.7x	11.1x
Basel II Regulatory Capital					
Common Equity Tier 1 capital ratio (CET 1)	14.6%	14.4%	14.0%	14.0%	10.4%
Tier 1 capital ratio	14.6%	14.4%	14.0%	14.0%	10.4%
Total capital ratio	14.7%	14.5%	14.1%	14.2%	10.6%
Risk-weighted assets	18.8	19.0	19.7	22.7	23.5
	(unaudited)	(unaudited)	(€000 except %) (unaudited)	(unaudited)	(unaudited)
CRD IV/CRR Regulatory Capital					
Transitional Common Equity Tier 1 (CET 1)	2,736,004	2,735,509	2,747,772	3,190,955	2,449,878
Transitional Additional Tier 1 capital (AT1)	—	—	—	—	—
Tier 2 capital (T2)	20,990	20,872	30,290	42,146	45,204
Transitional total regulatory capital .	2,756,994	2,756,381	2,778,062	3,233,101	2,495,082
Risk-weighted assets—credit risk . . .	16,746,501	16,920,944	17,618,578	20,624,507	21,468,518
Risk-weighted assets—market risk . .	6,433	7,489	7,811	5,025	3,398
Risk-weighted assets—operational risk	2,050,325	2,039,888	2,039,888	2,085,000	2,057,687
Total risk-weighted assets	18,803,259	18,968,321	19,666,277	22,714,532	23,529,603
Transitional Common Equity Tier 1 (CET 1) ratio	14.6%	14.4%	14.0%	14.0%	10.4%
Transitional total capital ratio	14.7%	14.5%	14.1%	14.2%	10.6%

(1) Net interest margin is calculated as the difference between the cost of lending and the interest income generated relative to the amount of interest-earning assets. Interest bearing assets include: cash and balances with central banks, plus placements with banks, plus repos, plus customer net loans and advances, plus investments (excluding equities and mutual funds) and derivatives.

(2) Cost-to-income ratio is the staff costs and other operating expenses excluding restructuring costs divided by total income, excluding gains/(losses) on disposals of non-core assets. Restructuring costs amount to €98.3 million, €87.4 million, €43.1 million, €36.2 million and €156.8 million as at 30 September 2016, 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013, respectively. Gains on disposal of non-core assets pre-tax was €0, €161.6 million, €54.2 million, €60.9 million and €60.9 million for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 and nine months ended 30 September 2016, respectively.

(3) Net loans are defined as gross loans less accumulated provisions (which is the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provisions for off-balance sheet exposures).

(4) Provisioning charge (cost of risk) (year to date) is calculated as the provisions for impairment of customer loans and provisions for off-balance sheet exposures, including provisions of discontinued operations, net of gain on derecognition of loans and advances to customers and changes in expected cash flows divided by average gross loans (the average balance calculated as the

average of the opening balance and the closing balance). The ratios for the six months ended 30 June 2016 and nine months ended 30 September 2016 are annualised.

- (5) 90+DPD ratio means loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery) divided by gross customer loans (gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired)). The provisioning coverage ratio for 90+DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, divided by 90+DPD.
- (6) The leverage ratio is the ratio of total assets to total equity for the relevant period.

OPERATING AND FINANCIAL REVIEW

The following is a discussion and analysis of the BOC Group's results of operations and financial condition as at and for the six months ended 30 June 2015 and 2016 and as at and for the years ended 31 December 2013, 2014 and 2015 prepared in accordance with IFRS.

The consolidated financial information for the six months ended 30 June 2015 is unaudited and is labelled as such. Additionally, any other financial information which is unaudited is labelled as such.

The discussion and analysis should be read, subject to the cautionary statements noted in "Risk Factors", in conjunction with the Historical Financial Information and the related notes thereto included on pages 218 through 464 of the Prospectus and other financial information included elsewhere in this Prospectus, as well as "Presentation of Financial and Other Information".

The following financial information in relation to the BOC Group has been extracted, or derived without material adjustment from, the Historical Financial Information or has been extracted or derived from those of the BOC Group's accounting records and financial reporting and management systems that have been used to prepare its financial information.

The Historical Financial Information is presented in euro which is the presentation currency used by the BOC Group, and is rounded to the nearest thousand (unless otherwise noted). Certain figures in this section may not add up exactly due to rounding. In addition, certain percentages in this section have been calculated using rounded figures.

Financial information relating to the financial position of the BOC Group as at and for the nine month period ended 30 September 2016 is included in "Q3 Review Report and Interim Condensed Consolidated Financial Statements of the BOC Group as at and for the Nine Month Period Ended 30 September 2016" and "Current Trading, Trends and Prospects".

OVERVIEW

The BOC Group is a leading full-service bank and financial services group in Cyprus. As at 30 June 2016, the BOC Group had total assets, total liabilities and total equity of €22.7 billion, €19.6 billion and €3.1 billion, respectively. As at 30 June 2016, based on CBC data, the BOC Group was the largest bank in Cyprus based on loans and deposits, with a market share of loans in Cyprus of 41.4% and a market share of deposits in Cyprus of 29.0%. As at 30 June 2016, the BOC Group operated through a total of 131 branches, of which 125 operated in Cyprus, one operated in Romania, four operated in the United Kingdom and one operated in the Channel Islands. The BOC Group also provides 24-hour online, mobile and telephone banking to its customers. As at 30 June 2016, the BOC Group had representative offices in Russia, Ukraine and China. As at 30 June 2016, the BOC Group employed 4,279 staff worldwide.

Key Factors Affecting Financial Condition and Results Of Operations

The Cypriot Economy

As at and for the six months ended 30 June 2016, 93.8% of the BOC Group's total assets, 92.9% of the BOC Group's total liabilities, and 92.9% of the BOC Group's total income derived from its operations in Cyprus. Therefore, the BOC Group's financial performance and results of operations are highly correlated with the economic conditions in Cyprus. For a detailed description of the macroeconomic environment in Cyprus which may have an impact on the BOC Group's financial results, see "*The Macroeconomic Environment in Cyprus*".

Transformational Events during the Periods under Review

A series of key events have occurred during the periods under review which impacted the BOC Group's results of operations for more periods. Those events are discussed below, in Note 2 (*Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group*) to the Historical Financial

Information and in “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*”, and include the following:

BOC Group restructuring and discontinued operations

The BOC Group underwent significant restructuring in order to meet the conditions for the implementation of the MoU, as summarised below and described more fully in “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*”:

Recapitalisation

The Resolution Authority effected the Recapitalisation, in which the claims of uninsured depositors, holders of debt securities and other creditors, were converted into equity. See “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*” in this Prospectus.

Acquisitions

During the financial periods under review, the BOC Group acquired certain operations, assets and liabilities, including the following:

In March 2013, the BOC Group acquired the insured deposits and the majority of the assets and liabilities of Laiki Bank pursuant to the Laiki Transfer Decrees issued by the Resolution Authority. Pursuant to the provisions of the Laiki Transfer Decrees, the Resolution Authority was required to perform a valuation of the transferred assets and liabilities of Laiki Bank and to determine a fair compensation for Laiki Bank. The Resolution Authority therefore appointed an international firm to carry out a valuation of the assets and liabilities transferred to the BOC Group. The fair value of the assets transferred was €15.1 billion (including a €1.2 billion receivable owed to Laiki Bank by the Bank in connection with the sale of the BOC Group’s Greek operations), including loans and advances to customers totalling €8.7 billion and investments totalling €2.4 billion. The fair value of the liabilities transferred included €4.2 billion of customer deposits and €9.1 billion of ELA funding. Further pursuant to the Laiki Transfer Decrees, the Resolution Authority required the Bank to issue a number of Class A shares to Laiki Bank, to compensate Laiki Bank, with no right of further compensation. These Class A shares were subsequently converted into ordinary shares. The Laiki Transfer Decrees required that the shares issued to Laiki Bank should constitute 18.1% of the issued share capital of the Bank after the Recapitalisation. Accordingly, 845,758,000 shares were issued to Laiki Bank.

On 1 April 2013, customer loans and advances totalling £718.4 million, as well as the premises of the United Kingdom branch of Laiki Bank, were transferred to the BOC Group pursuant to the Laiki Transfer Decrees.

On 29 January 2015, the Extraordinary General Meeting of the shareholders of Laiki Financial Services Ltd (“LFS”) approved the disposal of the shares of LFS to the Bank for a consideration of €3 million. Previously, LFS was 100% owned by LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd), a subsidiary of the Bank. As a result, the increase of the Bank’s holding from 67% to 100% in LFS was accounted for as an equity transaction.

In November 2015, CISCO, a subsidiary of the Bank, issued 1 million shares of a nominal value of €1.71 each, at a total premium of €534 thousand, for the transfer of the Bank’s investment in LFS to CISCO. Following the transfer of shares, LFS was dissolved, without liquidation, under the Cyprus Companies Law and its net assets were transferred to CISCO in accordance with a court order.

Disposals

During the financial periods under review, the BOC Group disposed of certain assets, liabilities and international operations, including the following:

In March 2013, the loans, fixed assets and deposits of the banking and leasing operations of the BOC Group in Greece were sold to Piraeus Bank pursuant to a decree issued by the Resolution Authority. The loans and fixed assets sold amounted to €7.9 billion and the deposits sold amounted to €7.7 billion. The loss on disposal was €1.4 billion.

In April 2013, in accordance with a relevant decree issued by the Resolution Authority, the BOC Group disposed of certain assets of its Romanian branch (including customer loans and related collateral, cash

and other liquid assets) amounting to €82.0 million and liabilities (including customer deposits) amounting to €77.0 million, to Marfin Bank Romania. The loss on disposal was €4.5 million.

In April 2014, the BOC Group sold its Ukrainian business, comprising its 99.8% holding in PJSC Bank of Cyprus, the funding provided by the BOC Group to PJSC Bank of Cyprus and its loans with Ukrainian exposures, to the Alfa Group, a Russian banking group. The total consideration was €198.9 million, comprising €98.9 million received and €100.0 million deferred until 31 March 2015. On 30 May 2015 the terms of the deferred consideration and the related interest rate were amended. The deferred consideration will be paid to the BOC Group under a repayment programme which extends until 1 June 2019. The loss on disposal was €114.2 million.

In April 2014, the BOC Group sold its 9.99% equity stake in Banca Transilvania, in Romania, for approximately €82 million. The gain on disposal was €47.5 million.

In May 2014, the BOC Group sold loans extended to a Serbian real estate management company (at the time representing one of the BOC Group's largest concentrations of NPLs), to Piraeus Bank for approximately €165.0 million. The gain on disposal was €27.2 million. These loans were previously transferred to the Bank following the acquisition of certain operations of Laiki Bank pursuant to the Laiki Transfer Decrees.

On 11 September 2014, the BOC Group disposed of its interest in GHES, a company incorporated in Romania that owned the JW Marriott Bucharest Grand Hotel, consisting of a facility agreement between GHES and the Bank's Romanian branch, the BOC Group's 35.3% shareholding in GHES and a subordinated loan agreement between GHES, as the borrower, and an associate of the BOC Group, as the lender. The sale consideration was €95.0 million. The loss on disposal was approximately €1.4 million.

On 31 October 2014, the BOC Group sold the UK Loan Portfolio to purchasers selected through a competitive process. The nominal value of the UK Loan Portfolio, as at the cut-off date for the transaction, was £289 million. The UK Loan Portfolio was not related to the BOC Group's wholly-owned subsidiary BOC UK, but was part of the UK loan portfolio transferred to the BOC Group pursuant to the Laiki Transfer Decrees.

In April and August 2015, the Bank completed the sale of its investments in MDSF and Byron Capital Partners Ltd. The aggregate total amount of the sales was approximately €89.0 million.

In September 2015, the Bank completed the sale of the majority of its Russian operations, comprising its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC, and certain other Russian loan exposures. The aggregate loss on disposal was €23.0 million.

In June 2016, the BOC Group completed the sale of Kermia Hotels Ltd and adjacent land for €26.5 million. The gain on disposal was €2.5 million.

The transactions listed above under “Disposals” are herein together referred to as the “Disposals”.

Discontinued operations

The BOC Group underwent a significant change in its operations during the early period covered by the Historical Financial Information, as a consequence of its divestment of non-core assets and operations outside Cyprus, as described above under “—Transformational Events during the Periods under Review — Disposals”. The geographic operating segments “Greece”, “Russia” and “Ukraine” are presented as discontinued operations for the historic periods that precede the date of the relevant sale.

For further information about discontinued operations please refer to Notes 3.26 (*Summary of significant accounting policies—Non-current assets held for sale and discontinued operations*), 7 (*Segmental Analysis*) and 54.4 (*Acquisitions and disposals—Disposals during the year 2015*) in the Historical Financial Information.

Capital Raising

The Bank was recapitalised in 2014 through a €1.0 billion Capital Raising from international private investors.

The insolvency and foreclosure framework

It is expected that the New Foreclosure Laws, the Insolvency Framework Laws, the Sale of Credit Facilities Law, together with a range of recently enacted tax incentives, will assist the BOC Group in negotiating with defaulted customers by providing for, among other things, the economic rehabilitation of bankrupt individuals where possible and introducing a new mechanism for the relief of individual debtors with no income or assets and low total debt. It is also expected to lead to a reduction of the recovery period in the case of asset repossession from defaulted customers. An improved realisation rate for delinquent loans should improve the BOC Group's ability to manage its assets and its liquidity.

Improved ratings

Despite Cyprus exiting the EAP in March 2016, the credit ratings of Cyprus continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations. This resulted in the repayment of €100 million of ECB funding at the end of March 2016, which had been collateralised by the Cyprus Government Bonds (as defined below). The repayment materially reduced the available ECB buffer.

Tax and other fiscal measures

Pursuant to the MoU, the House of Representatives of Cyprus ratified a number of bills relating to direct and indirect taxes that have impacted the results of RRD, the most important of which were: the increase of the corporate tax rate from 10% to 12.5% as at 1 January 2013; the ability to carry forward any accumulated losses of a transferring credit institution at the time of transfer by the acquiring credit institution for a period of up to fifteen years; the increase of the special defence contribution rate of interest from 15% to 30% as at 29 April 2013; the passage of the Assessment and Collection of Taxes Law, which amended the definitions relating to the books and records required to be maintained, and the supporting documentation necessary, for the preparation and filing of tax returns; the increase of the immovable property tax rates for 2013 to a range from 0.6% to 1.9% of the value of the property as at 1 January 1980; and the increase of the special levy paid by banking institutions on deposits from 0.11% to 0.15% as at 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as at the end of the relevant previous quarter at the rate of 0.0375%.

Liquidity

During the periods under review, the BOC Group had limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus during 2013, the Recapitalisation and the acquisition of certain operations of Laiki Bank in March 2013, resulted in reliance on ELA funding. The level of ELA funding at 30 June 2016 amounted to €2.4 billion, down from €3.8 billion at 31 December 2015 and €7.4 billion at 31 December 2014, which reflected an overall reduction of 78.9% from its peak of €11.4 billion in April 2013. Customer deposits decreased by €1.8 billion, or 12.0%, from €15.0 billion at 31 December 2013 to €13.2 billion at 31 December 2014 (including deposits classified as held for sale), reflecting the customer deposit outflows driven by the Recapitalisation, the continued erosion of the customer base and the disposal of overseas deposit bases. In order to normalise its funding structure, the BOC Group increased its marketing effort to attract deposits, which increased by €1.0 billion (including deposits classified as held for sale), or 7.7%, from €13.2 billion as at 31 December 2014 to €14.2 billion as at 31 December 2015, and by a further €566 million to €14.7 billion as at 30 June 2016, which the Bank believes is primarily the result of both marketing efforts and increased confidence in the Bank.

The Bank's reliance on central bank funding represented 15.8% of total liabilities as at 30 June 2016. The BOC Group intends to continue with further ELA repayments, the pace of which will be dependent both on the level of customer deposits and the prevailing market conditions which affect the BOC Group's ability to raise wholesale funding. In this context, the Bank successfully accessed the wholesale funding market in May 2016 for the first time since the events of March 2013, completing a secured financing transaction (repurchase agreement) with an international bank.

Following the restructuring of the Bank's Covered Bond Programme in September 2015 and the rating upgrade of the covered bonds issued thereunder on 29 September 2015 to Baa3 by Moody's Cyprus, the covered bonds issued under the programme became eligible collateral for Eurosystem monetary operations. In October 2015 this eligibility provided increased access to ECB funding for the BOC Group and this funding was used for further ELA repayments. In May 2016, the Bank increased its ECB funding

by using as collateral a pool of housing loans which satisfied the criteria of the Additional Credit Claims framework, as determined in accordance with the implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016. As at 30 June 2016, the Bank had €700 million of ECB funding.

Despite the increase in the percentage of total funding that is made up of customer deposits in Cyprus over the course of 2015 and the first half of 2016, the BOC Group remains reliant on central bank funding and continues to be in breach of many of its regulatory liquidity requirements. This is as a result of prioritising the repayment of ELA funding (the most significant portion of which was inherited from Laiki Bank) over the meeting of its regulatory liquidity requirements. While reliance on ELA adversely affects the BOC Group's prescribed liquidity ratios because the ELA is short-term and a significant portion of the BOC Group's liquidity is used to repay ELA, neither the ECB nor the CBC has imposed any fines or taken any other supervisory actions within their remit with respect to these breaches, other than having imposed strict reporting requirements on the Bank with respect to its cash flow and liquidity position and a number of operating restrictions on the BOC Group, including prohibiting the distribution of dividends by the Bank and the provision of variable remuneration to BOC Group employees, as well as requiring the Bank to obtain the prior approval of the ECB before providing capital or funding to any subsidiary. Once the ELA is repaid, in full, the BOC Group expects gradually to come into compliance with its liquidity ratios. (see *"Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially and adversely affect the BOC Group's business, financial condition, results of operations and prospects"*).

Asset Quality

Addressing asset quality remains the BOC Group's main priority. While the challenging macroeconomic environment in Cyprus continues to affect the BOC Group's asset quality, the strategies employed by RRD are yielding positive results. The New Foreclosure Laws, the Insolvency Framework Laws, the Sale of Credit Facilities Law and the range of tax incentives, together with the restructuring and workout activity implemented by RRD, the effective interaction with borrowers and the improving fundamentals of the Cypriot economy, are playing a significant role in reducing the level of delinquent loans.

Prior to 31 December 2014, NPLs were reported in accordance with the Directive on Loan Impairment and Provisioning Procedures of 2014 as published by the CBC in February 2014 and, from 31 December 2014, NPLs and provisions are reported in accordance with the EBA reporting standards and the Loan Provisioning Directive. The Bank's NPEs were €14,961.2 million at 31 December 2014, representing 62.9% of gross loans, and €13,967.9 million at 31 December 2015, representing 61.8% of gross loans. At 30 June 2016, NPEs were €12,493.2 million, representing 59.3% of gross loans. For a further discussion of asset quality, see *"Restructuring and Recoveries Division and Real Estate Management Unit"*.

FINANCIAL SEGMENTATION OF THE BOC GROUP

Continuing Operations

The BOC Group is currently organised into five operating segments based on geographic location: 'Cyprus', 'Greece', 'Romania', 'Russia' and the 'United Kingdom'. Because substantially all of the Bank's operations and measures of contribution are attributable to Cyprus, for purposes of this Prospectus the activities in Greece, Romania, Russia and the United Kingdom are grouped into one segment designated 'Other countries'. In 'Other countries', the BOC Group provides banking services, financial and insurance services, as well as management of properties either held as stock or as investment property.

From 2015 onwards, the BOC Group's Cyprus segment was further organised into eight operating segments based on the following business lines: 'Corporate Banking', 'Small and Medium Sized Enterprises Banking', 'Retail Banking', 'Restructuring and Recoveries', 'International Banking Services', 'Wealth, Brokerage and Asset Management', 'Insurance', 'Other' and, from December 2015 onwards, 'REMU' which reports real estate management results. The BOC Group's activities in the Cyprus segment include the provision of banking, financial and insurance services, as well as the management of property either held as stock or as investment property and the hotel business. The business line 'Other' includes group and head office functions such as treasury, finance, risk management, compliance, legal, corporate affairs, IT and human resources. Head office functions provide services to the operating segments.

For a discussion of the segmental analysis of discontinued operations and how BOC Group management monitors the operating results of, and income and expenses included in, each business segment, see Note 7 (*Segmental Analysis*) to the Historical Financial Information.

Explanation of Certain Income Statement Line Items

Net interest income

Net interest income represents interest income less interest expense. Interest income includes interest received on loans and advances to customers and on interest bearing investments. Interest expense includes interest paid on customer deposits and other funding costs, primarily funding from central banks, including ELA funding from the CBC and funding from the ECB monetary policy operations.

On 1 July 2014, 9 June 2015 and 16 December 2015, the Public Debt Management Office of Cyprus repaid the nominal value of €950.0 million, €750.0 million (unaudited) and €340.0 million (unaudited), respectively, of an outstanding €1,987.0 million sovereign bond held by the Bank. The bond was transferred to the Bank in March 2013 as part of the acquisition of assets and liabilities of Laiki Bank. The bond was pledged as collateral with the ECB, and the Bank used the proceeds of repayment to reduce its ECB funding and ELA. As the bond was transferred to the Bank at fair value and redeemed at nominal value, the BOC Group recognised a profit of €99.5 million (unaudited) in July 2014, a profit of €30.8 million in June 2015 and a profit of €13.5 million (unaudited) in December 2015. The early repayment led to a decline in interest income for the years ended 31 December 2014 and 2015. This bond is referred to herein as the “**Cyprus Government Bond**”.

In accordance with the terms of the Laiki Transfer Decrees, during 2013 the Bank assumed the rights and obligations of Laiki Bank in its role as issuer of two bonds guaranteed by the Cyprus government of €500 million each. The bonds had been issued by Laiki Bank on 14 November and 27 November 2012. At the date of the transfer to the BOC Group, the bonds had maturity dates of 13 November 2013 and 26 November 2013, respectively. The maturity of the bonds was extended in November 2013 for a further period of one year. In November 2014, the maturity of the bonds was extended for a further period of 3 years. The bonds bore annual fixed interest of 5%. The bonds were guaranteed by the Cyprus Government and were issued in accordance with the relevant legislation and decrees on the ‘Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law’. No liability from the issue of these bonds was presented in ‘debt securities in issue’ in the Historical Financial Information as the bonds were held by the Bank. Given that the bonds were pledged as collateral for obtaining funding from central banks, ‘interest expense’ included funding costs relating to such bonds. The bonds were listed on the Cyprus Stock Exchange. These bonds are referred to herein as the “**Government guaranteed bonds**”. See “—*BOC Group Consolidated Balance Sheet as at 30 June 2016 and 31 December 2015, 2014 and 2013—Debt Securities in Issue—Government guaranteed bonds*”.

Net foreign exchange gains/(losses)

Net foreign exchange gains/(losses) represent the conversion of monetary assets in foreign currency at the reporting date, realised gains and losses from transactions in foreign currency which have been settled during the periods under review and the revaluation of foreign exchange derivatives.

Losses from revaluation and disposal of investment properties

Losses on the disposal of investment property are recognised in the consolidated income statement in ‘Losses from revaluation and disposal of investment properties’ when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed. Valuations are carried out by independent qualified valuers or by the internal qualified valuers of the BOC Group applying a valuation model recommended by the International Valuation Standards Council.

(Losses)/gains on disposal of stock of property

These are recognised in the consolidated income statement when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

Other operating expenses

Other operating expenses include operating lease rentals, repairs and depreciation of property and equipment, communication expenses, provision for settlement of litigation or claims, and advisory and other restructuring costs.

Gain on derecognition of loans and advances to customers and changes in expected cash flows

The gain on derecognition of loans and advances to customers and changes in expected cash flows arose on acquisition of the loans that the BOC Group acquired in 2013 through the acquisition of certain operations of Laiki Bank, at an amount which was higher than their carrying amount on that operation date and on changes in expectations of future cash flows compared to the cash flows expected at the time of acquisition. The gain on derecognition and changes in expected cash flows relates to a part-reversal of the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank. In accordance with the provisions of IFRS 3, this adjustment 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 and the fair value adjustment is considered as part of provisions and the BOC Group reviews both of them as a single item. See Note 17 (*Impairment of financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows*) to the Historical Financial Information.

Provisions for impairment of loans and advances to customers and other customer credit losses

The BOC Group classifies its loan portfolio in three categories: neither past due nor impaired, past due but not impaired, and impaired. Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectible and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in RRD's debt recovery unit.

In February 2014, the CBC issued the Loan Provisioning Directive, which provides guidance to credit institutions in connection with their loan impairment policies and procedures for provisions. The purpose of the Loan Provisioning Directive is to ensure that credit institutions have in place adequate provisioning procedures for the identification of credit losses and prudent application of IFRS in the preparation of their financial statements. The Loan Provisioning Directive requires certain disclosures in relation to the Bank's loan portfolio quality, provisioning policy and level of provisions. The disclosures required by the Loan Provisioning Directive, in addition to those presented in the notes to the BOC Group's Historical Financial Information, are set out in its Additional Risk and Capital Management Disclosures. The disclosures are principally focused on the BOC Group's NPEs (calculated on the basis of the definition contained in the EBA's Implementing Technical Standards).

**BOC GROUP CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016 AND 2015**

	Six months ended 30 June	
	2016	2015
Continuing operations	(€'000)	unaudited (€'000)
Interest income	467,658	591,115
Interest expense	(107,196)	(152,529)
Net interest income	360,462	438,586
Fee and commission income	78,412	83,258
Fee and commission expense	(4,544)	(4,141)
Net foreign exchange gains	16,313	23,292
Net gains on financial instrument transactions	57,389	28,717
Insurance income net of claims and commissions	24,633	20,269
Gains/(losses) from revaluation and disposal of investment properties	5,806	(23,384)
(Losses)/gains on disposal of stock of property	(3,533)	243
Other income	7,577	8,846
	542,515	575,686
Staff costs	(179,279)	(118,017)
Other operating expenses	(109,556)	(97,401)
	253,680	360,268
Gain on derecognition of loans and advances to customers and changes in expected cash flows	22,166	230,039
Provisions for impairment of loans and advances to customers and other customer credit losses	(179,925)	(463,926)
Impairment of other financial instruments	(12,228)	(31,168)
Impairment of non-financial instruments	(9,362)	—
Profit before share of profit from associates and joint ventures	74,331	95,213
Share of profit from associates and joint ventures	1,606	3,438
Profit before tax from continuing operations	75,937	98,651
Income tax	(13,695)	(10,475)
Profit after tax from continuing operations	62,242	88,176
Loss after tax from discontinued operations	—	(36,267)
Profit for the period	62,242	51,909
Owners of the Bank—continuing operations	56,372	89,325
Owners of the Bank—discontinued operations	—	(29,105)
Total profit attributable to the owners of the Bank	56,372	60,220
Non-controlling interests—continuing operations	5,870	(1,149)
Non-controlling interests—discontinued operations	—	(7,162)
Total profit/(loss) attributable to non-controlling interests	5,870	(8,311)
Profit for the period	62,242	51,909

Net interest income

The following table sets forth interest income and interest expense for the six months ended 30 June 2016 and 2015.

	Six months ended 30 June		
	2016	2015	Change
	(€'000)	unaudited (€'000)	unaudited (%) (decrease)/ increase
Interest income			
Loans and advances to customers	447,326	524,544	(14.7)
Loans and advances to banks and central banks	4,499	(5,683)	—
Investments available-for-sale	5,237	7,863	(33.4)
Investments classified as loans and receivables	7,842	60,831	(87.1)
	464,904	587,555	(20.9)
Trading investments	—	71	—
Derivative financial instruments	2,386	3,121	(23.6)
Other investments at fair value through profit or loss	368	368	—
	467,658	591,115	(20.9)
Interest expense			
Customer deposits	68,337	82,148	(16.8)
Funding from central banks and deposits by banks	28,474	51,879	(45.1)
Repurchase agreements	2,197	5,721	(61.6)
	99,008	139,748	(29.2)
Derivative financial instruments	8,188	12,781	(35.9)
	107,196	152,529	(29.7)
Net interest income	360,462	438,586	(17.8)

Net interest income represented approximately 76.2% and 66.4% of the BOC Group's total income for the six months ended 30 June 2015 and 30 June 2016, respectively.

The following table sets forth net interest income for the Cyprus segment and overseas operations of the BOC Group based on business lines for the six months ended 30 June 2016 and 2015:

Business lines	Six months ended June 30	
	2016 (€'000)	2015 (€'000) unaudited
Corporate	39,099	33,350
SMEs	32,459	32,484
Retail	126,092	114,103
RRD	114,361	166,377
IBS	31,405	30,185
WBAM	3,631	2,910
REMU	(4,982)	—
Insurance	199	366
Other	(5,824)	31,125
Total Cyprus	336,440	410,900
Other countries	24,022	27,686
Total BOC Group (continuing operations)	360,462	438,586

Net interest income decreased by €78.1 million, or 17.8%, from €438.6 million for the six months ended 30 June 2015 compared to €360.5 million for the six months ended 30 June 2016, primarily due to the reduction in loans and advances to customers as a result of the elevated loan restructuring activity, including debt for asset swaps, as well as a decrease in interest income attributable to investments classified

as loans and receivables due to the repayment of the Cyprus Government Bond acquired at fair value from the former Laiki Bank.

Interest income

Interest income decreased by €123.5 million, or 20.9%, from €591.1 million for the six months ended 30 June 2015 compared to €467.7 million for the six months ended 30 June 2016, mainly reflecting the reduction in customer loan balances, the repayment of the Cyprus Government Bond acquired at fair value from the former Laiki Bank and a reduction on the yield on loans. The reduction in customer loan balances was driven by the elevated loan restructuring activity, including debt for asset swaps. The Cyprus Government Bond was included in investments classified as loans and receivables, so once the bond was repaid, interest income was reduced.

Interest expense

The decrease in interest expense of €45.3 million, or 29.7%, from €152.5 million for the six months ended 30 June 2015 to €107.2 million for the six months ended 30 June 2016 was driven by the reduced cost of deposits, the reduction and repayment of central bank funding and the reduction of ELA funding.

Net interest margin

Net interest margin was 3.6% and 3.9% for the six months ended 30 June 2016 and 2015, respectively. The decline in net interest margin was mainly due to lower loan balances, partly as a result of restructurings, the disposal of assets and the effect of early repayment of the recapitalisation bond acquired at fair value from the former Laiki Bank. For more detailed information on loan balances, see “*Selected Statistical and Other Information*”.

Net fee and commission income

Net fee and commission income for the six months ended 30 June 2016 was €73.9 million, compared to €79.1 million for the six months ended 30 June 2015, a decrease of €5.2 million, or 6.6%, mainly due to reduced credit-related fees and commission income including a reduction in credit card-related commission income following changes in legislation and lower statement changes following internet banking promotions.

Net foreign exchange gains

The BOC Group had a net foreign exchange gain of €16.3 million for the six months ended 30 June 2016 compared to €23.3 million for the six months ended 30 June 2015, or a decrease of 30.0%.

Net gains on financial instrument transactions

Net gains on financial instrument transactions for the six months ended 30 June 2016 was €57.4 million and consisted principally of the gain on the disposal of shares held in Visa Europe Limited following the purchase of Visa Europe Limited by Visa Inc., which amounted to €58.3 million. The transaction involved the granting of preferred stock in Visa Inc. with a carrying value of approximately €8 million and deferred cash consideration in the amount of €4 million.

Insurance income net of claims and commissions

Insurance income net of claims and commissions increased slightly to €24.6 million for the six months ended 30 June 2016, compared to €20.3 million for the six months ended 30 June 2015 primarily as a result of effects from revaluation gains from bonds of the BOC Group’s life insurance business.

Gains/(losses) from revaluation and disposal of investment properties

Gains from revaluation and disposal of investment properties was €5.8 million for the six months ended 30 June 2016, compared to losses of €23.4 million for the six months ended 30 June 2015, mainly due to the losses arising as a result of loss on the revaluation of investment properties in Cyprus and Greece in the first half of 2015.

(Losses)/gains on disposal of stock of property

Losses on disposal of stock of property, which arose due to sale proceeds lower than the carrying value, amounted to €3.5 million for the six months ended 30 June 2016, compared to gains of €243 thousand for the six months ended 30 June 2015.

Other income

Other income decreased by €1.3 million, or 14.3%, to €7.6 million for the six months ended 30 June 2016, compared to other income of €8.9 million for the six months ended 30 June 2015.

Staff costs

Staff costs increased by €61.3 million, or 51.9%, to €179.3 million for the six months ended 30 June 2016, compared to €118.0 million for the six months ended 30 June 2015. The increase was principally driven by costs associated with the VEP that was provided by the BOC Group in February and June 2016 to its employees in Cyprus in the amount of €62.4 million. Adjusting for the one-off cost of the VEP, restructuring costs remained relatively stable.

Staff costs comprised 62.1% of total expenses for the six months ended 30 June 2016 and 54.8% for the six months ended 30 June 2015.

Other operating expenses

Other operating expenses increased by €12.2 million, or 12.5%, to €109.6 million for the six months ended 30 June 2016, compared to €97.4 million for the six months ended 30 June 2015. The increase was principally the result of higher marketing, consultancy and professional expenses and increased provisions for litigation and legal settlements during the first six months of 2016. The cost-to-income ratio for the six months ended 30 June 2016 was 41.8%. 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) disposal of operations and non-core assets; and (iii) other expenses, including property transfer fees relating to the restructuring process of the BOC Group and costs incurred in closing down branches and operations. They also include the fees of external advisors in relation to the Scheme.

Other operating expenses comprised 37.9% of total expenses for the six months ended 30 June 2016 and 45.2% for the six months ended 30 June 2015.

Gain on derecognition of loans and advances to customers and changes in expected cash flows

Gains on derecognition of loans and advances to customers and changes in expected cash flows decreased by €207.9 million, or 90.4%, to €22.2 million in the six months ended 30 June 2016 from €230.0 million in the six months ended 30 June 2015. The decrease was primarily driven by the previous gain on derecognition of loans and changes in expected cash flows during the first half of 2015. That gain was the result of the BOC Group having undertaken an exercise to identify any loans which, at the time of acquisition, were considered to be impaired and subsequently have performed differently than initially anticipated. As a result of this exercise, the BOC Group reversed the fair value adjustment recognised upon initial recognition on certain loan accounts for which the expected cash flows improved considerably compared to the respective ones as at the acquisition date. It is noted that, since the first half of 2015, this exercise is performed on a quarterly basis and covers loan accounts that have been either individually or collectively assessed.

Provisions for impairment of loans and advances to customers and other customer credit losses

Provisions for impairment of loans and advances to customers and other customer credit losses were €179.9 million for the six months ended 30 June 2016, compared to €463.9 million for the six months ended 30 June 2015 partly due to the exercise performed during the six months ended 30 June 2015 relating to the gain on derecognition of loans and advances to customers and changes in expected cash flows.

The Bank's NPEs, as defined by the EBA, decreased by 10.6%, to €12.5 billion at 30 June 2016 and accounted for 59.3% of gross loan exposure, compared to €14.0 billion at 31 December 2015 (representing 61.8% of gross loan exposure). For an explanation of the definition of NPEs, see "*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—CBC Credit Risk Directives—Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015*".

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Impairment of other financial instruments

Impairment of other financial instruments was €12.2 million for the six months ended 30 June 2016, compared to €31.2 million for the six months ended 30 June 2015. Impairments were due to charges relating to legacy Laiki exposures and the reversal of impairment upon the full settlement of receivables included in the agreement made for the disposal of the Russian operations.

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Impairment of non-financial instruments

Impairment of non-financial instruments was €9.4 million for the six months ended 30 June 2016 due to impairment of stock of properties in Cyprus and Greece. There were no impairments of non-financial instruments for the six months ended 30 June 2015.

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Share of profit from associates and joint ventures

Share of profit from associates and joint ventures was €1.6 million for the six months ended 30 June 2016, compared to €3.4 million for the six months ended 30 June 2015 primarily as a result of lower profits from CNP Cyprus Insurance Holdings Ltd.

Profit before tax from continuing operations

For the six months ended 30 June 2016, profit before tax from continuing operations was €75.9 million, compared to €98.7 million for the six months ended 30 June 2015.

Income tax

Income tax expense for the six months ended 30 June 2016 was €13.7 million, an increase of €3.2 million, or 30.7%, from €10.5 million for the six months ended 30 June 2015 primarily due to higher taxable profit, prior year tax adjustments and other tax charges, such as capital gains tax.

Profit for the period

Profit for the six months ended 30 June 2016 was €62.2 million compared to €51.9 million for the six months ended 30 June 2015, reflecting a 19.9% increase primarily due to the reduction in the level of overall provisioning and impairment charges.

Segmental analysis by business line

The tables below present income statement information for the ‘Cyprus’ segment of the BOC Group, based on business lines for the six months ended 30 June 2015 and 30 June 2016 for continuing operations, together with a total column for the ‘Other countries’ segment and for the BOC Group, so that the information can be reconciled with the Historical Financial Information:

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus	Other countries	Total BOC Group*
	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Six months ended 30 June 2016												
Net interest income/(expense)	39,099	32,459	126,092	114,361	31,405	3,631	(4,982)	199	(5,824)	336,440	24,022	360,462
Net fee and commission income/(expense)	4,639	4,231	22,168	6,499	24,971	1,090	—	(2,140)	9,054	70,512	3,356	73,868
Total other operating income/(expense)	350	284	2,114	302	3,473	2,022	(3,111)	25,029	66,383	96,846	11,339	108,185
	44,088	36,974	150,374	121,162	59,849	6,743	(8,093)	23,088	69,613	503,798	38,717	542,515
Staff costs and other operating expenses	(5,286)	(5,958)	(59,799)	(17,634)	(12,986)	(2,538)	(4,888)	(7,007)	(64,507)	(180,603)	(20,860)	(201,463)
Restructuring costs—voluntary exit plan	(968)	(1,139)	(22,930)	(8,237)	(4,468)	(224)	(97)	(3,230)	(21,120)	(62,413)	—	(62,413)
Restructuring costs—other operating expenses	(16)	(3)	(54)	(6,047)	(44)	(3)	(1,857)	—	(15,642)	(23,666)	(1,293)	(24,959)
	37,818	29,874	67,591	89,244	42,351	3,978	(14,935)	12,851	(31,656)	237,116	16,564	253,680
Gain/(loss) on derecognition of loans and advances to customers and changes in expected cash flows	3,342	2,184	6,019	9,622	1,731	868	—	—	(1,629)	22,137	29	22,166
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	8,049	(19,789)	21,706	(157,815)	329	(1,081)	—	—	577	(148,024)	(31,901)	(179,925)
(Impairment)/reversal of impairment of other financial instruments	—	—	—	—	—	—	—	—	(12,895)	(12,895)	667	(12,228)
Impairment of non-financial instruments	—	—	—	—	—	—	(3,726)	—	(386)	(4,112)	(5,250)	(9,362)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	—	1,606	1,606	—	1,606
Profit/(loss) before tax	49,209	12,269	95,316	(58,949)	44,411	3,765	(18,661)	12,851	(44,383)	95,828	(19,891)	75,937
Income tax	(6,151)	(1,534)	(11,914)	7,369	(5,551)	(471)	2,333	(1,390)	4,856	(12,453)	(1,242)	(13,695)
Profit/(loss) after tax	43,058	10,735	83,402	(51,580)	38,860	3,294	(16,328)	11,461	(39,527)	83,375	(21,133)	62,242
Non-controlling interests—profit	—	—	—	—	—	—	—	—	(5,870)	(5,870)	—	(5,870)
Profit/(loss) after tax attributable to the owners of the Bank	43,058	10,735	83,402	(51,580)	38,860	3,294	(16,328)	11,461	(45,397)	77,505	(21,133)	56,372

* Continuing operations

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking service	Wealth management	Insurance	Other	Total Cyprus	Other countries	Total BOC Group*
	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Six months ended 30 June 2015 (unaudited)											
Net interest income	33,350	32,484	114,103	166,377	30,185	2,910	366	31,125	410,900	27,686	438,586
Net fee and commission income/(expense)	3,868	4,550	27,252	7,133	27,090	939	(1,430)	6,295	75,697	3,420	79,117
Total other operating income/(expense)	333	307	2,208	149	3,478	1,812	20,376	38,262	66,925	(8,942)	57,983
	37,551	37,341	143,563	173,659	60,753	5,661	19,312	75,682	553,522	22,164	575,686
Staff costs and other operating expenses	(5,206)	(6,115)	(58,789)	(17,682)	(8,896)	(2,441)	(7,784)	(70,494)	(177,407)	(16,558)	(193,965)
Restructuring costs	—	—	—	—	—	—	—	(18,086)	(18,086)	(3,367)	(21,453)
	32,345	31,226	84,774	155,977	51,857	3,220	11,528	(12,898)	358,029	2,239	360,268
Gain on derecognition of loans and advances to customers and changes in expected cash flows	28,597	24,218	50,377	114,649	2,245	1,460	—	7,365	228,911	1,128	230,039
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(14,614)	599	(4,670)	(392,038)	(16)	(68)	—	989	(409,818)	(54,108)	(463,926)
Impairment of other financial instruments	—	—	—	—	—	—	—	(20,031)	(20,031)	(11,137)	(31,168)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	3,438	3,438	—	3,438
Profit/(loss) before tax	46,328	56,043	130,481	(121,412)	54,086	4,612	11,528	(21,137)	160,529	(61,878)	98,651
Income tax	(5,791)	(7,005)	(16,310)	15,177	(6,761)	(576)	(1,503)	11,774	(10,995)	520	(10,475)
Profit/(loss) after tax	40,537	49,038	114,171	(106,235)	47,325	4,036	10,025	(9,363)	149,534	(61,358)	88,176
Non-controlling interests—(profit)/loss	—	—	—	—	—	—	—	(225)	(225)	1,374	1,149
Profit/(loss) after tax attributable to the owners of the Bank	40,537	49,038	114,171	(106,235)	47,325	4,036	10,025	(9,588)	149,309	(59,984)	89,325

* Continuing operations

**BOC GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2015 AND 2014**

	Year ended 31 December	
	2015	2014
	(€'000)	(€'000)
Continuing operations		
Interest income	1,122,105	1,343,014
Interest expense	(279,665)	(373,345)
Net interest income	842,440	969,669
Fee and commission income	162,557	159,827
Fee and commission expense	(9,100)	(7,960)
Net foreign exchange gains/(losses)	38,367	(14,793)
Net gains on financial instrument transactions	47,129	176,850
Insurance income net of claims and commissions	47,905	45,610
Losses from revaluation and disposal of investment properties	(53,080)	(12,021)
Gains on disposal of stock of property	882	126
Other income	16,725	11,942
	1,093,825	1,329,250
Staff costs	(233,631)	(234,424)
Other operating expenses	(225,038)	(228,482)
	635,156	866,344
Gain on derecognition of loans and advances to customers and changes in expected cash flows	305,089	47,338
Provisions for impairment of loans and advances to customers and other customer credit losses	(1,264,554)	(816,983)
Impairment of other financial instruments	(43,503)	(56,540)
Impairment of non-financial instruments	(18,103)	(33,295)
(Loss)/profit before share of profit from associates and joint ventures	(385,915)	6,864
Share of profit from associates and joint ventures	5,923	4,852
(Loss)/profit before tax from continuing operations	(379,992)	11,716
Income tax	(9,203)	(10,877)
(Loss)/profit after tax from continuing operations	(389,195)	839
Discontinued operations		
Loss after tax from discontinued operations	(65,107)	(322,216)
Loss for the year	(454,302)	(321,377)
Owners of the Bank—continuing operations	(382,513)	19,162
Owners of the Bank—discontinued operations	(55,839)	(280,319)
Total loss attributable to the owners of the Bank	(438,352)	(261,157)
Non-controlling interests—continuing operations	(6,682)	(18,323)
Non-controlling interests—discontinued operations	(9,268)	(41,897)
Total loss attributable to non-controlling interests	(15,950)	(60,220)
Loss for the year	(454,302)	(321,377)

Net interest income

The following table sets forth interest income and interest expense for the years ended 31 December 2015 and 2014.

	Year ended 31 December		
	2015 (€'000)	2014 (€'000)	Change unaudited (%) (decrease) / increase
Interest income			
Interest income from loans and advances to customers	1,009,766	1,115,120	(9.4)
Interest income from loans and advances to banks and central banks	4,534	23,084	(80.4)
Investments available-for-sale	13,664	16,387	(16.6)
Investments classified as loans and receivables	88,456	177,228	(50.1)
	1,116,420	1,331,819	(16.2)
Trading investments	148	74	100.0
Derivative financial instruments	4,798	10,382	(53.8)
Other investments at fair value through profit or loss	739	739	—
	1,122,105	1,343,014	(16.4)
Interest expense			
Interest expense from customer deposits	154,796	192,494	(19.6)
Interest expense from funding from central banks and deposits by banks	95,633	142,045	(32.7)
Interest expense from repurchase agreements	7,583	11,910	(36.3)
	258,012	346,449	(25.5)
Interest expense from derivative financial instruments	21,653	26,896	(19.5)
	279,665	373,345	(25.1)
Net interest income	842,440	969,669	(13.1)

Net interest income represented 72.9% and 77.0% of the BOC Group's total income for the year ended 31 December 2014 and 2015, respectively.

The following table sets forth net interest income for the Cyprus segment and overseas operations of the BOC Group based on business lines for the years ended 31 December 2015 and 2014:

	Year ended 31 December	
	2015 (€'000)	2014 (€'000)
Corporate	76,307	85,498
SMEs	68,833	73,965
Retail	243,461	245,241
RRD	285,823	286,694
IBS	62,145	75,519
WBAM	6,576	5,492
Insurance	670	846
Other	44,574	146,148
Total Cyprus	788,389	919,403
Other countries	54,051	50,266
Total BOC Group (continuing operations)	842,440	969,669

Net interest income decreased by €127.3 million, or 13.1%, from €969.7 million for the year ended 31 December 2014 to €842.4 million for the year ended 31 December 2015, reflecting a 16.4% decrease in interest income as well as a 25.1% decline in interest expense.

Interest income

Interest income decreased by €220.9 million, or 16.4%, from €1,343.0 million for the year ended 31 December 2014 to €1,122.1 million for the year ended 31 December 2015, mainly reflecting decreases in the loans and advances to customers, banks and central banks, lower yields on loans partly due to loan restructurings and deleveraging action by the Bank, the effect of the Recapitalisation and the early repayments in respect of the Cyprus Government Bond in June and December of 2015, which had been acquired at fair value from Laiki Bank, see “*Explanation of certain income statement line items—Net interest income margin*”.

Interest expense

The decrease in interest expense of €93.7 million, or 25.1%, from €373.3 million for the year ended 31 December 2014 to €279.7 million for the year ended 31 December 2015 reflected the gradual repricing of customer deposits and decreases in the costs associated with funding from central banks, including the repayment of the ELA.

Net interest margin

Net interest margin was 3.8% and 3.9% for the years ended 31 December 2015 and 2014, respectively. If interest income from the Cyprus Government Bond is excluded, net interest margin for the year ended 31 December 2015 would have been 3.6%, due to a lower yield on Cyprus loans.

Net fee and commission income

Net fee and commission income increased by €1.6 million or 1.0%, from €151.9 million for the year ended 31 December 2014 to €153.5 million for the year ended 31 December 2015, primarily due to increased credit-related fees and commissions. The €2.7 million increase in fee and commission income for the year ended 31 December 2015 period was offset by the increase in fee and commission expenses by €1.1 million, or 14.3%, from €8.0 million in the year ended 31 December 2014 to €9.1 million in the year ended 31 December 2015, with the increase in such expenses principally arising as a result of an increase in banking commissions expense.

Net foreign exchange gains/(losses)

The BOC Group had a net foreign exchange gain of €38.4 million for the year ended 31 December 2015, compared to losses of €14.8 million for the year ended 31 December 2014. The losses in 2014 included amounts related to interest rate differentials for foreign exchange hedging in connection with subsidiaries using forward rate contracts. In 2015, most of the subsidiaries that used foreign exchange hedging had been disposed of.

Net gains on financial instrument transactions

Net gains on financial instrument transactions decreased by €129.7 million, or 73.4%, from €176.9 million for the year ended 31 December 2014 compared to €47.1 million for the year ended 31 December 2015. One-off gains for the year ended 31 December 2014 consisted principally of the gain from an early partial repayment of a Cyprus Government Bond as well as a gain on the disposal of joint ventures related mainly to the disposal of MDSF in April 2015 and representing, in part, the foreign exchange reserves outstanding being realised in other comprehensive income.

Insurance income net of claims and commissions

After a decrease in prior years, insurance income net of claims and commissions stabilised with a slight increase of €2.3 million, or 5.0%, to €47.9 million for the year ended 31 December 2015 compared to €45.6 million for the year ended 31 December 2014. Although insurance income decreased for the year ended 31 December 2015 compared to the year ended 31 December 2014, this decrease was offset by a larger decrease in the amount of claims over the same period.

Losses from revaluation and disposal of investment properties

Losses from revaluation and disposal of investment properties which totalled €12.0 million for the year ended 31 December 2014, increased by €41.1 million, or 341.6%, to €53.1 million for the year ended

31 December 2015. The increase primarily reflected the losses from revaluation of investment properties, relating principally to a decline in the market value of properties.

Staff costs

Staff costs remained stable with a minor decrease of €793 thousand, or 0.3%, from €233.6 million for the year ended 31 December 2015 compared to €234.4 million for the year ended 31 December 2014. Staff costs comprised 50.9% of total expenses for the year ended 31 December 2015, compared to 50.6% for the year ended 31 December 2014.

Other operating expenses

Other operating expenses (including advisory and other restructuring costs) decreased by €3.5 million, or 1.5%, from €228.5 million for the year ended 31 December 2014 to €225.0 million for the year ended 31 December 2015. Other operating expenses comprised 49.1% of total expenses for the year ended 31 December 2015. Increases in advisory and other restructuring costs and other property-related costs were offset by operating lease rentals, the special levy on deposits of Cypriot credit institutions and in provisions and settlements of litigation or claims.

Gain on derecognition of loans and advances to customers and changes in expected cash flows

Gains on derecognition of loans and advances to customers and changes in expected cash flows increased by €257.8 million, or 544.5%, to €305.1 million for the year ended 31 December 2015 from €47.3 million for the year ended 31 December 2014, primarily as a result of the settlements of loans acquired in 2013, through the acquisition of certain operations of Laiki Bank at an amount which was higher than their carrying amount on the settlement date and on changes in expectations of future cash flows compared to the initial expectations.

Provisions for impairment of loans and advances to customers and other customer credit losses

Provisions for impairment of loans and advances to customers and other customer credit losses increased by €447.6 million, or 54.8%, to €1,264.6 million for the year ended 31 December 2015 from €817.0 million for the year ended 31 December 2014, principally due to changes in certain assumptions used by the Bank in its provisioning methodology within the parameters of IFRS, taking into consideration the Bank's strategy with respect to its NPL portfolio, developments both at the macro level of the Cyprus economy as well as specific developments in various borrower exposures and in relation to the on-going regulatory dialogue between the Bank and the ECB regarding the SREP completed during 2015 and the related decision establishing prudential requirements pursuant to the SSM Regulation applicable for the year 2016 (the "SREP 2015"). These changes in the assumptions used in the provisioning process primarily relate to extending the recovery periods and/or applying additional realisation discounts on the most stressed NPL portfolios, with both changes being a function of the Bank's strategy for recovering delinquent exposures.

Assumptions were made about the future declines in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. 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. Assumptions changed in response to changes in strategy, the macroeconomic environment and the legal framework. The assumptions on the timing of recovery and the cumulative future drop in prices are presented in Note 6.1 (*Provision for the impairment of loans and advances to customers*) of the Historical Financial Information.

For a further discussion of asset quality, see "*Restructuring and Recoveries Division and Real Estate Management Unit*" in this Prospectus.

Impairment of other financial instruments

The BOC Group decreased its impairment charges of other financial instruments by €13.0 million, or 23.1%, from €56.5 million for the year ended 31 December 2014 to €43.5 million for the year ended 31 December 2015 primarily due to the reduction of impairments of overseas non-core assets as part of the BOC Group's de-risking efforts.

For a further discussion of asset quality, see "*Restructuring and Recoveries Division and Real Estate Management Unit*" in this Prospectus.

Impairment of non-financial instruments

The BOC Group decreased its impairment charges of non-financial instruments by €15.2 million, or 45.6%, to €18.1 million for the year ended 31 December 2015 from €33.3 million for the year ended 31 December 2014, primarily as a result of an impairment in 2014 of MDSF, which was held for sale with an impairment loss of €29.8 million.

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Share of profit from associates and joint ventures

Share of profit from associates and joint ventures was €5.9 million for the year ended 31 December 2015 compared to €4.9 million for the year ended 31 December 2014. The primary associate is CNP, which is a profitable insurance company and the Bank’s share of its profits is included in the income statement.

(Loss)/profit before tax from continuing operations

Loss before tax from continuing operations was €380.0 million for the year ended 31 December 2015 compared to a profit of €11.7 million for the year ended 31 December 2014, a year-on-year change of €391.7 million, or 103.1%. The loss before tax was primarily the result of an increase in the full provisioning charge for the year ended 31 December 2015 due to changes in provisioning assumptions, estimates and methodologies.

Income tax

Income tax expense decreased by €1.7 million, or 15.4%, to €9.2 million for the year ended 31 December 2015 from €10.9 million for the year ended 31 December 2014 due to lower deferred tax and overseas taxes during 2015. See Note 19 (*Income tax*) in the Historical Financial Information.

Loss after tax from discontinued operations

Loss after tax from discontinued operations decreased by €257.1 million, or 79.8%, to €65.1 million for the year ended 31 December 2015 compared to a loss of €322.2 million for the year ended 31 December 2014. The decrease reflected the sizeable operating losses in 2014 attributable to the Bank’s former Russian operations and income from the reversal of a provision taken in 2014 for the discontinued operations in Greece. For further details see Note 41 (*Contingent liabilities and commitments—Pending litigation and claims—Greek case*) in the Historical Financial Information.

Loss for the year

Loss for the year was €454.3 million for the year ended 31 December 2015, reflecting an increase of €132.9 million from a loss for the year ended 31 December 2014 of €321.4 million. The increase in losses was mainly due to greater loan provisions.

Segmental analysis by business line

The tables below present income statement information about the ‘Cyprus’ segment of the BOC Group based on business lines for the years ended 31 December 2014 and 2015 for continuing operations, together with a total column for the ‘Other countries’ segment and for the BOC Group in order to reconcile the information with the Historical Financial Information:

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus	Other countries	Total BOC Group*
Year 2015	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)
Net interest income	76,307	68,833	243,461	285,823	62,145	6,576	670	44,574	788,389	54,051	842,440
Net fee and commission income/(expense)	7,953	9,154	54,146	14,774	47,020	1,806	(2,951)	14,734	146,636	6,821	153,457
Total other operating income/(expense)	627	615	4,511	345	7,579	3,956	47,651	71,306	136,590	(38,662)	97,928
	84,887	78,602	302,118	300,942	116,744	12,338	45,370	130,614	1,071,615	22,210	1,093,825
Staff costs and other operating expenses	(10,709)	(12,250)	(120,618)	(32,673)	(22,629)	(5,159)	(15,510)	(163,459)	(383,007)	(32,532)	(415,539)
Restructuring costs	—	—	—	—	—	—	—	(38,357)	(38,357)	(4,773)	(43,130)
	74,178	66,352	181,500	268,269	94,115	7,179	29,860	(71,202)	650,251	(15,095)	635,156
Gain on derecognition of loans and advances to customers and changes in expected cash flows	35,676	30,336	65,537	152,863	2,725	1,797	—	9,818	298,752	6,337	305,089
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	9,930	(7,020)	(33,706)	(1,098,916)	(11,665)	(3,863)	—	(220)	(1,145,460)	(119,094)	(1,264,554)
Impairment of other financial instruments	—	—	—	—	—	—	—	(29,757)	(29,757)	(13,746)	(43,503)
Impairment of non-financial instruments	—	—	—	—	—	—	—	(11,326)	(11,326)	(6,777)	(18,103)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	5,923	5,923	—	5,923
Profit/(loss) before tax	119,784	89,668	213,331	(677,784)	85,175	5,113	29,860	(96,764)	(231,617)	(148,375)	(379,992)
Income tax	(14,973)	(11,209)	(26,666)	84,723	(10,647)	(639)	(1,522)	(24,762)	(5,695)	(3,508)	(9,203)
Profit/(loss) after tax	104,811	78,459	186,665	(593,061)	74,528	4,474	28,338	(121,526)	(237,312)	(151,833)	(389,195)
Non-controlling interests—loss	—	—	—	—	—	—	—	794	794	5,888	6,682
Profit/(loss) after tax attributable to the owners of the Bank	104,811	78,459	186,665	(593,061)	74,528	4,474	28,338	(120,732)	(236,518)	(145,995)	(382,513)

* Continuing operations

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus	Other countries	Total BOC Group*
Year 2014	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)
Net interest income	85,498	73,965	245,241	286,694	75,519	5,492	846	146,148	919,403	50,266	969,669
Net fee and commission income/(expense)	8,945	7,329	62,261	11,850	40,251	1,802	(451)	13,418	145,405	6,462	151,867
Total other operating income/(expense)	950	538	4,231	348	6,450	2,658	43,780	160,127	219,082	(11,368)	207,714
	95,393	81,832	311,733	298,892	122,220	9,952	44,175	319,693	1,283,890	45,360	1,329,250
Staff costs and other operating expenses	(11,511)	(11,522)	(120,912)	(38,806)	(25,795)	(4,580)	(14,690)	(158,701)	(386,517)	(40,525)	(427,042)
Restructuring costs	—	—	—	—	—	—	—	(33,464)	(33,464)	(2,400)	(35,864)
	83,882	70,310	190,821	260,086	96,425	5,372	29,485	127,528	863,909	2,435	866,344
Gain on derecognition of loans and advances to customers and changes in expected cash flows	15,065	6,679	11,649	8,047	1,293	2,503	—	2,102	47,338	—	47,338
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	28,521	(14,468)	41,350	(617,127)	(14,311)	(3,474)	—	(110)	(579,619)	(237,364)	(816,983)
Impairment of other financial instruments	—	—	—	(2,536)	—	—	—	(45,610)	(48,146)	(8,394)	(56,540)
Impairment of non-financial instruments	—	—	—	—	—	—	—	(33,295)	(33,295)	—	(33,295)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	4,852	4,852	—	4,852
Profit/(loss) before tax	127,468	62,521	243,820	(351,530)	83,407	4,401	29,485	55,467	255,039	(243,323)	11,716
Income tax	(15,934)	(7,815)	(30,478)	43,941	(10,426)	(550)	(2,155)	20,203	(3,214)	(7,663)	(10,877)
Profit/(loss) after tax	111,534	54,706	213,342	(307,589)	72,981	3,851	27,330	75,670	251,825	(250,986)	839
Non-controlling interests—(profit)/loss	—	—	—	—	—	—	—	(95)	(95)	18,418	18,323
Profit/(loss) after tax attributable to the owners of the Bank	111,534	54,706	213,342	(307,589)	72,981	3,851	27,330	75,575	251,730	(232,568)	19,162

* Continuing operations

**BOC GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2014 AND 2013**

	Year ended 31 December	
	2014	2013
	(€'000)	(€'000)
Continuing operations		
Interest income	1,343,014	1,421,505
Interest expense	(373,345)	(536,310)
Net interest income	969,669	885,195
Fee and commission income	159,827	159,120
Fee and commission expense	(7,960)	(19,481)
Net foreign exchange losses	(14,793)	(9,808)
Net gains on financial instrument transactions	176,850	7,174
Insurance income net of claims and commissions	45,610	64,956
Losses from revaluation and disposal of investment properties	(12,021)	(75,428)
Gains on disposal of stock of properties	126	85
Other income	11,942	12,268
	1,329,250	1,024,081
Staff costs	(234,424)	(385,293)
Other operating expenses	(228,482)	(208,050)
	866,344	430,738
Gain on derecognition of loans and advances to customers and changes in expected cash flows	47,338	26,643
Provisions for impairment of loans and advances to customers and other customer credit losses	(816,983)	(945,048)
Impairment of other financial instruments	(56,540)	(22,525)
Impairment of non-financial instruments	(33,295)	(410)
Profit/(loss) before share of profit from associates and joint ventures	6,864	(510,602)
Share of profit/(loss) from associates and joint ventures	4,852	(4,702)
Profit/(loss) before tax from continuing operations	11,716	(515,304)
Income tax	(10,877)	(1,778)
Profit/(loss) after tax from continuing operations	839	(517,082)
Discontinued operations		
Loss after tax from discontinued operations	(322,216)	(1,551,013)
Loss for the year	(321,377)	(2,068,095)
Owners of the Bank—continuing operations	19,162	(513,962)
Owners of the Bank—discontinued operations	(280,319)	(1,542,127)
Total loss attributable to the owners of the Bank	(261,157)	(2,056,089)
Non-controlling interests—continuing operations	(18,323)	(3,120)
Non-controlling interests—discontinued operations	(41,897)	(8,886)
Total loss attributable to non-controlling interests	(60,220)	(12,006)
Profit/(loss) for the year	(321,377)	2,068,095

The consolidated income statement for the year ended 31 December 2013 includes income and expense of Laiki Bank for nine months (since its acquisition date (March 2013)) compared to 2014 which are included for the full year.

Net interest income

The following table sets forth interest income and interest expense for the years ended 31 December 2014 and 2013.

	Year ended 31 December		
	2014 (€'000)	2013 (€'000)	Change unaudited (%) (decrease)/ increase
Interest income			
Interest income from loans and advances to customers	1,115,120	1,171,497	(4.8)
Interest income from loans and advances to banks and central banks	23,084	28,702	(19.5)
Investments available-for-sale	16,387	33,742	(51.4)
Investments classified as loans and receivables	177,228	173,521	2.1
	<u>1,331,819</u>	<u>1,407,462</u>	(5.4)
Trading investments	74	111	(33.3)
Derivative financial instruments	10,382	13,193	(21.3)
Other investments at fair value through profit or loss	739	739	—
	<u>1,343,014</u>	<u>1,421,505</u>	(5.5)
Interest expense			
Interest expense from customer deposits	192,494	326,991	(41.1)
Interest expense from funding from central banks and deposits by banks	142,045	159,548	(11.0)
Interest expense from repurchase agreements	11,910	10,130	17.6
Interest expenses from subordinated loan stock disposal	—	(4,442)	(100.0)
	<u>346,449</u>	<u>492,227</u>	(29.6)
Interest expense from derivative financial instruments	26,896	44,083	(39.0)
	<u>373,345</u>	<u>536,310</u>	(30.4)
Net interest income	<u>969,669</u>	<u>885,195</u>	9.5

Net interest income represented 86.4% and 73.0% of the BOC Group's total income for the years ended 31 December 2013 and 2014, respectively. Net interest income increased by €84.5 million, or 9.5%, from €885.2 million for the year ended 31 December 2013 to €969.7 million for the year ended 31 December 2014.

The following table sets forth net interest income for the Cyprus segment and overseas operations of the BOC Group based on business lines for the year ended 31 December 2014. No information has been disclosed for the year 2013, as the BOC Group business lines reorganisation was completed during 2014.

	Year ended 31 December 2014
	(€'000)
Corporate	85,498
SMEs	73,965
Retail	245,241
RRD	286,694
IBS	75,519
WBAM	5,492
Insurance	846
Other	146,148
Total Cyprus	919,403
Other countries	50,266
Total BOC Group (continuing operations)	<u>969,669</u>

Interest income

The decline in interest income from €1,421.5 million in 31 December 2013 to €1,343.0 million in 31 December 2014 was primarily the result of lower yields on loans partly due to loan restructuring and deleveraging actions. Declining interest income was also due to the early repayment of the Cyprus Government Bond by the Government acquired at fair value from Laiki Bank.

Interest expense

The interest expense decrease of €163.0 million, or 30.4%, from €536.3 million for the year ended 31 December 2013, compared to €373.3 million for the year ended 31 December 2014, was driven primarily by a reduction in customer deposits by €134.5 million, or 41.1%, from €327.0 million for the year ended 31 December 2013 to €192.5 million for the year ended 31 December 2014 due to customer withdrawals following the lifting of capital controls.

Net interest margin

Net interest margin was 3.9% and 3.2% for the years ended 31 December 2014 and 2013, respectively. The improvement in net interest margin was primarily attributable to the BOC Group's lower cost of funding, with 37.3% of its funding comprised of ECB funding and the ELA.

Net fee and commission income

Net fee and commission income increased by €12.2 million, or 8.8%, from €139.6 million for the year ended 31 December 2013 compared to €151.9 million for the year ended 31 December 2014. While fee and commission income remained flat, there was a decrease of €11.5 million in fee and commission expenses, principally related to the amortisation in 2013 of issuance fees relating to the issue of the two Government guaranteed bonds in November 2012.

Net foreign exchange losses

The BOC Group had net foreign exchange losses of €14.8 million and €9.8 million for the years ended 31 December 2014 and 2013, respectively, an increase of €5.0 million, or 50.8%, due to large fluctuations in the Russian rouble.

Net gains on financial instrument transactions

Net gains on financial instrument transactions for the year ended 31 December 2013 were €7.2 million and consisted principally of a €15.5 million gain on derivative financial instruments in the BOC Group's, trading portfolio, a €6.7 million net gain on disposal of debt securities in the BOC Group's, loans and receivables portfolio, a €11.6 million loss on the disposal of debt securities in the BOC Group's,

available-for-sale investments portfolio, a €6.9 million realised loss on disposal of loans and deposits and a €2.4 million gain on debt securities at fair value through profit or loss.

Net gains on financial instrument transactions for the year ended 31 December 2014 were €176.9 million and consisted principally of realised gains on disposal of Serbian loans and the disposal of the majority of the UK Loan Portfolio, both of which had been acquired from Laiki Bank in 2013, as well as the gain realised from the early repayment of the Cyprus Government Bonds. Additionally, the gain on disposal of available-for-sale equity securities in 2014 related mainly to gains on the disposal of the investment in equity securities of the Romanian bank, Banca Transilvania, in April 2014.

Insurance income net of claims and commissions

Insurance income net of claims and commissions decreased by €19.4 million or 29.8%, from €65.0 million for the year ended 31 December 2013 compared to €45.6 million for the year ended 31 December 2014. The decrease in premium income was due to increased policy cancellations.

Losses from revaluation and disposal of investment properties

Losses from revaluation and disposal of investment properties were €75.4 million for the year ended 31 December 2013, a decrease of €63.4 million, or 84.1%, compared to €12.0 million for the year ended 31 December 2014. The losses reflected the declining market value of property.

Staff costs

Staff costs decreased by €150.9 million, or 39.2%, from €385.3 million for the year ended 31 December 2013 compared to €234.4 million for the year ended 31 December 2014, primarily as a result of the VEP provided by the BOC Group in January and August 2013 to its employees in Cyprus, the cost of which was included in staff costs in 2013 and amounted to €120.6 million. Staff costs comprised 50.6% of total expenses for the year ended 31 December 2014, compared to 64.9% for the year ended 31 December 2013.

Other operating expenses

Other operating expenses increased by €20.4 million, or 9.8%, from €208.1 million for the year ended 31 December 2013 to €228.5 million for the year ended 31 December 2014, primarily due to a €4.8 million increase in provisions and settlements of litigation or claims and €5.4 million of consultancy and other professional expenses. Other operating expenses comprised 49.4% of total expenses for the year ended 31 December 2014, compared to 35.1% for the year ended 31 December 2013.

Gain on derecognition of loans and advances to customers and changes in expected cash flows

Gains on derecognition of loans and advances to customers and changes in expected cash flows increased by €20.7 million, or 77.7%, to €47.3 million for the year ended 31 December 2014 from €26.6 million for the year ended 31 December 2013. This increase was driven by the fair value adjustment (loss) on initial recognition related 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 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.

Provisions for impairment of loans and advances to customers and other customer credit losses

Provisions for impairment of loans and advances to customers and other customer credit losses decreased by €128.0 million, or 13.6%, from €945.0 million for the year ended 31 December 2013 compared to €817.0 million for the year ended 31 December 2014.

The provisioning charge levels in 2014 reflected the assumptions applied to determine provisions, taking into account the macroeconomic environment of Cyprus and the economic recession that Cyprus entered in 2013 and Cyprus entering the economic adjustment programme. The provision charge levels of 2014 also reflected the Bank's deeper understanding of the financial performance of the BOC Group's aggregate loan portfolios after the acquisition of certain operations of Laiki Bank in March 2013, which had deteriorated after the first year of operation of both bank portfolios. In addition, the 2014 provisions assessment took into account, in terms of the recovery period used in determining provision levels, the

expectation that the New Foreclosure Laws and Insolvency Framework Laws would come into force in 2015, on the basis that this was one of the requirements of the MoU.

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Impairment of other financial instruments

The BOC Group increased its impairment charges to €56.5 million for the year ended 31 December 2014 due to a €30.3 million impairment of other receivables mainly related to Laiki Bank related exposure. This was an increase of 151.0% compared to €22.5 million for the year ended 31 December 2013, which related to assets available-for-sale (€15.9 million related to available-for-sale debt securities and €6.6 million related to available-for-sale equity securities).

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Impairment of non-financial instruments

For the year ended 31 December 2013, the BOC Group recognised impairment of non-financial instruments in connection with property held for own use in a total amount of €410.0 thousand. The BOC Group’s impairment charges totalled €33.3 million for year ended 31 December 2014 mainly due to a €29.8 million remeasurement of investment in joint ventures held for sale at fair value less costs to sell.

For a further discussion of asset quality, see “*Restructuring and Recoveries Division and Real Estate Management Unit*” in this Prospectus.

Share of profit/(loss) from associates and joint ventures

Share of loss from associates and joint ventures was €4.7 million for the year ended 31 December 2013, compared to a share of profit from associates and joint ventures of €4.9 million for the year ended 31 December 2014. The increase in profit reflects a €9.4 million profit from CNP.

Profit/(loss) before tax from continuing operations

The profit before tax from continuing operations for the year ended 31 December 2014 amounted to €11.7 million compared to loss of €515.3 million in the year ended 31 December 2013. The profit is mainly due to higher income and lower expenses (mainly as of higher restructuring costs, including a VEP in 2013).

Profit/(loss) after tax from continuing operations

Loss after tax from continuing operations is defined as loss after tax including restructuring costs, excluding discontinued operations. Profit after tax from continuing operations totalled €839.0 thousand for the year ended 31 December 2014 compared to a loss of €517.1 million for the year ended 31 December 2013. The loss after tax for the year ended 31 December 2013 was a result of lower total income and high restructuring costs, including a VEP.

Income tax

Income tax expense increased by €9.1 million, or 511.8%, from €1.8 million for the year ended 31 December 2013 compared to €10.9 million for the year ended 31 December 2014. The increase was primarily the result of increased taxable income (overseas) and deferred tax charges from the tax losses and differences in rates for depreciation and capital allowances.

The loss on disposal of the Greek operations in 2013 and the Ukrainian operations in 2014 was included in discontinued operations and was partially deductible from taxable income.

Loss after tax from discontinued operations

Loss after tax from discontinued operations decreased by €1,228.8 million, or 79.2%, from €1,551.0 million for the year ended 31 December 2013 compared to €322.2 million for the year ended 31 December 2014, reflecting the loss on disposal in 2014 of the BOC Group Ukrainian operations in the amount of

€150.2 million and the loss on disposal in 2013 of the BOC Group Greek operations in the amount of €1,455.6 million.

Segmental analysis

Geographical location

The tables below present income statement by operating segment based on geographical location of each unit for the years ended 31 December 2013 and 2014, for continuing and discontinued operations.

Continuing operations

	Cyprus	Other countries	Total continuing operations
	(€'000)	(€'000)	(€'000)
Year 2014			
Net interest income	919,403	50,266	969,669
Net fee and commission income	145,405	6,462	151,867
Net foreign exchange losses	(10,458)	(4,335)	(14,793)
Net gains/(losses) on financial instrument transactions	191,225	(14,375)	176,850
Insurance income net of claims and commissions	43,154	2,456	45,610
(Losses)/gains from revaluation and disposal of investment properties	(24,276)	12,255	(12,021)
Gains/(losses) on disposal of stock of property	224	(98)	126
Other income/(expenses)	19,213	(7,271)	11,942
	<u>1,283,890</u>	<u>45,360</u>	<u>1,329,250</u>
Staff costs	(219,588)	(14,836)	(234,424)
Other operating expenses	(166,929)	(25,689)	(192,618)
Restructuring costs	(33,464)	(2,400)	(35,864)
	<u>863,909</u>	<u>2,435</u>	<u>866,344</u>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	47,338	—	47,338
Provisions for impairment of loans and advances to customers and other customer credit losses	(579,619)	(237,364)	(816,983)
Impairment of other financial instruments	(48,146)	(8,394)	(56,540)
Impairment of non-financial instruments	(33,295)	—	(33,295)
Share of profit from associates and joint ventures	4,852	—	4,852
Profit/(loss) before tax	255,039	(243,323)	11,716
Income tax	(3,214)	(7,663)	(10,877)
Profit/(loss) after tax	251,825	(250,986)	839
Non-controlling interests—(profit)/loss	(95)	18,418	18,323
Profit/(loss) after tax attributable to the owners of the Bank	<u>251,730</u>	<u>(232,568)</u>	<u>19,162</u>

Discontinued operations

	Russia	Subsidiary acquired with the view to sale	Greece	Ukraine	Total discontinued operations
Year 2014	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Net interest income	55,593	26	—	4,064	59,683
Net fee and commission income	17,853	—	—	270	18,123
Net foreign exchange gains/(losses)	5,236	(10)	—	617	5,843
Net losses on financial instrument transactions	(25)	—	—	—	(25)
Gains from revaluation and disposal of investment properties	670	—	—	—	670
Losses on disposal of stock property	(202)	—	—	—	(202)
Other income/(expenses)	887	(1,631)	—	1,051	307
	<u>80,012</u>	<u>(1,615)</u>	<u>—</u>	<u>6,002</u>	<u>84,399</u>
Staff costs	(32,568)	(1,444)	—	(1,233)	(35,245)
Other operating (expenses)/income	(38,779)	(1,229)	36,000	(2,882)	(6,890)
	<u>8,665</u>	<u>(4,288)</u>	<u>36,000</u>	<u>1,887</u>	<u>42,264</u>
Provisions for impairment of loans and advances to customers and other customer credit losses	(113,128)	—	—	(38,528)	(151,656)
Loss on disposal of discontinued operations . .	—	—	—	(114,228)	(114,228)
Impairment upon measurement of disposal group at fair value less costs to sell	(84,098)	—	—	—	(84,098)
(Loss)/profit before tax	(188,561)	(4,288)	36,000	(150,869)	(307,718)
Income tax	(14,297)	(855)	—	654	(14,498)
(Loss)/profit after tax	(202,858)	(5,143)	36,000	(150,215)	(322,216)
Non-controlling interests—loss	40,572	1,286	—	39	41,897
(Loss)/profit after tax attributable to the owners of the Bank	<u>(162,286)</u>	<u>(3,857)</u>	<u>36,000</u>	<u>(150,176)</u>	<u>(280,319)</u>

Continuing operations

	Cyprus	Other countries	Total continuing operations
	(€000)	(€000)	(€000)
Year 2013			
Net interest income	842,318	42,877	885,195
Net fee and commission income	131,918	7,721	139,639
Net foreign exchange gains/(losses)	6,611	(16,419)	(9,808)
Net gains/(losses) on financial instrument transactions	10,608	(3,434)	7,174
Insurance income net of claims and commissions	57,375	7,581	64,956
Losses from revaluation and disposal of investment properties	(29,398)	(46,030)	(75,428)
Gains on disposal of stock of property	85	—	85
Other income	10,064	2,204	12,268
	1,029,581	(5,500)	1,024,081
Staff costs	(247,309)	(17,395)	(264,704)
Other operating expenses	(146,509)	(25,316)	(171,825)
Restructuring costs	(156,809)	(5)	(156,814)
	478,954	(48,216)	430,738
Gain on derecognition of loans and advances to customers and changes in expected cash flows	26,643	—	26,643
Provisions for impairment of loans and advances to customers and other customer credit losses	(856,380)	(88,668)	(945,048)
Impairment of other financial instruments	(22,525)	—	(22,525)
Impairment of non-financial instruments	(410)	—	(410)
Share of loss from associates and joint ventures	(4,511)	(191)	(4,702)
Loss before tax	(378,229)	(137,075)	(515,304)
Income tax	3,360	(5,138)	(1,778)
Loss after tax	(374,869)	(142,213)	(517,082)
Non-controlling interests—loss	924	2,196	3,120
Loss after tax attributable to the owners of the Bank	(373,945)	(140,017)	(513,962)

Discontinued operations

	Russia	Greece	Ukraine	Total discontinued operations
	(€000)	(€000)	(€000)	(€000)
Year 2013				
Net interest income	91,645	46,279	22,590	160,514
Net fee and commission income	27,466	11,217	1,714	40,397
Net foreign exchange gains/(losses)	4,437	(14,667)	222	(10,008)
Net gains/(losses) on financial instrument transactions	—	5,672	(703)	4,969
Losses from revaluation and disposal of investment properties	(1,252)	—	(1,857)	(3,109)
Losses on disposal of stock of property	(47)	—	—	(47)
Other income/(expenses)	1,346	(2,070)	605	(119)
	123,595	46,431	22,571	192,597
Staff costs	(51,171)	(22,241)	(6,332)	(79,744)
Other operating expenses	(46,459)	(55,001)	(8,801)	(110,261)
Restructuring costs	(172)	—	(766)	(938)
	25,793	(30,811)	6,672	1,654
Provisions for impairment of loans and advances to customers and other customer credit losses	(74,260)	(58,908)	(48,037)	(181,205)
Impairment of other financial instruments	—	(261)	—	(261)
Impairment of non-financial instruments	(2,960)	—	—	(2,960)
Impairment upon measurement of disposal group at fair value less costs to sell	—	—	(9,579)	(9,579)
Loss on disposal of Greek banking and leasing operations	—	(1,365,624)	—	(1,365,624)
Loss before tax	(51,427)	(1,455,604)	(50,944)	(1,557,975)
Income tax	7,078	—	(116)	6,962
Loss after tax	(44,349)	(1,455,604)	(51,060)	(1,551,013)
Non-controlling interests—loss	8,851	—	35	8,886
Loss after tax attributable to the owners of the Bank	(35,498)	(1,455,604)	(51,025)	(1,542,127)

Segmental analysis by business line

In addition to monitoring operations by geographical location, from 2015 onwards, management also monitors the operating results of each business line for the Cyprus segment of the BOC Group, and such information is presented to the Group Executive Committee. No comparative information for 2013 has been presented for the results of the new business lines as their reorganisation was completed in 2014.

The table below presents income statement information about the ‘Cyprus’ segment of the BOC Group based on business lines for the year ended 31 December 2014 for continuing operations, together with a total column for the ‘Other countries’ segment and for the BOC Group in order to reconcile the information with the Historical Financial Information:

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus	Other countries	Total BOC Group*
Year 2014	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)	(€000)
Net interest income	85,498	73,965	245,241	286,694	75,519	5,492	846	146,148	919,403	50,266	969,669
Net fee and commission income/ (expense)	8,945	7,329	62,261	11,850	40,251	1,802	(451)	13,418	145,405	6,462	151,867
Total other operating income	950	538	4,231	348	6,450	2,658	43,780	160,127	219,082	(11,368)	207,714
	95,393	81,832	311,733	298,892	122,220	9,952	44,175	319,693	1,283,890	45,360	1,329,250
Staff costs and other operating expenses	(11,511)	(11,522)	(120,912)	(38,806)	(25,795)	(4,580)	(14,690)	(158,701)	(386,517)	(40,525)	(427,042)
Restructuring costs	—	—	—	—	—	—	—	(33,464)	(33,464)	(2,400)	(35,864)
	83,882	70,310	190,821	260,086	96,425	5,372	29,485	127,528	863,909	2,435	866,344
Gain on derecognition of loans and advances to customers and changes in expected cash flows	15,065	6,679	11,649	8,047	1,293	2,503	—	2,102	47,338	—	47,338
Reversal of provisions/ (provisions) for impairment of loans and advances to customers and other customer credit losses	28,521	(14,468)	41,350	(617,127)	(14,311)	(3,474)	—	(110)	(579,619)	(237,364)	(816,983)
Impairment of other financial instruments	—	—	—	(2,536)	—	—	—	(45,610)	(48,146)	(8,394)	(56,540)
Impairment of non-financial instruments	—	—	—	—	—	—	—	(33,295)	(33,295)	—	(33,295)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	4,852	4,852	—	4,852
Profit/(loss) before tax	127,468	62,521	243,820	(351,530)	83,407	4,401	29,485	55,467	255,039	(243,323)	11,716
Income tax	(15,934)	(7,815)	(30,478)	43,941	(10,426)	(550)	(2,155)	20,203	(3,214)	(7,663)	(10,877)
Profit/(loss) after tax	111,534	54,706	213,342	(307,589)	72,981	3,851	27,330	75,670	251,825	(250,986)	839
Non-controlling interests—loss	—	—	—	—	—	—	—	(95)	(95)	18,418	18,323
Profit/(loss) after tax attributable to the owners of the Bank	111,534	54,706	213,342	(307,589)	72,981	3,851	27,330	75,575	251,730	(232,568)	19,162

* Continuing operations

**BOC GROUP CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2016 AND 31 DECEMBER 2015, 2014 AND 2013**

	30 June 2016 (€'000)	31 December		
		2015 (€'000)	2014 (€'000)	2013 (€'000)
Assets				
Cash and balances with central banks	1,518,663	1,422,602	1,139,465	1,240,043
Loans and advances to banks	1,174,123	1,314,380	1,646,886	1,290,102
Derivative financial assets	14,303	14,023	62,598	28,765
Investments	316,357	588,255	1,871,136	2,759,855
Investments pledged as collateral	523,386	421,032	669,786	672,809
Loans and advances to customers	16,253,237	17,191,632	18,168,323	21,764,338
Life insurance business assets attributable to policyholders	481,409	475,403	472,992	443,579
Prepayments, accrued income and other assets	238,118	281,780	322,832	413,005
Stock of property	1,128,793	515,858	12,662	14,110
Investment properties	37,505	34,628	488,598	495,658
Property and equipment	282,640	264,333	290,420	414,404
Intangible assets	138,537	133,788	127,402	130,580
Investments in associates and joint ventures	110,009	107,753	116,776	203,131
Deferred tax assets	451,126	456,531	456,871	479,060
Non-current assets and disposal groups held for sale	11,460	48,503	942,655	—
Total assets	22,679,666	23,270,501	26,789,402	30,349,439
Liabilities				
Deposits by banks	342,762	242,137	162,388	196,914
Funding from central banks	3,100,667	4,452,850	8,283,773	10,956,277
Repurchase agreements	398,408	368,151	579,682	594,004
Derivative financial liabilities	59,037	54,399	71,967	83,894
Customer deposits	14,746,473	14,180,681	12,623,558	14,971,167
Insurance liabilities	569,681	566,925	576,701	551,829
Accruals, deferred income and other liabilities	321,435	282,831	350,431	202,042
Debt securities in issue	—	712	693	1,023
Subordinated loan stock	—	—	—	4,676
Deferred tax liabilities	45,211	40,807	44,741	49,937
Non-current liabilities and disposal groups held for sale	—	3,677	614,421	—
Total liabilities	19,583,674	20,193,170	23,308,355	27,611,763
Equity				
Share capital	892,294	892,294	892,238	4,683,985
Share premium	552,618	552,618	552,539	—
Capital reduction reserve	1,952,486	1,952,486	1,952,486	—
Shares subject to interim orders	—	—	441	58,922
Revaluation and other reserves	240,004	258,709	146,809	72,251
Accumulated losses	(583,710)	(601,152)	(79,021)	(2,151,835)
Equity attributable to the owners of the BOC				
Group	3,053,692	3,054,955	3,465,492	2,663,323
Non-controlling interests	42,300	22,376	15,555	74,353
Total equity	3,095,992	3,077,331	3,481,047	2,737,676
Total liabilities and equity	22,679,666	23,270,501	26,789,402	30,349,439

Total assets

The BOC Group's change to focus on core markets has led to the disposal of non-core assets and de-leveraging, which resulted in a 25.3% reduction of total assets from 31 December 2013 to 30 June 2016.

Total assets decreased by €3,560.0 million, or 11.7%, from €30,349.4 million at 31 December 2013 to €26,789.4 million at 31 December 2014, and by a further €3,518.9 million, or 13.1%, to €23,270.5 million at 31 December 2015 and decreased slightly by €590.5 thousand, or 2.5%, to €22,680.0 million at 30 June 2016. The decrease during these periods reflects the result of the strategy implemented by the BOC Group to de-leverage and de-risk its balance sheet.

Loans and advances to customers are the largest component of total assets, representing 71.7% of total assets at 31 December 2013, 67.8% at 31 December 2014, 73.9% at 31 December 2015 and 71.7% at 30 June 2016.

Investments

Total investments (including investments pledged as collateral) decreased by €891.8 million, or 26.0%, from €3,432.7 million at 31 December 2013 to €2,540.9 million at 31 December 2014, by a further €1,531.6 million, or 60.3%, to €1,009.3 million at 31 December 2015, and by €169.6 million, or 16.8%, to €839.7 million as at 30 June 2016, driven principally by disposals of debt securities as described below.

In June 2013, the BOC Group exchanged €180.0 million of government bonds issued by Cyprus pursuant to an exchange offer conducted by the Government. The new bonds bore equal rates to those being exchanged and had maturities of six to ten years. The exchange constituted a modification of terms, rather than resulting in the derecognition of the bonds being exchanged. For the bonds offered for exchange, there was objective evidence of impairment, as among other things, there was a decrease in the estimated future cash flows due to the maturity extension using current market yields, instead of the original effective interest rate. As a result, in 2013 the BOC Group recognised impairment losses of €6.9 million relating to the exchanged bonds.

On 1 July 2014, 9 June 2015 and 16 December 2015, the Public Debt Management Office of Cyprus repaid the nominal value of €950.0 million, €750.0 million and €340.0 million, respectively, of the Cyprus Government Bond held by the Bank. The Cyprus Government Bond was pledged as collateral with the ECB, and the Bank used the proceeds of repayment to reduce its ECB funding and ELA. As the Cyprus Government Bond was transferred to the Bank at fair value and redeemed at nominal value, the BOC Group recognised a profit of €99.8 million in July 2014, a profit of €30.8 million in June 2015 and a profit of €13.5 million in December 2015.

The table below shows the carrying value of the BOC Group's investments (excluding investments pledged as collateral under repurchase agreements with banks, as described below) as at the dates indicated:

	30 June 2016	31 December		
		2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Investments				
Investments at fair value through profit or loss	50,145	50,785	34,347	25,160
Investments available-for-sale	54,567	100,535	53,480	161,258
Investments classified as loans and receivables	211,645	436,935	1,783,309	2,573,437
Total	316,357	588,255	1,871,136	2,759,855

Investments pledged as collateral under repurchase agreements with banks

Certain of the BOC Group's investments have been pledged as collateral under repurchase agreements with banks as set forth in the table below. All investments pledged as collateral can be sold or repledged by the counterparty.

	30 June 2016	31 December		
		2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Investments pledged as collateral under repurchase agreements with banks				
Investments available-for-sale	362,291	421,032	669,786	672,809
Investments classified as loans and receivables	161,095	—	—	—
	523,386	421,032	669,786	672,809

Investments at fair value through profit or loss

The table below analyses investments at fair value through profit or loss as at the dates indicated:

	Trading investments	Other investments at fair value through profit or loss	Total
	(€'000)	(€'000)	(€'000)
Investments at fair value through profit or loss			
30 June 2016			
Debt securities	321	17,187	17,508
Equity securities	3,270	4,350	7,620
Mutual funds	8,989	16,028	25,017
	<u>12,580</u>	<u>37,565</u>	<u>50,145</u>
<i>Debt securities</i>			
Cyprus Government	320	17,187	17,507
Banks and other corporations	1	—	1
	<u>321</u>	<u>17,187</u>	<u>17,508</u>
31 December 2015			
Debt securities	317	17,430	17,747
Equity securities	3,832	4,018	7,850
Mutual funds	9,205	15,983	25,188
	<u>13,354</u>	<u>37,431</u>	<u>50,785</u>
<i>Debt securities</i>			
Cyprus Government	316	17,430	17,746
Banks and other corporations	1	—	1
	<u>317</u>	<u>17,430</u>	<u>17,747</u>
31 December 2014			
Debt securities	1	17,151	17,152
Equity securities	7,138	991	8,129
Mutual funds	9,066	—	9,066
	<u>16,205</u>	<u>18,142</u>	<u>34,347</u>
<i>Debt securities</i>			
Cyprus Government	—	17,147	17,147
Banks and other corporations	1	4	5
	<u>1</u>	<u>17,151</u>	<u>17,152</u>
31 December 2013			
<i>Debt securities</i>	103	15,549	15,652
Equity securities	2,953	—	2,953
Mutual funds	6,555	—	6,555
	<u>9,611</u>	<u>15,549</u>	<u>25,160</u>
<i>Debt securities</i>			
Cyprus Government	—	15,413	15,413
Banks and other corporations	103	136	239
	<u>103</u>	<u>15,549</u>	<u>15,652</u>

For information on investments at fair value through profit or loss, see Note 22 (*Investments—Investments at fair value through profit or loss*) in the Historical Financial Information.

Investments available-for-sale

The table below analyses investments available-for-sale as at the dates indicated:

	30 June	31 December		
	2016	2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Investments available-for-sale				
Debt securities	400,787	461,934	707,858	733,658
Equity securities	15,802	59,292	14,081	98,606
Mutual funds	269	341	1,327	1,803
	<u>416,858</u>	<u>521,567</u>	<u>723,266</u>	<u>834,067</u>
Debt Securities				
Cyprus government	4,479	4,478	204	1,423
French government	293,500	290,205	489,606	476,819
Other governments	68,858	130,832	186,881	191,739
Banks and other corporations	33,950	36,419	31,167	63,362
Local authorities	—	—	—	315
	<u>400,787</u>	<u>461,934</u>	<u>707,858</u>	<u>733,658</u>

For an analysis of investments available-for-sale by country of issuer, see Note 22 (*Investments—Investments available-for-sale*) in the Historical Financial Information.

As at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013, there were no available-for-sale investments in debt securities which were determined to be individually impaired.

Investments classified as loans and receivables

The table below analyses investments classified as loans and receivables as at the dates indicated:

	30 June	31 December		
	2016	2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Investments classified as loans and receivables				
Debt securities	<u>372,740</u>	<u>436,935</u>	<u>1,783,309</u>	<u>2,573,437</u>
Cyprus government	372,740	436,935	1,782,998	2,572,940
Banks and other corporations	—	—	311	300
Local authorities	—	—	—	197
	<u>372,740</u>	<u>436,935</u>	<u>1,783,309</u>	<u>2,573,437</u>

Loans and receivables at 30 June 2016 included €150.8 million of debt securities which were determined to be individually impaired, compared to €146.4 million at 31 December 2015, €169.4 million at 31 December 2014 and €169.1 million at 31 December 2013. For information on investments at fair value through profit or loss, see Note 22 (*Investments—Investments classified as loans and receivables*) in the Historical Financial Information.

Reclassification of investments

For information on the historical reclassification of certain investments, see Note 22 (*Investments—Reclassification of Investments*) in the Historical Financial Information.

Loans and advances to customers

The BOC Group's lending consists of extensions of credit by the Bank and its subsidiaries with a banking license. The discussion below relates to the BOC Group's gross loans and advances to customers before fair value adjustments on initial recognition.

The provisions for impairment and fair value adjustments recorded by the BOC Group do not reduce the amounts legally recoverable from borrowers. For an explanation of fair value adjustment on initial recognition, see Note 46 (*Risk Management—Credit Risk—Credit risk concentration of loans and advances to customers—Fair value adjustment on initial recognition*) in the Historical Financial Information.

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 decreased the gross book value of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment was not presented within the gross balances of loans and advances.

The following table reconciles gross loans and advances to customers before fair value adjustment on initial recognition to net loans and advances to customers as at the dates indicated:

	30 June 2016 (€'000)	31 December		
		2015 (€'000)	2014 (€'000)	2013 (€'000)
Net loans and advances to customers				
Gross loans and advances to customers before fair value adjustment on initial recognition	21,083,399	22,592,475	22,806,388	26,743,319
Fair value adjustment on initial recognition	(1,043,078)	(1,207,410)	(1,566,111)	(1,902,711)
Gross loans and advances to customers after fair value adjustment on initial recognition	20,040,321	21,385,065	21,240,277	24,840,608
Provisions for impairment of loans and advances to customers	(3,787,084)	(4,193,433)	(3,071,954)	(3,076,270)
Total	16,253,237	17,191,632	18,168,323	21,764,338

At 30 June 2016, gross loans and advances to customers included mortgage loans in Cyprus of a nominal amount €1,010 million, compared to €1,003 million at 31 December 2015, €1,123 million at 31 December 2014, and €1,105 million at December 2013, respectively, which were pledged as collateral for the covered bond issued by the Bank in 2011 under the Covered Bond Programme.

At 31 December 2013, gross loans and advances to customers included loans of a carrying amount of €305.5 million, which were part of the Ukrainian operations of the BOC Group.

Gross Loans Analysis by Customer Sector

The following tables set out the breakdown of the BOC Group's gross loans and advances to customers before fair value adjustments on initial recognition by customer sector at the dates indicated below:

	30 June 2016 (€'000)	31 December		
		2015 (€'000)	2014 (€'000)	2013 (€'000)
Gross loans and advances to customers by customer sector				
Corporate	9,669,971	10,828,867	10,585,146	11,246,833
SMEs	4,549,471	4,683,786	4,924,808	6,098,937
Retail				
—housing	4,273,742	4,303,798	4,384,270	5,423,519
—consumer, credit cards and other	2,129,137	2,183,957	2,238,655	2,862,581
International banking services	396,505	528,795	603,557	1,004,374
Wealth management	64,573	63,272	69,952	107,075
Total	21,083,399	22,592,475	22,806,388	26,743,319

Gross loans and advances to customers classified as held for sale by customer sector

	31 December 2014
	(€'000)
Corporate	507,838
SMEs	163,152
Retail	
—housing	25,999
—consumer and other	204,867
International banking services	63,868
Total	965,724

Gross loans analysis by business line

The following tables set out the breakdown of the BOC Group's gross loans and advances to customers (including held for sale for 31 December 2014), before fair value adjustments on initial recognition by business lines as at the dates indicated below:

	30 June 2016	31 December			
		2015	2014	2014 Held for sale	2013
By business line	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
Corporate	3,647,373	3,700,529	3,091,661	507,838	9,279,814
SMEs	1,740,760	1,777,951	2,136,344	163,152	4,828,844
Retail					
—housing	3,613,805	3,675,823	3,821,862	25,999	4,877,745
—consumer, credit cards and other . . .	1,375,118	1,434,214	1,549,329	204,867	2,367,617
Restructuring ⁽¹⁾					
—major corporate	2,526,550	2,913,721	3,334,987	—	—
—corporate	1,369,298	1,814,518	2,018,514	—	—
—SMEs	1,300,952	1,376,635	1,401,022	—	—
Recoveries					
—corporate	2,126,750	2,400,099	2,139,984	—	1,967,019
—SMEs	1,507,759	1,529,200	1,387,442	—	1,270,093
—retail housing	659,937	627,975	562,408	—	545,774
—retail other	754,019	749,743	689,326	—	494,964
International banking services	396,505	528,795	603,557	63,868	1,004,374
Wealth management	64,573	63,272	69,952	—	107,075
	21,083,399	22,592,475	22,806,388	965,724	26,743,319

(1) As RRD was established in 2014, there is no data for 31 December 2013.

The absorption of Laiki Bank's loan portfolio contributed an additional €10.7 billion to the BOC Group's loan portfolio to stand at €26.7 billion at 31 December 2013. The acquisition of Laiki Bank resulted in the BOC Group becoming the single largest provider of credit in Cyprus with a total market share of 39.1% of gross loans as at 31 December 2013.

The BOC Group's gross loan balance before fair value adjustment on initial recognition decreased by €4.1 billion from €26.7 billion at 31 December 2013 to €22.8 billion at 31 December 2014 and €22.6 billion at 31 December 2015, or by 15.5% over the period to 31 December 2015. Despite the decrease in loan portfolio size, the BOC Group has maintained a high market share in Cyprus which only marginally decreased from 39.1% to 38.8% and 37.9% from 31 December 2013 to 31 December 2014 and 31 December 2015, respectively. This was due to loans in Cyprus being repaid or renegotiated at the same time as lending in the Cyprus market decreased generally.

With the exception of the United Kingdom, which is considered core, the BOC Group has been winding down its international operations through deleveraging initiatives and disposals of international non-core operations. For details of these Disposals, see “—Key Factors Affecting Financial Condition and Results of

Operations—Transformational Events during the Periods under Review”. These disposals have resulted in the decrease in the BOC Group’s gross loan balance.

Corporate customers are the BOC Group’s largest category of borrower, representing 17.3%, 16.4%, 15.1% and 34.7% of gross loans and advances to customers (including those classified as held for sale) at 30 June 2016 and 31 December 2015, 2014 and 2013, respectively. Housing loans and advances remained largely stable at 17.1%, 16.3%, 16.2% and 18.2% at 30 June 2016 and 31 December 2015, 2014 and 2013, respectively. SME loans (including those classified as held for sale) declined, from 18.1% at 31 December 2013 to 9.7% at 31 December 2014, to 7.9% of total loans at 31 December 2015 increasing to 8.3% at 30 June 2016.

Loans and advances to customers classified as held for sale, appears only in the financial data at 31 December 2014 and relates to the BOC Group’s Russian operations. There were no loans and advances to customers classified as held for sale at 30 June 2016, 31 December 2015 and December 2013.

Gross Loans by Sector

The following table sets out the breakdown of the BOC Group’s gross loans and advances to customers before fair value adjustments on initial recognition by economic activity as at the dates indicated below:

Gross loans and advances to customers by economic activity	30 June 2016	31 December		
	(€000)	2015 (€000)	2014 (€000)	2013 (€000)
Trade	2,234,121	2,360,294	2,315,058	2,833,112
Manufacturing	795,952	833,420	837,008	999,057
Hotels and catering	1,445,414	1,568,209	1,505,689	1,887,832
Construction	3,433,251	4,070,660	3,933,572	4,248,650
Real estate	3,330,887	3,420,982	2,999,688	4,201,181
Private individuals	7,174,294	7,332,849	7,494,374	8,539,115
Professional and other services	1,549,084	1,794,784	1,594,241	2,306,763
Other sectors	1,120,396	1,211,277	2,126,758	1,727,609
Total	21,083,399	22,592,475	22,806,388	26,743,319

The following table sets out the breakdown of the BOC Group’s gross loans and advances to customers which are classified as held for sale before fair value adjustment on initial recognition at 31 December 2014:

Gross loans and advances to customers classified as held for sale by economic activity	31 December 2014 (€000)
Trade	160,632
Manufacturing	59,466
Construction	43,932
Real estate	131,943
Private individuals	294,733
Professional and other sectors	275,018
Total	965,724

Private individuals are the largest economic sector, representing 34.0% of total loans and advances to customers before fair value adjustments on initial recognition by economic activity at 30 June 2016, 32.5% at 31 December 2015, 32.8% (including those classified as held for sale where applicable) at 31 December 2014 and 31.9% at 31 December 2013. The construction sector represented 16.3%, 18.0%, 16.7%, and 15.9% of gross loans and advances, at 30 June 2016 and 31 December 2015, 2014 and 2013, respectively. Real estate was relatively stable at 15.8% at 30 June 2016 and 15.1%, 13.2% and 15.7% at 31 December 2015, 2014 and 2013, respectively.

Gross Loans by Geography

The following table shows a breakdown of the BOC Group’s gross loans and advances to customers before fair value adjustments on initial recognition by geographical area as at the dates indicated. The analysis is

generally based on the country in which the transaction originated, rather than the country in which the transaction is recorded.

	30 June 2016	31 December		
		2015	2014	2013
	(€000)	(€000)	(€000)	(€000)
Gross loans and advances to customers				
Cyprus	19,274,481	20,660,698	21,199,939	22,799,743
Greece	44,901	68,525	174,140	172,007
Russia	194,609	248,901	—	1,429,161
United Kingdom	1,178,532	1,207,115	914,114	1,283,749
Romania	390,876	407,236	518,195	657,444
Ukraine	—	—	—	401,215
Total	21,083,399	22,592,475	22,806,388	26,743,319

Advances extended in Cyprus remain the core of the BOC Group's business, representing 91.4%, 91.5%, 89.2% and 85.3% of the BOC Group's gross loans and advances to customers (including those classified as held for sale where applicable) as at 30 June 2016 and 31 December 2015, 2014 and 2013, respectively. The geographical distribution of the BOC Group's loan portfolio was impacted by the disposal of the BOC Group's operations in Ukraine in April 2014 and in Russia in September 2015.

The BOC Group's gross loans and advances to customers in Romania also experienced a decline during each of the periods under review. The €266.6 million decrease from 31 December 2013 to 30 June 2016 largely reflects loan repayments.

In April 2014, the BOC Group sold its operations in Ukraine.

Prepayments, accrued income and other assets

The table below sets out prepayments, accrued income and other assets of the BOC Group as at the dates indicated:

	30 June 2016	31 December		
		2015	2014	2013
	(€000)	(€000)	(€000)	(€000)
Prepayments, accrued income and other assets				
Receivable relating to disposals of operations	59,511	98,454	101,550	129,254
Reinsurers' share of insurance contract liabilities	54,088	56,763	66,177	68,387
Taxes refundable	38,032	38,204	48,607	48,544
Debtors	25,134	23,020	21,279	22,956
Prepaid expenses	1,203	1,411	1,279	2,840
Retirement benefit plan assets	725	1,203	42	1,319
Other assets	59,425	62,725	83,898	139,705
Total	238,118	281,780	322,832	413,005

At 30 June 2016, the receivables relating to the disposal of operations related to the disposal of the Ukrainian operations. At 31 December 2015, the receivables relating to the disposal of operations related to the disposal of the Ukrainian and Russian operations. At 31 December 2014, the receivables relating to the disposal of operations related entirely to the disposal of the Ukrainian operations. At 31 December 2013, the receivables relating to the disposal of operations related to the disposal of the Greek operations, which was settled in 2014, and the acquisition of certain operations of Laiki Bank.

During the six months ended 30 June 2016, a reversal of an impairment loss of €2.6 million was recognised in relation to other assets compared to €21.6 million during the year ended 31 December 2015, €30.3 million during the year ended 31 December 2014 and €0 during the year ended 31 December 2013.

Stock of property

In December 2015, the BOC Group changed its business model with respect to real estate assets acquired from customers as part of the BOC Group's efforts to provide solutions to distressed borrowers and as a result of acquiring properties through the acquisition of certain operations of Laiki Bank in 2013, to a model that involves actively managing such properties with an intention to sell them. To execute its strategy, the BOC Group set up REMU in 2015. Following the establishment of REMU, the BOC Group

has assessed that for the majority of properties previously classified as investment properties, there has been a change in use and it has therefore reclassified such properties to stock of property. This has led to a change in the measurement basis of these properties from fair value to the lower of cost and net realisable value. An impairment loss of €9.4 million was recognised in 'Impairment of non-financial instruments' in the consolidated income statement during the six months ended 30 June 2016 as compared to €18.0 million for the year ended 31 December 2015. 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. For a further discussion of asset quality and REMU, see "Restructuring and Recoveries Division and Real Estate Management Unit".

The stock of property includes residential, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and under construction properties. At 30 June 2016, the stock of property pledged as collateral for central bank funding amounted to €21.3 million compared to €21.9 million as at 31 December 2015.

The carrying value of the stock of property is analysed in the tables below.

	30 June 2016 (€000)	31 December		
		2015 (€000)	2014 (€000)	2013 (€000)
Net book value at 1 January	515,858	12,662	14,110	11,624
Acquisition of subsidiary	48,632	—	—	—
Additions	641,856	32,216	605	4,142
Disposals	(68,200)	(4,298)	(920)	(1,522)
Transfer from investment properties	—	492,927	893	—
Transfer from own use properties	—	541	—	—
Transfer from/(to) disposal groups held for sale	—	247	(1,530)	—
Impairment	(9,362)	(17,792)	—	—
Foreign exchange adjustments	9	(645)	(496)	(134)
Net book value at 30 June/31 December	<u>1,128,793</u>	<u>515,858</u>	<u>12,662</u>	<u>14,110</u>

Analysis by type and country 30 June 2016	Cyprus	Greece	Romania	Total
	(€000)	(€000)	(€000)	(€000)
Residential properties	66,370	37,635	13,034	117,039
Offices and other commercial properties	175,016	60,865	13,347	249,228
Manufacturing and industrial properties	30,626	57,651	514	88,791
Hotels	70,887	2,183	—	73,070
Land (fields and plots)	584,046	5,825	10,446	600,317
Properties under construction	348	—	—	348
Total	<u>927,293</u>	<u>164,159</u>	<u>37,341</u>	<u>1,128,793</u>

The net book value of stock of property increased by €612.9 million, or 118.8%, to €1,128.8 million at 30 June 2016 from €515.9 million at 31 December 2015 due to loan restructuring activity and specifically debt for asset swaps.

Stock of property increased substantially by €503.2 million, or 3,974.1%, to €515.9 million at 31 December 2015, compared to €12.7 million at 31 December 2014, as a result of the reclassification of properties from investment properties to stock of properties following a change in the BOC Group's business model, which took place in December 2015. Stock of property decreased by €1.4 million, or 10.3%, to €12.7 million at 31 December 2014, from €14.1 million at 31 December 2013, principally driven by the disposal of properties.

For further details see Note 29 (*Stock of Property*) in the Historical Financial Information.

Deferred tax

The following table shows a breakdown of the net deferred tax assets of the BOC Group as at the dates indicated:

	30 June	31 December		
	2016	2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Difference between capital allowances and depreciation . . .	7,841	7,773	6,581	(10,604)
Property revaluation	17,278	16,658	20,722	26,951
Investment revaluation and stock of property	3,807	90	977	(370)
Unutilised income tax losses carried forward	(450,350)	(453,948)	(454,138)	(456,172)
Value of in-force life insurance business	14,271	14,271	14,124	13,483
Other temporary differences	1,238	(568)	(396)	(2,411)
Net deferred tax asset	(405,915)	(415,724)	(412,130)	(429,123)
Deferred tax asset	(451,126)	(456,531)	(456,871)	(479,060)
Deferred tax liability	45,211	40,807	44,741	49,937
Net deferred tax asset	(405,915)	(415,724)	(412,130)	(429,123)

The majority of the deferred tax assets relates to the Laiki Bank income tax losses transferred to the Bank as a result of the March 2013 acquisition amounting to €417 million. The income tax losses were transferred under 'The Resolution of Credit and Other Institutions Law' which states that any accumulated 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 Group's acquisition of Laiki Bank, these losses can be utilised against the future profits of the Bank up to 2028 at an income tax rate of 12.5%. 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 the Bank by 2028 at an income tax rate of 12.5%.

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 the Bank until 2028 at an income tax rate of 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 BOC Group performed its regular assessment regarding the recoverability of its deferred tax asset as at 30 June 2016, taking into account the actual results for the periods and years concerned, the trends of loans that are impaired or past due for more than 90 days, the funding structure and the loans to deposit ratios, the flows of deposits and the level of ELA funding.

Based on the above, management has concluded that the deferred tax asset of €451.1 million for the BOC Group as at 30 June 2016 is recoverable. As at 31 December 2013, 2014 and 2015, the BOC Group recorded deferred tax assets of €479.1 million, €456.9 million and €456.5 million, respectively.

No significant income tax losses of prior years were utilised during the six months ended 30 June 2016 or years 2015, 2014 and 2013. Further information is disclosed in Note 19 (*Income tax*) in the Historical Financial Information.

Total liabilities

Liabilities principally comprise the BOC Group's sources of funding, in particular customer deposits and funding from central banks. Liabilities have decreased during each of the periods under review, by €4,303.4 million, or 15.6%, from €27,611.8 million at 31 December 2013 to €23,308.4 million at 31 December 2014. There was a further reduction of €3,115.2 million, or 13.4%, to €20,193.2 million at 31 December 2015, and a reduction of €609.5 million, or 3.0%, from €20,193.2 million at 31 December 2015 to €19,583.7 million at 30 June 2016. The decrease during the periods under review was primarily the result of repaying ELA and deleveraging liabilities (the carrying value of the liabilities related to the

Russian operations disposed of in 2015 amounted to €526.5 million). Proceeds from the sales of non-core international operations were used to pay down ELA, which has been reduced by €9.0 billion during April 2013 to 30 June 2016.

The decrease during the period from 31 December 2014 to 31 December 2015 in repurchase agreements was the result of existing agreements reaching maturity. The decrease during the periods from 31 December 2014 to 31 December 2015 in derivative financial liabilities was mainly the result of maturing obligations, market fluctuations and decreases in accruals that were partly due to the reversals of provisions for financial guarantees in the amount of €41.0 million.

Funding from central banks

As a result of the financial crisis in Cyprus and the acquisition of Laiki Bank pursuant to the Laiki Transfer Decrees, the BOC Group had become increasingly dependent on central bank funding, which is currently being reduced. Funding from central banks consists of funding under Eurosystem monetary policy operations, including standing facilities and ELA from the CBC. At 30 June 2016, the Bank had €2.4 billion of ELA funding, which reflected a decrease of 36.9% from €3.8 billion of ELA funding at 31 December 2015, down from €7.4 billion at 31 December 2014 and €9.6 billion at 31 December 2013. The decrease in ELA funding is the result of the Bank's intention to have fully repaid the ELA as soon as possible during the first half of 2017.

At 30 June 2016 and 31 December 2015, 2014 and 2013, 16.7%, 23.1%, 37.3% and 41.0%, respectively, of the BOC Group's funding was comprised of funding from central banks, indicating the steady repayment by the Bank of central bank funding over the periods under review. At 30 June 2016, the Bank had €700.0 million of ECB funding, (which reflects an increase of 7.6% from €650.8 million of ECB funding at 31 December 2015 as a result of increased reliance on ECB funding as the ELA balance was reduced), down from €880.0 million at 31 December 2014 and €1.4 billion at 31 December 2013. At 30 June 2016, the BOC Group had repaid approximately €9.0 billion of central bank funding since April 2013.

The table below shows a breakdown of the BOC Group's funding from central banks as at the dates indicated:

	30 June	31 December		
	2016	2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Funding from Central Banks				
Emergency Liquidity Assistance (ELA)	2,400,667	3,802,058	7,403,741	9,556,035
Main Refinancing Operations (MRO)	700,000	150,000	380,001	1,400,242
Targeted Long Term Refinancing Operations ("TLTRO")	—	500,792	500,031	—
Total	<u>3,100,667</u>	<u>4,452,850</u>	<u>8,283,773</u>	<u>10,956,277</u>

The Bank's ELA funding bears interest at the rate equal to the ruling marginal lending facility rate of the Eurosystem, plus a margin. Any draw down under the ELA facility has a short term maturity, typically provided for a period of two to four weeks. From the end of September 2016, ELA has been provided on a monthly basis.

The funding under the ECB Main Refinancing Operations ("MRO") bears interest at the ruling rate of the Eurosystem. The Bank repaid in full its outstanding MRO funding during the first quarter of 2016. In May 2016, the Bank raised €200 million of new funding from the ECB's MRO using as collateral, a pool of housing loans that satisfied the criteria of the Additional Credit Claims Framework as determined in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

In 2014 the BOC Group participated in the TLTRO of the ECB, borrowing €500 million. The interest rate on the TLTRO was fixed over its life at 15 basis points (being a fixed spread of 10 basis points over the MRO level prevailing at the time of allotment). The Bank repaid the amount borrowed through the TLTRO on 29 June 2016 and borrowed the same amount through the MRO.

Customer deposits

Customer deposits remain the BOC Group's primary source of funding, with their contribution to the BOC Group's total funding gradually increasing. Customer deposits (including those classified as held for

sale where applicable) accounted for 79.3% of total funding at 30 June 2016, compared with 73.7%, 59.2% and 56.0% of total funding as at 31 December 2015, 2014 and 2013, respectively. Despite the lifting of capital control measures in Cyprus in April 2015, the Bank's customer deposits in Cyprus remain relatively stable.

Customer deposits decreased by €2,347.6 million or 15.7%, from €14,971.2 million at 31 December 2013 to €12,623.6 million at 31 December 2014, reflecting the customer deposit outflows driven by continued erosion of the customer base and the disposal of overseas deposit bases. Customer deposits increased by €1,557.1 million, or 12.3%, to €14,180.7 million at 31 December 2015, compared to €12,623.6 million at 31 December 2014 (excluding customer deposits classified as held for sale) partly as a result of the BOC Group's increased marketing efforts, improved confidence leading to an increased volume of local customer deposits with a longer tenor, and inflows of Greek deposits due to financial uncertainty in Greece.

Customer deposits stood at €14,746.5 million at 30 June 2016, an increase of €565.8 million, or 4.0% compared to €14,180.7 million at 31 December 2015, primarily as a result of increasing marketing to attract deposits and improving macroeconomic conditions in Cyprus. During the first half of 2016, the BOC Group introduced new deposit products aimed at attracting local and international depositors.

The following tables show a breakdown of the BOC Group's customer deposits by type and geographical area at the dates indicated (deposits by geographical area are based on the originator country of the deposit):

	30 June 2016 (€'000)	31 December		
		2015 (€'000)	2014 (€'000)	2013 (€'000)
Customer deposits				
<i>By type of deposit</i>				
Demand ⁽¹⁾	5,397,006	4,987,078	4,237,590	3,492,789
Savings ⁽²⁾	1,036,340	1,033,991	955,556	925,549
Time or notice ⁽³⁾	8,313,127	8,159,612	7,430,412	10,552,829
Total	14,746,473	14,180,681	12,623,558	14,971,167
<i>By geographical area</i>				
Cyprus	13,311,262	12,691,090	11,314,137	12,705,254
Russia ⁽⁴⁾	—	—	—	918,491
United Kingdom	1,429,578	1,486,551	1,304,844	1,244,186
Romania	5,633	3,040	4,577	30,055
Ukraine	—	—	—	73,181
Total	14,746,473	14,180,681	12,623,558	14,971,167

- (1) Demand deposit means a deposit (interest-bearing or non-interest-bearing) that can be withdrawn without prior notice.
- (2) Savings deposit means an interest-bearing deposit that can be withdrawn without prior notice and allows cash deposits at any time.
- (3) Time or notice deposit means an interest-bearing deposit that cannot be withdrawn for a present 'fixed' term or period of time. The account holder is required to give notice of withdrawal a specified number of days in advance of making any withdrawal in order to avoid penalties.
- (4) Classified as held for sale at 31 December 2014.

Cyprus represents the principal source of the BOC Group's deposits, accounting for 90.3% of customer deposits at 30 June 2016 compared to 89.5%, 89.6% and 84.9% at 31 December 2015, 2014 and 2013, respectively. The BOC Group's customer deposits in Cyprus increased by €620.2 million or 4.9% to €13,311.3 million at 30 June 2016 from €12,691.1 million at 31 December 2015, as a result of the Bank's marketing efforts, increasing customer confidence towards the Bank and improving macroeconomic conditions. During the periods under review and based on data from the Central Bank of Cyprus, the BOC Group's deposit market share in Cyprus reached a high of 29.0% at 30 June 2016, compared to a low of 24.6% at 30 November 2014.

The BOC Group's customer deposits in Cyprus decreased by €1,391.1 million or 11.1%, from €12,705.3 million at 31 December 2013 to €11,314.1 million at 31 December 2014 primarily as a result of the restrictive measures on money transfers introduced by the Cypriot authorities with respect to banking and cash transactions as a result of the significant liquidity squeeze in the local market being abolished in May 2014. The BOC Group's customer deposits in Cyprus increased by €1,377.0 million, or 12.2%, to €12,691.1 million during 2015 and additionally increased by 4.9% during the first six months of 2016.

In the United Kingdom, customer deposits increased from €1,244.2 million (8.3% of total customer deposits) at 31 December 2013 to €1,304.8 million (10.3% of total customer deposits) at 31 December 2014, to €1,486.6 million (10.5% of total customer deposits) at 31 December 2015. Customer deposits in the United Kingdom slightly decreased by €57.0 million from €1,486.6 million at 31 December 2015, compared to €1,429.6 million at 30 June 2016. The net increase over the period during the period under review was primarily driven by actual increases in deposits and also favourable foreign exchange movement. The slight decrease at 30 June 2016 compared to 31 December 2015 was primarily driven by foreign exchange movements between pounds sterling and euro. Without taking into account the foreign exchange loss, deposits increased by £90.7 million.

The BOC Group's customer deposits in Romania decreased by €25.5 million from €30.1 million at 31 December 2013 to €4.6 million at 31 December 2014 and further decreased by €1.5 million to €3.0 million at 31 December 2015 as a result of the winding down of Romanian assets and operations. Customer deposits then increased by €2.6 million during the first half of 2016 reaching €5.6 million at 30 June 2016. While the BOC Group does not expect to offer deposit products in Romania in the future, BOC Group still has customers conducting business at the Romanian branch.

The BOC Group disposed of €494.3 million of deposits associated with the Russian operations in September 2015. Following the disposal of the majority of the Russian operation in September 2015, the BOC Group had no customer deposits in Russia compared to €918.5 million at 31 December 2013 (6.1% of total customer deposits).

Following the disposal of its operations in Ukraine in April 2014, the BOC Group had no customer deposits in Ukraine at 31 December 2014 or 31 December 2015, compared to €73.2 million at 31 December 2013 (0.5% of total customer deposits).

The following table shows a breakdown of the BOC Group's deposits by customer sector and geography as at the dates indicated:

<i>By customer sector and geography</i>	<u>Cyprus</u>	<u>United Kingdom</u>	<u>Romania</u>	<u>Total</u>
	(€'000)	(€'000)	(€'000)	(€'000)
30 June 2016				
Corporate	1,009,959	40,123	4,981	1,055,063
SMEs	490,211	216,064	435	706,710
Retail	7,330,075	1,104,027	217	8,434,319
Restructuring				
—Corporate	206,270	—	—	206,270
—SMEs	31,755	—	—	31,755
Recoveries				
—Corporate	8,137	—	—	8,137
International banking services	3,901,674	—	—	3,901,674
Wealth management	333,181	69,364	—	402,545
	<u>13,311,262</u>	<u>1,429,578</u>	<u>5,633</u>	<u>14,746,473</u>

	Cyprus	United Kingdom	Romania	Total
	(€'000)	(€'000)	(€'000)	(€'000)
<i>By customer sector and geography</i>				
31 December 2015				
Corporate	978,672	40,425	2,242	1,021,339
SMEs	455,133	236,616	461	692,210
Retail	6,995,757	1,134,334	337	8,130,428
Restructuring				
—Corporate	189,196	—	—	189,196
—SMEs	35,363	—	—	35,363
Recoveries				
—Corporate	7,865	—	—	7,865
International banking services	3,710,742	—	—	3,710,742
Wealth management	318,362	75,176	—	393,538
	12,691,090	1,486,551	3,040	14,180,681

	Cyprus	United Kingdom	Romania	Total
	(€'000)	(€'000)	(€'000)	(€'000)
<i>By customer sector and geography</i>				
31 December 2014				
Corporate	646,993	39,946	2,946	689,885
SMEs	382,929	213,623	1,317	597,869
Retail	6,307,379	971,071	314	7,278,764
Restructuring				
—Corporate	216,784	—	—	216,784
—SMEs	39,982	—	—	39,982
Recoveries				
—Corporate	8,466	—	—	8,466
International banking services	3,467,017	—	—	3,467,017
Wealth management	244,587	80,204	—	324,791
	11,314,137	1,304,844	4,577	12,623,558

	Cyprus	Russia	United Kingdom	Romania	Ukraine	Total
	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)	(€'000)
<i>By customer sector</i>						
31 December 2013						
Corporate	1,432,886	168,426	26,588	29,200	4,061	1,661,161
SMEs	530,140	750,065	173,038	441	12,109	1,465,793
Retail	6,450,589	—	976,166	414	57,011	7,484,180
Recoveries						
—Corporate	2,048	—	—	—	—	2,048
International banking services	4,053,241	—	—	—	—	4,053,241
Wealth management	236,350	—	68,394	—	—	304,744
	12,705,254	918,491	1,244,186	30,055	73,181	14,971,167

Debt securities in issue

The BOC Group has several programmes under which it issues debt securities.

- *EMTN Programme.* The Bank maintains a Euro Medium Term Note (“EMTN”) Programme with a capacity to issue bonds with an aggregate nominal amount up to €4.0 billion. At the date of this Prospectus there are no bonds issued and outstanding under such programme.
- *Covered Bond Programme.* During 2011, a €5.0 billion Covered Bond Programme was set up under the Cyprus covered bonds legislation and the Covered Bonds Directive of the CBC. Under the programme, the Bank issued in December 2011 €1.0 billion of covered bonds with a maturity of 3 years with the option to extend their repayment by one year. The bonds bore interest at three month Euribor plus 1.25% on a quarterly basis and were traded on the Luxembourg Bourse. The terms of these bonds were amended in June 2014 and the maturity date was revised to 12 June 2017 with a

potential extension of one year, an interest rate of three month Euribor plus 3.25%, payable on a quarterly basis. On 29 September 2015 the terms of the Covered Bond Programme and the outstanding €1.0 billion covered bond were amended to a Conditional Pass-Through structure. As part of the restructuring, the outstanding principal of the covered bonds was reduced to €650 million with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. In November 2015, the size of the Covered Bond Programme was reduced to €3.0 billion. Loans and advances pledged as collateral for covered bond are disclosed in Note 48 (*Risk management—Liquidity risk and funding*) to the Historical Financial Information. The liability from the issue of covered bonds was not presented in debt securities in issue in the consolidated balance sheet as all the bonds issued are held by the Bank.

	30 June 2016 (€'000)	31 December		
		2015 (€'000)	2014 (€'000)	2013 (€'000)
Debt securities in issue				
Medium term senior debt				
€2 million notes due 2016	—	531	531	531
\$2 million notes due 2016	—	181	162	143
	—	<u>712</u>	<u>693</u>	<u>674</u>
Other debt securities in issue				
RUB Certificates of Deposit and Promissory Notes	—	—	—	349
Total debt securities issue	<u>—</u>	<u>712</u>	<u>693</u>	<u>1,023</u>

Government guaranteed bonds

The Bank maintained the rights and obligations of Laiki Bank as issuer of two bonds guaranteed by Cyprus of €500 million each. The bonds were issued in accordance with the relevant legislation and decrees on the ‘Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law’. No liability from the issue of these bonds was presented in debt securities in issue in the consolidated balance sheet as the bonds were held by the Bank. As at 30 June 2016, one of the bonds was pledged as collateral for obtaining funding from central banks. On 25 August 2016, both of the Government guaranteed bonds were cancelled.

Liquidity and Capital Resources

Liquidity

The BOC Group’s main source of funding has traditionally been customer deposits. The BOC Group has also issued debt securities and taken deposits on the interbank market. Following the Recapitalisation in 2013, in which a significant proportion of the BOC Group’s deposits and most of the Bank’s medium-term senior debt were bailed-in pursuant to the Bail-in Decrees and the transfer of a significant amount of ELA funding from Laiki Bank, the BOC Group’s funding profile changed significantly. Currently the BOC Group’s main sources of funding and liquidity continues to be its customer deposits and central bank funding, either through the ECB Eurosystem monetary policy operations or through ELA. The BOC Group continues to have limited access to interbank and wholesale funding markets.

During 2015 and the six months ended 30 June 2016, the Bank substantially reduced its reliance on ELA funding while the loan portfolio continued to be deleveraged and the trend in declining deposits was reversed. The Cyprus deposit base started to stabilise during the first half of 2015 and improved in the second half of 2015 and in the first half of 2016, mainly as a result of increasing customer confidence towards the Bank, improving market conditions and the Bank’s concerted marketing efforts.

The BOC Group’s reliance on central bank funding represented 15.8% of total liabilities at 30 June 2016. At 30 June 2016, the BOC Group had €700 million of ECB funding. The level of ELA funding at 30 June 2016 amounted to €2.4 billion, reduced from €3.8 billion at 31 December 2015 and €7.4 billion at 31 December 2014, which reflects an overall reduction of 78.9% from its peak of €11.4 billion in April 2013. The BOC Group intends to continue with further ELA repayments, the pace of which will be dependent both on the level of customer deposits and the prevailing market conditions which will affect the BOC Group’s ability to raise wholesale funding.

Customer deposits decreased by €1.8 billion, or 12.0%, from €15.0 billion at 31 December 2013 to €13.2 billion at 31 December 2014 (including deposits classified as held for sale), reflecting customer deposit outflows following the bail-in, the continued erosion of the customer base and the disposal of overseas deposit bases. BOC Group deposits then increased to €14.2 billion at 31 December 2015. Although the BOC Group disposed of its Russian operations' deposits in September 2015, the increase of 7.7% during 2015 was achieved due to increased marketing efforts in Cyprus and increased depositor confidence in the Bank. During the six months ended 30 June 2016, BOC Group's deposits increased by a further €565.8 million to €14.7 billion at 30 June 2016.

The following table shows a breakdown of the BOC Group's funding by type as at the dates indicated:

	30 June 2016	31 December		
		2015	2014 ⁽¹⁾	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Funding				
Customer deposits	14,746,473	14,180,681	13,169,178	14,971,167
Funding from central banks	3,100,667	4,452,850	8,283,773	10,956,277
Repurchase agreements	398,408	368,151	579,682	594,004
Deposits by banks	342,762	242,137	192,038	196,914
Debt securities in issue	—	712	2,463	1,023
Subordinated loan stock	—	—	2,301	4,676
Total	18,588,310	19,244,531	22,229,435	26,724,061

(1) Including held for sale.

The average rate of interest payable on the BOC Group's funding (calculated as interest paid on funding divided by average funding during the period) was 1.93% for the year ended 31 December 2013, 1.53% for the year ended 31 December 2014, 1.35% for the year ended 31 December 2015 and 1.13% (on an annualised basis) for the six months ended 30 June 2016.

The BOC Group's contingency plans specify liquidity control measures in emergency or crisis situations. For a more detailed discussion of the management of liquidity risk, see "*Risk Factors—Funding and Liquidity Risks*".

Liquidity ratios

The table below sets forth the BOC Group's liquidity ratio (liquid assets to total deposits and other liabilities falling due in the next twelve months) as at the dates and for the periods indicated. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit liabilities due to be paid in the next twelve months:

	As at and for the six months ended 30 June 2016 ⁽¹⁾	As at and for the year ended 31 December		
		2015 ⁽¹⁾	2014 ⁽¹⁾	2013 ⁽¹⁾
	(%)	(%)	(%)	(%)
Liquidity ratio				
At period end	16.82	18.25	20.97	12.28
Average ratio during the period	16.42	18.31	15.27	11.16
Highest ratio during the period	17.22	21.62	20.97	14.42
Lowest ratio during the period	14.48	15.64	12.11	8.69

(1) Note that the calculation of the ratios in the table above, as well as for CBC regulatory reports, treat ELA funding as a long term liability.

The liquidity ratios presented in the table above are the BOC Group liquidity ratios calculated by management as part of its internal systems and are calculated based on the CBC methodology for the BOC Group stock liquidity ratio. See "*Risk Factors—Regulatory and Legal Risks—The BOC Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

In addition, the BOC Group is required to comply with the LCR Regulation. The BOC Group also monitors its position against the Basel QIS NSFR. See “*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*” for a description of the regulations. The LCR Regulation is designed to promote short-term resilience of the BOC 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.

Based on the LCR Regulation and Basel QIS standards respectively, as at 30 June 2016 the BOC Group had an LCR of 0% (31 December 2015: 0%) and a Basel QIS NSF Ratio of 85% (31 December 2015: 83%). Under the LCR Regulation, the ELA funding, as well as any other funding secured by non-LCR liquid assets and maturing within 30 days, is deducted from high quality liquid assets, thus resulting in a zero LCR. It should be noted, however, that the Bank considers that it has sufficient available liquidity to meet its day-to-day needs and the zero ratio is due to the above adjustment.

The minimum liquidity ratios for the operations in Cyprus are set for the Bank at the levels required by the CBC. The minimum euro liquidity ratio (which is the ratio of the Bank’s euro-denominated liquid assets to total euro-denominated deposits and other liabilities falling due in the next 12 months) established by the CBC for operations in Cyprus is 20%. The minimum liquidity ratio for foreign currencies (which is the ratio of the Bank’s foreign currency-denominated liquid assets to total foreign currency-denominated deposits) established by the CBC for operations in Cyprus is 70%. At 30 June 2016, the Bank’s euro liquidity ratio and liquidity ratio for foreign currencies were 11.9% and 30.8%, respectively. At 30 June 2016, the Bank’s minimum required euro mismatch ratios for assets minus liabilities in the seven-day and 30-day periods over total customer deposits was minus 10% for the seven-day period and minus 25% for the 30-day period as established by the CBC for operations in Cyprus. At 30 June 2016, the Bank’s mismatch ratios were minus 34.2% (unaudited) for the seven-day period and minus 41.1% (unaudited) for the 30-day period.

The BOC Group stock liquidity ratios have remained at low levels during each of the periods under review due to the continued economic crisis in Cyprus, the Recapitalisation and the outflow of deposits during certain periods. The BOC Group is currently not in compliance with its liquidity requirements with respect to the LCR due to the existence of the ELA funding. In addition, the Bank is not in compliance with the minimum euro and foreign currency ratios established by the CBC for the operations in Cyprus. At 30 June 2016 and 31 December 2015, the Bank was in breach of the prescribed liquidity ratios in Cyprus other than the LCR, which was within the required limit as at 31 December 2015. At 30 June 2016, 31 December 2015 and 31 December 2014 the other banking units of the BOC Group (except the branch of BOC in Romania) were in compliance with their liquidity regulatory ratios in the countries in which they operated, including the United Kingdom and the Channel Islands. It is noted that Romania’s regulatory requirements in this respect have been abolished since November 2015. At 31 December 2014 the branch in Romania had a marginal regulatory breach.

The BOC Group uses funding inflows to repay ELA, which is short term. Reliance on ELA adversely affects the BOC Group’s prescribed liquidity ratios. Therefore, the BOC Group is under continuing regulatory forbearance. Once the ELA is repaid in full, the BOC Group expects gradually to come into compliance with its liquidity ratios.

The table below sets forth the BOC Group’s loan to deposit ratio (ratio of loans and advances to customers to total deposits) as at the dates indicated:

	As at and for the six months ended 30 June 2016	As at and for the year ended 31 December		
	2016	2015	2014 ⁽¹⁾	2013
	(%)	(%)	(%)	(%)
Net loan to deposit ratio				
At period end	109.92	120.92	141.48	145.38
Average ratio during the period	116.52	133.57	146.85	128.84
Highest ratio during the period	120.92	141.48	150.96	145.95
Lowest ratio during the period	109.92	120.92	141.71	85.70

(1) Note that the loan to deposit ratio includes loans and advances held for sale.

Encumbered and unencumbered assets

Encumbered assets

Certain of the BOC Group's funding is secured by assets. The carrying value of the BOC Group's encumbered assets is set forth below as at the dates indicated:

	30 June	31 December		
	2016	2015	2014	2013
	(€000)	(€000)	(€000)	(€000)
Cash and other liquid assets	165,534	154,896	191,968	367,080
Investments	597,934	892,728	2,435,766	3,289,810
Loans and advances	11,530,650	12,882,139	13,531,026	15,136,002
Non-current assets and disposal groups classified as held for sale	—	—	54,536	—
Property	92,814	93,500	99,468	90,181
	12,386,932	14,023,263	16,312,764	18,883,073

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, it is no longer available to the BOC Group for further collateral or liquidity requirements. Investments are mainly used as collateral for repurchase transactions with the ECB and other commercial banks as well as supplementary assets for covered bonds, while loans are mainly used as collateral for funding from the CBC and the ECB and for covered bonds. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions, (ii) trade finance transactions and guarantees issued and (iii) covered bonds. Assets encumbered as collateral for the ELA are released at a slower rate than the Bank's repayment of ELA funding. While the BOC Group is in an ongoing dialogue with its regulators regarding the rate of release of its assets, the retained assets may serve as an inherent buffer to be utilised for further funding if required. Investments in debt securities are also used as collateral for repurchase transactions, as well as for covered bonds. Encumbered assets include cash and funds placed with banks as collateral under ISDA Master Agreements and Global Master Repurchase Agreements (€78.1 million at 30 June 2016, €82.1 million at 31 December 2015, €70.8 million at 31 December 2014 and €221.3 million at 31 December 2013) which are not immediately available for the BOC Group but are released once the transaction is terminated.

The total encumbered assets of the BOC Group amounted to €18.9 billion at 31 December 2013, €16.3 billion at 31 December 2014, €14.0 billion at 31 December 2015 and €12.4 billion at 30 June 2016, reflecting a decrease over the six month period of 2016 of €1.6 billion, or 11.7%. These assets primarily consist of loans and advances to customers, and investments in debt securities (primarily sovereign bonds). These are mainly pledged for funding facilities under Eurosystem monetary policy operations, for ELA funding and for covered bonds.

In addition, the Government guaranteed bonds, guaranteed for up to €500 million each, were pledged as collateral for obtaining funding from the CBC. No liability from the issue of the Government guaranteed bonds was presented in debt securities in issue in the balance sheet as all the bonds were held by the Bank. In June 2016 one of the Government guaranteed bonds was released from the ELA pool of collateralised assets and both of the Government guaranteed bonds were cancelled by the Bank in August 2016.

During September 2015 the credit rating of the Bank's covered bond was upgraded to an investment grade rating and the covered bonds also became eligible collateral for the Eurosystem credit operations. In October 2015 the covered bond was used as collateral for accessing funding from the ECB, as a result of which the Bank raised €550 million of ECB funding for the repayment of ELA. Prior to the rating upgrade, the covered bond was used as collateral for ELA. The assets used as collateral for the covered bond are included in the table of encumbered assets above.

Cyprus exited the EAP in March 2016. The credit ratings of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot government bonds in its asset purchase programme or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding in March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and reduced the available ECB buffer.

In May 2016, the Bank increased its ECB funding by using as collateral a pool of housing loans which satisfied the criteria of the Additional Credit Claims Framework as determined in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

In August 2016, the CBC released loans and advances with a contractual amount of €2.0 billion held as collateral for ELA. An additional release of loans and advances, with contractual value of €2.5 billion, were released in October 2016.

Encumbered assets are described more fully in Note 48 (*Risk Management—Liquidity Risk and Funding*) in the Historical Financial Information.

Unencumbered assets (unaudited)

An asset is categorised as unencumbered if it has not been pledged against secured funding or other collateralised obligations. Unencumbered assets are further divided into those that are available and can be pledged and those that are not readily available to be pledged.

At 30 June 2016, 31 December 2015 and 31 December 2014, the BOC Group held €6.1 billion, €4.7 billion and €4.2 billion, respectively, of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs. These assets include loans and advances in Cyprus which are less than 90 days past due and loans and advances of overseas subsidiaries and branches which are not 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 the needs of the particular subsidiary or branch and not to provide liquidity to any other part of the BOC Group. Balances with central banks are reported as unencumbered which can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as an unencumbered asset not readily available as collateral. Unencumbered assets also include real estate assets mainly acquired through debt for property swaps.

As at 30 June 2016, 31 December 2015 and 31 December 2014, the BOC Group held €2.7 billion, €3.1 billion and €4.6 billion, respectively, of unencumbered assets that are not readily available to be pledged for funding requirements in their current form. These primarily consist of loans and advances that are prohibited by contract or law to be encumbered or are more than 90 days past due or for which there is pending litigation or other legal action 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 to the name of the Bank or the relevant subsidiary are not considered to be readily available as collateral.

Insurance assets held by BOC Group insurance subsidiaries are not included in the table below as they are primarily due to the policyholders.

The table below presents the carrying value of the BOC Group's encumbered and unencumbered assets and the extent to which these assets are pledged for funding purposes at 30 June 2016, 31 December 2015 and 31 December 2014:

Encumbered and unencumbered assets	Encumbered Pledged as collateral (€'000)	Unencumbered (unaudited)		
		Available to be pledged (€'000) unaudited	Not readily available to be pledged (€'000) unaudited	Total (€'000) unaudited
30 June 2016				
Cash and bank placements	165,534	2,081,776	445,476	2,692,786
Investments	597,934	210,598	31,211	839,743
Loans and advances to customers	11,530,650	2,585,194	2,137,393	16,253,237
Non-current assets held for sale	—	11,101	359	11,460
Property	92,814	1,220,732	112,054	1,425,600
Total on-balance sheet	12,386,932	6,109,401	2,726,493	21,222,826
Bonds guaranteed by the Republic of Cyprus	500,000*	500,000*	—	1,000,000
Total	12,886,932	6,609,401	2,726,493	22,222,826
31 December 2015				
Cash and bank placements	154,896	2,210,295	371,791	2,736,982
Investments	892,728	62,688	53,871	1,009,287
Loans and advances to customers	12,882,139	1,834,519	2,474,974	17,191,632
Non-current assets and disposal group held for sale	—	15,018	33,485	48,503
Property	93,500	564,269	133,026	790,795
Total on-balance sheet	14,023,263	4,686,789	3,067,147	21,777,199
Bonds guaranteed by the Republic of Cyprus	1,000,000	—	—	1,000,000
Total	15,023,263	4,686,789	3,067,147	22,777,199
31 December 2014				
Cash and bank placements	191,968	2,219,890	374,493	2,786,351
Investments	2,435,766	81,656	23,500	2,540,922
Loans and advances to customers	13,531,026	1,383,094	3,254,203	18,168,323
Non-current assets and disposal group held for sale	54,536	36,519	851,600	942,655
Property	99,468	512,363	140,197	752,028
Total on-balance sheet	16,312,764	4,233,522	4,643,993	25,190,279
Bonds guaranteed by the Republic of Cyprus	1,000,000	—	—	1,000,000
Total	17,312,764	4,233,522	4,643,993	26,190,279

* In August 2016, the bonds were cancelled.

Liquidity reserves

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes.

The BOC Group's liquidity reserves are managed by BOC Group Treasury. Liquid asset investments take place within limits and parameters specified in the relevant policies approved by the Board of Directors.

At 30 June 2016, the BOC Group had liquidity reserves of €2.4 billion (unaudited) (€2.6 billion (unaudited) at 31 December 2015; €2.9 billion (unaudited) as at 31 December 2014; €2.0 billion (unaudited) at 31 December 2013), of which €1.3 billion (unaudited) (€1.2 billion (unaudited) at 31 December 2015; €1.1 billion (unaudited) at 31 December 2014; €649.8 million (unaudited) at 31 December 2013) were eligible for the purposes of calculating the Bank's LCR under CRD IV requirements. The BOC Group only holds LCR Level 1 eligible assets which include high quality debt securities issued by a government or central bank, multilateral agency bonds, cash and reserves at central banks.

Although the Bank has received no specific assurances, management expects that it will continue to have access to the central bank liquidity facilities, in line with applicable rules. In January 2014, the House of

Representatives of Cyprus approved the issuance of up to €2.9 billion of guarantees. The EC announced in June 2016 the eighth extension of the bank guarantee scheme, which will see the scheme continue until 31 December 2016. At present, the Bank does not expect to utilise the Government's guarantee scheme.

ELA is available to solvent Euro area credit institutions, and is therefore expected to remain available to the Bank (subsequent to its repayment of existing ELA funds) if it were to face a 'stress event' that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Bank could seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

Cash flow information

The table below shows a summary of the BOC Group's cash flow for the six months ended 30 June 2016 and 2015 and the years ended 31 December 2015, 2014 and 2013. The complete consolidated statements of cash flows for such periods are included in the Historical Financial Information.

	Six months ended 30 June		Year ended 31 December		
	2016	2015	2015	2014	2013
	(€'000)	(unaudited) (€'000)	(€'000)	(€'000)	(€'000)
Cash flow from/(used in) operating activities	1,150,538	577,959	2,418,378	1,234,001	(2,816,135)
Cash flow from investing activities	202,814	880,167	1,641,994	1,287,807	1,235,704
Cash flow used in financing activities	(1,373,637)	(1,924,637)	(3,909,882)	(1,944,794)	1,661,002
Net (decrease)/increase of cash and cash equivalents for the period/year	(20,285)	(466,511)	150,490	577,014	80,571
Cash and cash equivalents as at					
1 January	2,406,344	2,238,601	2,238,601	1,463,243	1,337,956
Foreign exchange adjustments	6,421	(24,116)	17,253	198,344	44,716
Net (decrease)/increase in cash and cash equivalents for the period/year	(20,285)	(466,511)	150,490	577,014	80,571
Cash and cash equivalents as at period/year end	<u>2,392,480</u>	<u>1,747,974</u>	<u>2,406,344</u>	<u>2,238,601</u>	<u>1,463,243</u>
Supplementary disclosure of operating cash flow information:					
Interest paid	(113,976)	(189,597)	(342,158)	(477,593)	(811,421)
Interest received	545,261	553,305	1,270,146	1,251,613	1,714,437
Dividends received	119	273	900	338	421
	<u>431,404</u>	<u>363,981</u>	<u>928,888</u>	<u>774,358</u>	<u>903,437</u>

Details on the non-cash transactions are presented in Note 42 (*Net cash flow from operating activities*) to the Historical Financial Information.

Cash flow from operating activities

Net cash flow from operating activities increased by €572.5 million, or 99.1%, to €1,150.5 million for the six months ended 30 June 2016, compared to €578.0 million for the six months ended 30 June 2015. Net cash flow from operating activities in the six months ended 30 June 2016 was primarily attributable to customer and bank deposit inflows and higher net inflows from loans and advances to customers compared to net outflows in 2015.

Net cash flow from operating activities increased by €1.2 billion, or 96.0%, to €2.4 billion for the year ended 31 December 2015, compared to €1.2 billion for the year ended 31 December 2014. The increased net cash flow from operating activities in 2015 compared to 2014 was primarily attributable to increased working capital movements from customer deposits, increase on loans and advances to customers.

Net cash flow from operating activities increased by €4.0 billion, or 143.8%, to €1.2 billion for the year ended 31 December 2014, compared to an outflow of €2.8 billion for the year ended 31 December 2013 primarily due to the Recapitalisation.

Cash flow from investing activities

Net cash flow from investing activities decreased by €677.4 million, or 77.0%, to €202.8 million for the six months ended 30 June 2016, compared to €880.2 million for the six months ended 30 June 2015. Net cash flow from investing activities for the six months ended 30 June 2016 was primarily attributable to proceeds from debt securities and treasury bills, and proceeds from the disposal of Kermia Hotels Ltd and adjacent land.

Net cash flow from investing activities increased by €354.2 million, or 27.5%, to €1.6 billion for the year ended 31 December 2015, compared to €1.3 billion for the year ended 31 December 2014. Net cash flow from investing activities in 2015 was primarily attributable to proceeds from disposals of properties and investment properties held for sale, the early repayment of the Cyprus Government Bond and the disposal of MDSEF.

Net cash flow from investing activities increased by €52.1 million to €1.3 billion for the year ended 31 December 2014, compared to €1.2 billion for the year ended 31 December 2013. Net cash flow from investing activities in 2014 was primarily attributable to the early repayment of the Cyprus Government Bond and the disposal of Banca Transilvania.

Cash flow from financing activities

Net cash flow from financing activities decreased by €551.0 million to an outflow of €1.4 billion for the six months ended 30 June 2016, compared to an outflow of €1.9 billion for the six months ended 30 June 2015. Net cash flow from financing activities for the six months ended 30 June 2016 was primarily attributable to ELA repayment.

Net cash outflows from financing activities increased by €2.0 billion to an outflow of €3.9 billion for the year ended 31 December 2015, compared to an outflow of €1.9 billion for the year ended 31 December 2014. Net cash outflow from financing activities in 2015 was primarily attributable to ELA repayment and repayment of central bank funding.

Net cash outflow from financing activities increased by €3.6 billion, or 217.1%, to an outflow of €1.9 billion for the year ended 31 December 2014, compared to a net inflow of €1.7 billion for the year ended 31 December 2013. Net cash outflow from financing activities in 2014 was primarily attributable to the net result of the repayment of funding from central banks and the net proceeds of €1.0 billion from the Capital Raising.

Equity

The following table shows the BOC Group's equity at the dates indicated:

	30 June 2016	31 December		
		2015	2014	2013
	(€'000)	(€'000)	(€'000)	(€'000)
Equity				
Share capital	892,294	892,294	892,238	4,683,985
Share premium	552,618	552,618	552,539	—
Capital reduction reserve	1,952,486	1,952,486	1,952,486	—
Shares subject to interim orders	—	—	441	58,922
Revaluation and other reserves	240,004	258,709	146,809	72,251
Accumulated losses	(583,710)	(601,152)	(79,021)	(2,151,835)
Equity attributable to the owners of the Bank	3,053,692	3,054,955	3,465,492	2,663,323
Non-controlling interests	42,300	22,376	15,555	74,353
Total equity	3,095,992	3,077,331	3,481,047	2,737,676

On 18 September 2014, the BOC Group issued €1.0 billion of new ordinary shares in the Capital Raising.

Capital Management

The Bank is regulated (on a consolidated basis) in accordance with capital adequacy and liquidity requirements by the CBC and ECB.

Regulatory capital (unaudited)

The primary objective of the BOC Group's capital management is to ensure compliance with applicable regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

Regulation of the banking industry in Cyprus has changed in recent years as Cypriot law has implemented applicable EU directives. The CRR and CRD IV became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the EU's legal framework on 1 January 2014. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to comply with. It has direct effect in all EU member states. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019 and some other transitional provisions provide for phase-in until 2024. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, and allows national regulators to impose additional capital buffer requirements. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law. The CBC has determined the extent of the phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions.

On 31 December 2013, the CBC set the minimum Core Tier 1 capital ratio to 9%. On 29 May 2014, the CBC set the minimum Common Equity Tier 1 capital ratio at 8% on a transitional basis (Pillar I capital requirement).

Since June 2016, the CET1 minimum capital requirement applicable to the BOC Group is 4.5% of RWA. The total capital requirement is 8.0% on a transitional basis, comprising the CET 1 minimum of 4.5% combined with up to 1.5% of Additional Tier 1 ("ATI") capital and up to 2.0% of Tier 2 capital.

The capital conservation buffer is 2.5% of RWA over the minimum CET 1 ratio and has been fully phased in since 2015.

In addition to the above minimum capital requirements, the following capital buffer requirements are effective with respect to the BOC Group and are gradually being phased-in and will become fully effective on 1 January 2022.

The level of the Countercyclical Capital buffer ("CCyB") is set on a quarterly basis by the CBC in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015 in accordance with the methodology set out in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for the first three quarters of 2016.

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. Since 2015, the BOC Group has been designated as an O-SII. The CBC set the O-SII buffer for the BOC 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 BOC Group is also subject to additional capital requirements for risks which are not covered by the above-mentioned capital requirements ("Pillar II add-ons"). However, the BOC Group's Pillar II add-on capital requirement is a point-in-time assessment and therefore is subject to change over time.

Following the SREP completed during 2016 and the related decision establishing prudential requirements pursuant to the SSM Regulation applicable for the year 2017 (the "SREP 2016") performed by the ECB, based on the pre-notification received in September 2016, the BOC Group's minimum phased-in CET1 ratio was set at 10.75%, which includes a 4.5% Pillar I requirement, a 3.75% Pillar II requirement and a

fully phased-in capital conservation buffer of 2.5% (in accordance with the prevailing CRD IV legislation in Cyprus). The ECB also provided non-public guidance for an additional Pillar II CET1 buffer.

The overall total capital requirement was set at 14.25%, which includes a 8.0% Pillar I requirement (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% can be in the form of Tier 2 capital), a 3.75% Pillar II requirement (in the form of CET1), as well as the fully phased-in capital conservation buffer of 2.5%, which has been set for all credit institutions through the requirements of CRR/CRD IV.

The new SREP requirements will be effective as from 1 January 2017, but as at the date of the publication of this Prospectus, these requirements remain subject to final confirmation from the ECB, which currently is expected by the end of 2016.

Based on discussions with the ECB, the ECB has not indicated that it will require the BOC Group to raise additional capital. The BOC Group's capital position at 30 June 2016 exceeded its Pillar I and Pillar II add-on capital requirements for 2016. The BOC Group believes that it has sufficient common equity capital to support its strategy and does not currently anticipate having to raise additional equity, although the Bank may consider issuing Tier 2 capital to further diversify its capital, subject to market conditions.

Following the completion of SREP 2015, the minimum CET1 capital requirement for the BOC Group was determined by the ECB to be 11.75% and also included the fully phased-in capital conservation buffer. The BOC Group complied with the minimum capital requirements (Pillar I and Pillar II add-ons) during 2015.

At 31 December 2014 the BOC Group's capital position satisfied both its Pillar I capital requirement and Pillar II add-on capital requirement.

However, before the Recapitalisation required date (29 March 2013) the BOC Group's Core Tier 1, Tier 1 and total capital ratios did not comply with minimum capital ratios.

Following the Recapitalisation, the BOC Group complied with the minimum Core Tier 1 ratio (8.7%) required by the CBC as at 31 December 2013.

The total capital ratio at 30 June 2013 and 30 September 2013 did not comply with the minimum total capital ratio (12.2%) required by the CBC until 30 December 2013. As at 31 December 2013, the BOC Group complied with all applicable minimum capital requirements.

The BOC Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the BOC Group comply with the requirements of the Superintendent of Insurance including the minimum Solvency II ratio which was effective from 1 January 2016. The regulated investment firms of the BOC Group comply with the regulatory capital requirements of CySEC laws and regulations.

The following table presents the BOC Group's regulatory capital position under the CRR and CRD IV (after applying the transitional arrangements set by the CBC) as at the dates indicated.

	30 June 2016 (€'000)	31 December		
		2015 (€'000)	2014 ⁽¹⁾ (€'000)	2013 ⁽¹⁾⁽²⁾ (€'000)
(unaudited)				
Regulatory capital				
Transitional Common Equity Tier 1 (CET1) ⁽³⁾	2,735,509	2,747,772	3,190,955	2,449,878
Transitional Additional Tier 1 capital (AT1)	—	—	—	—
Tier 2 capital (T2)	20,872	30,290	42,146	45,204
Transitional total regulatory capital	2,756,381	2,778,062	3,233,101	2,495,082
Risk-weighted assets—credit risk ⁽⁴⁾	16,920,944	17,618,578	20,624,507	21,468,518
Risk-weighted assets—market risk	7,489	7,811	5,025	3,398
Risk-weighted assets—operational risk	2,039,888	2,039,888	2,085,000	2,057,687
Total risk-weighted assets	18,968,321	19,666,277	22,714,532	23,529,603
Transitional Common Equity Tier 1 ratio	14.4%	14.0%	14.0%	10.4%
Transitional total capital ratio	14.5%	14.1%	14.2%	10.6%

- (1) 2013 figures are reported under Basel II and the 2014 figures are reported in accordance with the Basel III (CRD IV/CRR) framework.
- (2) The position as at 31 December 2013 is shown on a pro forma basis by applying the new rules including the transitional arrangements that have been in place since 1 January 2014.
- (3) CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €53.1 million, €35.2 million and €68.5 million as at 30 June 2016, 31 December 2015 and 31 December 2014, respectively.
- (4) Includes Credit Valuation adjustment.

On 26 October 2014, the Bank announced the results of the ECB's Comprehensive Assessment, which consisted of both an asset quality review ("AQR") and an EU-wide stress test. The AQR involved a review of the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions. The stress test examined the resilience of banks' balance sheets to different stress scenarios using a common methodology developed by the EBA and applied across all participating banks. The Comprehensive Assessment was based on a capital benchmark of 8% CET 1 ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the baseline stress test scenario. For purposes of the stress test, the minimum ratios applied across all participating banks were set at 8% CET 1 ratio for the baseline scenario and 5.5% CET 1 ratio for the adverse scenario.

During 2015, the BOC Group's CET 1 capital position was negatively affected by the losses for the year which arose due to the elevated provisions for impairment of customer loans following assumption changes in the BOC Group's provisioning methodology. The decrease in Risk Weighted Assets ("RWAs") by €3.048 million during the year was due to the BOC Group's strategy of deleveraging through the disposal of non-core operations (primarily due to disposal of the Russian operations in September 2015) and its ongoing efforts for Risk Weighted Assets optimisation. In changing its provisioning assumptions to be applied from 30 June 2016 onwards, the Bank considered its strategy for managing problem loans, as well as other available evidence, reflecting an increased level of conservatism within an acceptable range. These changes relate to extending the recovery periods and applying additional realisation discounts on the most stressed non performing portfolios, with both changes being a function of the Bank's strategy for recovering delinquent exposures.

SREP

The ECB, as part of its supervisory role under Council Regulation (EU) No 1024/2013, conducts an annual SREP and a number of onsite inspections. SREP is a holistic assessment of, amongst other things: the BOC Group's business model, strategy, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover such risks and risks to liquidity and adequacy of liquidity resources to cover such risks. The objective of SREP is for the ECB to form an up-to-date supervisory view of the BOC Group's risks, viability and sustainability, which in turn forms the basis for supervisory measures and dialogue with the BOC Group.

The BOC Group participated in the SSM SREP stress test during 2016, which was performed at the highest level of consolidation. The exercise was based on the methodology of the EBA EU-wide exercise, amended to duly respect the principle of proportionality. As part of the SREP process, the ECB can request financial institutions to submit action plans in connection with operations on which the ECB is focused or monitoring, and in connection with SREP 2016, the ECB has requested the BOC Group to provide certain action plans in connection with the fraud risk management framework, the data management and governance framework, the current high levels of NPEs, compliance with the liquidity requirements set out in CRR, the provisioning policy adjustments and the reduction of certain sector and name concentration. In addition, the Bank intends to submit a Board-approved plan to the ECB setting out the manner in which the Bank intends to strengthen its provisioning calculations by reconsidering its parameters within the context of IFRS using available historical data as empirical evidence in a more robust manner. Should the data or underlying assumptions that support the provisioning policy parameters require refinement, the Bank will make the recommended adjustments within the context of IFRS and this may result in provisions being increased. See also “*Risk Management—Risk Management Governance—Operational Risk*”. In addition, following SREP 2016, based on the pre-notification received in September 2016 and subject to final confirmation which is expected by the end of 2016, the BOC Group expects the ECB’s prohibition on variable pay to be lifted and replaced with a limitation on variable remuneration to 10% of net revenues.

For 2015, the Bank reassessed its provisioning assumptions, estimates and methodologies, which resulted in an increase by €547.0 million to a full year provisioning charge of €959.5 million for 31 December 2015 and led directly to the BOC Group’s net consolidated loss of €438.4 million for the year ended 31 December 2015. The increase in provisions was principally due to changes in certain assumptions used by the Bank in its provisioning methodology within the parameters of IFRS, taking into consideration the Bank’s strategy with respect to its non performing loans portfolio, developments both at the macro level with regard to the Cyprus economy as well as specific developments in various borrower exposures and in relation to the on-going regulatory dialogue between the Bank and the ECB regarding SREP 2015. While the provisioning charge had an impact, the BOC Group’s capital level exceeded the minimum regulatory requirements. Following the completion of the SREP 2015 dialogue and onsite inspection process, the ECB requested the submission of a multi-year capital plan to demonstrate that the level of capital held by the BOC Group is sufficient. The capital plan was submitted to the ECB on 26 February 2016. The BOC Group’s consolidated CET 1 ratio remains higher than the minimum required ratio of 11.75% (required by Pillar II) (see “*Risk Factors—Risks Relating to Asset Quality, Provisions and Capital—The BOC Group is subject to ECB supervision which may result in requests that it increase its loan provisions or raise additional capital, or increased costs*”).

Critical Accounting Estimates, Judgements and Policies

In connection with the preparation of the Historical Financial Information in accordance with IFRS, the BOC Group is required to make a number of judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense in accordance with the relevant provisions of IFRS in the financial statements and accompanying notes.

The BOC Group based its assumptions and estimates on parameters available when the Historical Financial Information was prepared. Existing circumstances and assumptions about future developments may, however, change due to market changes or circumstances beyond the control of the BOC Group. Such changes are reflected in the assumptions when they occur.

For a detailed description of each of the accounting policies the BOC Group views as significant, see Note 3 (*Summary of significant accounting policies*) to the Historical Financial Information.

CURRENT TRADING, TRENDS AND PROSPECTS

The discussion below includes forward looking statements regarding plans, objectives, projections and anticipated future performance based on assumptions that are subject to risks and uncertainties. As such, actual results may differ materially from those discussed in these forward looking statements. See “*Presentation of Financial and Other Information—Forward Looking Statements*” in this Prospectus. Additionally, the following financial information in relation to the BOC Group has been extracted, or derived, from the Third Quarter Financial Information or has been extracted or derived from those of the BOC Group’s accounting records and financial reporting and management systems that have been used to prepare its financial information. All financial information included in this section is unaudited.

Current Trading and Trends

Financial Review of the nine month period ended 30 September 2016

The Bank further reduced the level of ELA funding from €2.4 billion at 30 June 2016 to €1.3 billion at 30 September 2016 (€3.8 billion at 31 December 2015). At the date of this Prospectus, the level of ELA funding was €0.6 billion. At the same time, the BOC Group’s customer deposits increased from €14.7 billion at 30 June 2016 to €15.6 billion at 30 September 2016, a 6.1% increase comprised of €831.6 million in Cypriot resident deposits (a significant proportion of which were Government deposits) and €65.1 million in non-Cypriot resident deposits. The BOC Group’s customer deposits increased by €1.5 billion, or 10.3%, from 31 December 2015 to 30 September 2016. The BOC Group’s market share for Cypriot resident deposits also increased from 27.2% at 30 June 2016 to 28.8% at 30 September 2016 (source: CBC data).

BOC Group’s gross loans totalled €20,596 million at 30 September 2016, compared to €21,083 million at 30 June 2016 and €22,592 million at 31 December 2015. The reduction in gross loans is, to a large extent, driven by the restructuring activity, including debt for property and debt for equity swaps. Gross loans in Cyprus totalled €18,773 million at 30 September 2016 and accounted for 91% of Group gross loans. Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (which is the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €989 million at 30 September 2016 (compared to €1,043 million at 30 June 2016). At 30 September 2016, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures, totalled €4,702.6 million, compared to €4,874.7 million at 30 June 2016, and accounted for 22.8% of gross loans, compared to 23.1% at 30 June 2016.

At 30 September 2016, 90+DPD loans decreased by 5.4% to €8.8 billion from €9.3 billion at 30 June 2016 and by 22.6% from €11.3 billion at 31 December 2015. At 30 September 2016, the 90+DPD ratio decreased by 1.4 percentage points to 42.6% from 44.0% at 30 June 2016 and by 7.5 percentage points from 50.1% at 31 December 2015. The provisioning coverage ratio for 90+DPD loans increased from 52.6% at 30 June 2016 to 53.6% at 30 September 2016. The improvement in 90+DPD loans is due to the slower formation of new 90+DPD loans across all banking business lines in Cyprus and the continued acceleration in loan restructurings.

At 30 September 2016, NPEs decreased by 4.7% to €11.9 billion from €12.5 billion at 30 June 2016 and by 14.8% from €14.0 billion at 31 December 2015. For the first time, the reduction of NPEs during the three months ended 30 September 2016 exceeded the reduction of 90+DPD loans mainly as a result of restructured loans meeting the NPE exit criteria following satisfactory performance for the duration of the 12 month cure period. At 30 September 2016, the NPE ratio decreased to 57.8% from 59.3% at 30 June 2016 and 61.8% at 31 December 2015. The provisioning coverage ratio for NPEs increased from 39.0% at 30 June 2016 to 39.5% at 30 September 2016.

In December 2015, REMU was set up as part of the BOC Group’s efforts to provide solutions to distressed borrowers and properties acquired through repossession by moving to a model that involves on-boarding a larger volume of properties than in prior years. REMU is a specialised unit specially created to actively manage such properties (including selective investment and development) with an intention to more effectively manage monetisation of the Bank’s real estate assets and portfolios in Cyprus, Greece and Romania. During the nine months ended 30 September 2016, REMU acquired €893.9 million of assets through the execution of debt for property swaps and disposed of real estate assets amounting to €109.8 million. At 30 September 2016, REMU had properties under management with a total carrying value of €1.3 billion.

Net interest income decreased from €175.7 million to €164.0 million for the three months ended 30 June 2016 and 30 September 2016, respectively, a decrease of €11.7 million which is primarily the result of lower loan volumes in Cyprus which, in turn, is mainly the result of the Bank's employment of debt for assets and equity swaps and other loan restructuring activity. Net interest margin decreased to 3.3% for the third quarter of 2016, compared to 3.6% for the second quarter of 2016. Net interest margin stood at 3.5% for the nine months ended 30 September 2016.

Profit before provisions increased from €125.5 million to €126.9 million for the three months ended 30 June 2016 and 30 September 2016, respectively, an increase of €1.4 million which is primarily the net result of lower net interest income which was more than fully offset by gains from financial instruments (mainly due to a gain of €9.0 million from the repurchase of Cyprus Government Bonds held by the Bank) and by 5.1% quarter-on-quarter lower total expenses (excluding one-off VEP costs and restructuring expenses), primarily driven by 7% lower staff costs (excluding one-off VEP costs), primarily driven by lower headcount in Cyprus, reflecting the effect of the VEP completed during the second quarter of 2016.

The cost to income ratio for the nine months ended 30 September 2016 stood at 42% and for the third quarter of 2016 was 41%, compared to 43% for the second quarter of 2016.

The BOC Group's underlying operating profitability continued in the third quarter at €126.9 million and was directed at improving its ability to absorb losses on its balance sheet through increased provisions, a trend which the BOC Group expects to continue into 2017. Provisions for impairment of customer loans (net of gains/(losses) on derecognition of loans and changes in expected cash flows) was €266.9 million for the nine months ended 30 September 2016 and increased from €95.4 million to €109.1 million for the three months ended 30 June 2016 and 30 September 2016, respectively. The annualised provisioning charge for the nine months ended 30 September 2016 accounted for 1.6% of gross loans, compared to 1.4% for the six months ended 30 June 2016. See Note 4 (*Accounting policies*) of the Third Quarter Financial Information for the definition of provisions for impairment of customer loans and gains/(losses) on derecognition of loans and changes in expected cash flows on acquired loans over average gross loans.

BOC Group's impairments of other financial and non-financial assets for the nine months ended 30 September 2016 totalled €33.8 million, compared to €37.1 million for the nine months ended 30 September 2015. Impairments of other financial and non-financial assets for the third quarter of 2016 totalled €12.2 million, compared to €13.6 million for the second quarter of 2016, including impairment losses of stock of properties in Cyprus, Greece and in Romania.

Profit after tax attributable to the owners of the Bank was €61.6 million for the nine months ended 30 September 2016 and decreased from €6.1 million to €5.3 million for the three months ended 30 June 2016 and 30 September 2016, respectively.

Capital Resources and Liquidity

Capital

In the third quarter of 2016, the BOC Group's capital position remained strong and the BOC Group continued the trend of reducing its level of delinquent loans and normalising its funding structure, while positioning itself to grow and support the recovering Cypriot economy.

The BOC Group's CET 1 ratio (transitional basis) improved to 14.6% at 30 September 2016, compared to 14.4% at 30 June 2016 and to 14.0% at 31 December 2015, mainly as a result of lower risk-weighted assets. Additionally, the BOC Group's capital position at 30 September 2016 exceeded its Pillar I and its Pillar II add-on capital requirements.

Following the SREP performed by the ECB in 2016, based on the pre-notification received in September 2016, the BOC Group's minimum phased-in CET1 ratio was set at 10.75%, which includes a 4.5% Pillar I requirement, a 3.75% Pillar II requirement and a fully phased-in capital conservation buffer of 2.5% (in accordance with the prevailing CRD IV legislation in Cyprus). The ECB also provided non-public guidance for an additional Pillar II CET1 buffer.

The overall total capital requirement was set at 14.25%, which includes a 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% can be in the form of Tier 2 capital), a 3.75% Pillar II requirement (in the form of CET1), as well as the fully phased-in capital conservation buffer of 2.5%, which has been set for all credit institutions through the requirements of CRD IV/CRR.

The SREP 2016 requirements will be effective as from 1 January 2017, but at the date of the publication of this Prospectus, these requirements remain subject to final confirmation from the ECB, which currently is expected by the end of 2016.

The capital position of the BOC Group under CRD IV/CRR basis (after applying the transitional arrangements set by the CBC) is presented in “*Selected Financial Information—Selected Financial Ratios and Other Data*”. See also Note 4.1 (*Capital Position*) in the Third Quarter Financial Statements.

Following SREP 2016, based on the pre-notification received in September 2016 and subject to final confirmation which is expected by the end of 2016, the BOC Group expects the ECB’s prohibition on variable pay to be lifted and replaced with a limitation on variable remuneration to 10% of net revenues. The results of the SREP performed by the ECB in 2016 are presented in “*Operating and Financial Review—Capital Management—Regulatory capital*”, “*Operating and Financial Review—Capital Management—Regulatory capital—SREP*” and Note 4 (*Capital management*) and Note 5 (*Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP)*) in the Third Quarter Financial Statements.

Liquidity

The BOC Group’s main sources of funding and liquidity continues to be its customer deposits and central bank funding, either through the ECB Eurosystem monetary policy operations or through ELA. The BOC Group continues to have limited access to interbank and wholesale funding markets. During 2015 and the nine months ended 30 September 2016, the Bank substantially reduced its reliance on ELA funding while the loan portfolio continued to be deleveraged and the trend in declining deposits was reversed. The Cyprus deposit base started to stabilise during the first half of 2015 and improved in the second half of 2015 and in the nine months ended 30 September 2016, mainly as a result of increasing customer confidence towards the Bank, improving market conditions and the Bank’s intensive marketing efforts.

At 30 September 2016, the BOC Group’s central bank funding totalled €2.0 billion, which represented 10.1% of total liabilities. At 30 September 2016, the BOC Group had €650 million of ECB funding. The level of ELA funding at 30 September 2016 amounted to €1.3 billion, reduced from €3.8 billion at 31 December 2015 and €7.4 billion at 31 December 2014, which reflects an overall reduction of 88.6% from its peak of €11.4 billion in April 2013. Since 30 September 2016, the BOC Group repaid a further €0.7 billion of ELA funding, reducing the level to €0.6 billion. The BOC Group intends to continue with further ELA repayments, the pace of which will be dependent both on the level of customer deposits and the prevailing market conditions.

During the nine months ended 30 September 2016, the BOC Group’s deposits increased by €1.5 billion to €15.6 billion at 30 September 2016, as compared to €14.2 billion at 31 December 2015, part of which is related to an increase in government deposits (see “*Current Trading and Trends*”). Customer deposits are the BOC Group’s primary source of funding, with their contribution towards the BOC Group’s overall funding gradually increasing. Customer deposits accounted for 70% of total assets at 30 September 2016, compared to 65% of total assets at 30 June 2016.

The following table shows a breakdown of the BOC Group’s funding by type at 30 September 2016 and 31 December 2015:

	<u>30 September 2016</u>	<u>31 December 2015</u>
	(unaudited) (€ '000)	(€ '000)
<i>Funding</i>		
Customer deposits	15,642,924	14,180,681
Funding from central banks	1,950,045	4,452,850
Repurchase agreements	329,325	368,151
Deposits by banks	371,378	242,137
Debt securities in issue	—	712
Total	<u>18,293,672</u>	<u>19,244,531</u>

The average rate of interest payable on the BOC Group’s funding (calculated as interest paid on funding divided by average funding during the period) was 1.35% for the year ended 31 December 2015 and 1.11% (on an annualised basis) for the nine months ended 30 September 2016.

Liquidity Reserves

At 30 September 2016, the BOC Group had liquidity reserves of €2.5 billion (€2.6 billion at 31 December 2015), of which €1.3 billion (€1.2 billion at 31 December 2015) were eligible for the purposes of calculating the Bank's LCR under the requirements of the LCR Regulation.

Liquidity ratios

Based on the LCR Regulation and Basel QIS standards respectively, at 30 September 2016 the BOC Group had an LCR of 0% (31 December 2015: 0%) and a Basel QIS NSFR of 88% (31 December 2015: 83%). Under the delegated regulation, the ELA funding, as well as any other funding secured by non-LCR liquid assets and maturing within 30 days, is deducted from high quality liquid assets, thus resulting in a zero LCR. It should be noted, however, that the Bank considers that it has sufficient available liquidity to meet its day-to-day needs and the zero ratio is due to the above adjustment. See *“Operating and Financial Review—Liquidity and Capital Resources—Liquidity”*, and *“Operating and Financial Review—Liquidity and Capital Resources—Liquidity Ratios”*, *“Risk Management Liquidity and Funding”* and *“Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation”*.

The table below sets forth the BOC Group's liquidity ratio (liquid assets to total deposits and other liabilities falling due in the next twelve months) at the dates and for the periods indicated. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit/liabilities due to be paid in the next twelve months:

	At and for the nine months ended 30 September 2016 ⁽¹⁾	At and for the year ended 31 December 2015 ⁽¹⁾
	(unaudited)	
	(%)	(%)
Liquidity ratio		
At period end	15.8	18.3
Average ratio during the period	16.2	18.3
Highest ratio during the period	17.2	21.6
Lowest ratio during the period	14.5	15.6

(1) Note that the calculation of the ratios in the table above, as well as for CBC regulatory reports, treat ELA funding as a long term liability.

The liquidity ratios presented in the table above are the BOC Group liquidity ratios calculated by management as part of its internal systems and are calculated based on the CBC methodology for the BOC Group stock liquidity ratio. See *“Risk Factors—Regulatory and Legal Risks—The BOC Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments”*.

At 30 September 2016, the Bank's euro liquidity ratio and liquidity ratio for foreign currencies were 11.3% and 28.2%, respectively. At 30 September 2016, the Bank's minimum required euro mismatch ratios for assets minus liabilities in the seven-day and 30-day periods over total customer deposits was minus 10% for the seven-day period and minus 25% for the 30-day period as established by the CBC for operations in Cyprus. At 30 September 2016, the Bank's mismatch ratios were minus 33.0% (unaudited) for the seven-day period and minus 38.3% (unaudited) for the 30-day period. See *“Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group's business, financial condition, results of operations and prospects”*.

The table below sets forth the BOC Group's loan to deposit ratio (ratio of loans and advances to customers to total deposits) at the dates indicated:

	At and for the nine months ended 30 September 2016	At and for the year ended 31 December 2015
	(unaudited)	
	(%)	(%)
<i>Net loan to deposit ratio</i>		
At period end	101.6	120.9
Average ratio during the period	112.8	133.6
Highest ratio during the period	120.9	141.5
Lowest ratio during the period	101.6	120.9

Investments

Total investments (including investments pledged as collateral) decreased by €414.1 million, or 41.0%, to €595.2 million at 30 September 2016 from €1,009.3 million at 31 December 2015.

The table below shows the carrying value of the BOC Group's investments (excluding investments pledged as collateral under repurchase agreements with banks, as described below) at the dates indicated:

	30 September 2016	31 December 2015
	(unaudited)	
	(€ '000)	(€ '000)
Investments at fair value through profit or loss	46,013	50,785
Investments available-for-sale	113,947	100,535
Investments classified as loans and receivables	33,348	436,935
Total	<u>193,308</u>	<u>588,255</u>

Certain of the BOC Group's investments have been pledged as collateral under repurchase agreements with banks as set forth in the table below. All investments pledged as collateral can be sold or repledged by the counterparty.

	30 September 2016	31 December 2015
	(unaudited)	
	(€ '000)	(€ '000)
<i>Investments pledged as collateral under repurchase agreements with banks</i>		
Investments available-for-sale	352,889	421,032
Investments classified as loans and receivables	49,025	—
Total	<u>401,914</u>	<u>421,032</u>

Loans and receivables at 30 September 2016 included €49.1 million, compared to €146.4 million at 31 December 2015, of debt securities issued by the Cyprus government and listed on the CSE which had previously been determined to be impaired. There were no reclassifications of investments between categories in the nine months ended 30 September 2016 or in the corresponding period for 2015.

Reclassification of investments

For information on the historical reclassification of certain investments, see Note 14 (*Investments—Reclassification of Investments*) in the Third Quarter Financial Information.

Since 30 September 2016, there have been no material changes to the BOC Group's investments up to the date of the Prospectus. The BOC Group does not have any material investments in progress.

Trends and Prospects

The BOC Group maintains a leading position in Cyprus for lending and aims to provide lending to the more promising sectors of the recovering Cypriot economy as well as to viable businesses and consumers. New lending provided by the BOC Group in Cyprus for the nine months ended 30 September 2016 was €667.2 million and the BOC Group's market share for loans in Cyprus was 41.1% at 30 September 2016. The Cypriot economy continued to improve during the third quarter of 2016. Real GDP in the third quarter of 2016 grew 0.7% quarter-on-quarter (seasonally adjusted) as compared to growth of 0.8%

quarter-on-quarter (seasonally adjusted) in the second quarter of 2016 (source: Cyprus Statistical Service, flash estimate dated 15 November 2016). The overall improvement of the Cypriot economy during the first three quarters of 2016 was reflected in ratings upgrades by the credit ratings agencies. In August 2016, Moody's affirmed its Cyprus government bond rating of 'B1' to reflect Cyprus' economic recovery and the expectation of continued economic growth and maintained its credit outlook at 'stable' to reflect balanced upside and downside risks. On 16 September 2016, S&P raised Cyprus' long-term sovereign credit rating to 'BB' to reflect Cyprus' economic growth and debt reduction as well as improvement in the banking sector's asset quality. S&P maintained their 'positive' outlook to reflect the view that Cyprus could be further upgraded within the next twelve months if the reduction of non-performing loans accelerates or if net government debt drops below 80% of GDP. On 21 October 2016, Fitch upgraded its Cyprus long-term issuer default rating to 'BB-' to reflect continuing progress in economic adjustment particularly in terms of the economic recovery, the strengthening of the banking sector and fiscal management. Fitch maintained a 'positive' outlook to reflect the view that Cyprus could be further upgraded in the next twelve months if the economic recovery continues, overall asset quality improves, the government debt to GDP ratio declines and the current account deficit narrows with a sustained track record of access to capital markets at affordable rates. In November 2016, Moody's revised their outlook from 'stable' to 'positive'.

The BOC Group continues to focus on its core operations in Cyprus as well as pursue a focused growth strategy in the UK, targeting entrepreneurs and the 'buy-to-let' market. For the nine months ended 30 September 2016, BOC UK has provided new lending of €327.6 million. In line with the BOC Group's strategy to dispose non-core assets, the BOC Group has decided to wind down the operations of BOC CI and to relocate its business to other BOC Group locations.

Prospects

The BOC Group's business and performance will materially depend on, and reflect, the economic conditions in Cyprus and, to a more limited extent, the UK. In particular:

- While the Cypriot economy is recovering, global growth remains uneven and modest, reflecting a high degree of uncertainty after a long period of unconventional monetary policies, the build-up of high debt positions and persisting deflationary pressures in addition to the uncertainties brought about by the UK Referendum.
- Given that tourists from the UK account for the largest share of Cyprus' total tourist arrivals, there is uncertainty as to the impact of the UK's exit from the EU.
- Inflation in the Eurozone remains low despite the monetary easing measures that continue to be employed by central banks. These measures have resulted in further reductions in policy and market interest rates which may continue to adversely affect the interest rate margins and profitability of banks, including the Bank.
- The persisting low levels in global oil prices are continuing to affect the Russian economy negatively and, consequently, the financial investment flowing from Russia to Cyprus.
- Political and security developments in Syria and other Middle-East regions have contributed to a major shift in the destination of Russian tourist flows, which has benefitted Cyprus. As a result, total tourist arrivals in Cyprus increased in 2015 and the first three quarters of 2016. The tourism sector is a key driver of the Cypriot economy's recovery and its ability to continue doing so may depend on the evolution of these political and security developments.
- The adoption in 2015 and early 2016 of key reform measures, including a new legal framework for foreclosure and insolvency as well as tax incentives for property sales, have facilitated the BOC Group's employment of debt for asset and equity swaps and other loan restructuring options to reduce its level of delinquent loans. However, the new foreclosure and insolvency regimes are not fully tested and the ability of the BOC Group to maintain the increased pace of loan restructurings in the first three quarters of 2016 remains dependent on the effective enforcement of these regimes and the continuation of the Government's reform agenda.

For a more detailed discussion of the risks and uncertainties affecting the Cypriot economy and the BOC Group's business, see "*Risk Factors*".

ACCOUNTANT'S REPORT AND HISTORICAL FINANCIAL INFORMATION

In this section (*“Accountant’s Report and Historical Financial Information”*) capitalised terms have the meanings given to them herein. In particular, in this section the **“Company”** means Bank of Cyprus Public Company Limited, and the **“Group”** means the Bank of Cyprus Group before the Effective Date (as defined in the prospectus).

Accountant’s Report on Historical Financial Information

The Board of Directors
Bank of Cyprus Holdings Plc
Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin
Ireland
D02 CK83

30 November 2016

Dear Sirs,

Bank of Cyprus Holdings Public Limited Company

We report on the financial information which comprises the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of Bank of Cyprus Public Company Limited (the **“Company”**) and explanatory notes for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 and the six months ended 30 June 2016. This financial information has been prepared for inclusion in the prospectus dated 30 November 2016 of Bank of Cyprus Holdings Public Limited Company (**“BOCH”**) on the basis of the accounting policies set out in Note 3 to the financial information. This report is required by item 20.1 of Annex I of Commission Regulation (EC) 809/2004 and is given for the purpose of complying with that item and for no other purpose.

Save for any responsibility arising under applicable law to investors purchasing ordinary shares of BOCH in reliance on this report, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of Annex I to Commission Regulation (EC) 809/2004, consenting to its inclusion in the prospectus.

We have not audited or reviewed the financial information for the six months ended 30 June 2015 and accordingly do not express an opinion thereon.

Responsibilities

The Directors of BOCH are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the

financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Basis for qualified opinion with respect to 2013 financial information

As discussed in Note 2.5 to the financial information, in consideration of a bail-in of uninsured deposits and debt securities pursuant to the provisions of the relevant Decrees issued and enforced by the Resolution Authority in 2013, the Company when accounting for its recapitalisation was not able to measure the shares issued at their fair value as required by International Financial Reporting Standards ('IFRS') relating to extinguishment of financial liabilities due to the specific conditions and uncertainties that existed at the time of the transaction. Had the Company been able to apply the requirements of IFRS and measure the shares issued at their fair value it would recognise any difference with the carrying amount of the liabilities extinguished in profit or loss.

Furthermore, as described in Note 54.6.1 to the financial information relating to the acquisition of certain assets and liabilities of Cyprus Popular Bank Public Co Ltd ('Laiki Bank') in 2013, pursuant to the provisions of the relevant Decree issued and enforced by the Resolution Authority, the Company was not able to establish a reliable fair value of the shares issued and has therefore determined the value of the consideration transferred by reference to the fair value of the individually identifiable assets and liabilities acquired, for which a reliable fair value could be established.

Due to the nature of the above mentioned transactions and the circumstances that existed at the date these transactions took place, we were unable to obtain sufficient and appropriate audit evidence to conclude on the reliability of the measurement of the value of the shares issued at the time of these transactions and on any adjustments to the Group's consolidated income statement that could have been determined to be necessary because of the adopted treatments.

The Group's equity and financial position as at 31 December 2013 were not affected by the above accounting treatments.

Qualified opinion with respect to 2013 financial information

In our opinion, except for the possible effects on the financial information for the year ended 31 December 2013 of the matters described in the Basis for qualified opinion with respect to the 2013 financial information paragraph, the financial information gives, for the purposes of the prospectus dated 30 November, a true and fair view of the state of affairs of the Company as at 31 December 2013, 31 December 2014, 31 December 2015 and 30 June 2016, respectively, and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of matter

In forming our opinion, which is not modified, we have also considered the adequacy of the disclosures made in Note 4 to the financial information concerning the Company's ability to continue as a going concern, and the fact that the Group is currently in breach of the regulatory liquidity ratios in Cyprus, which indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial information does not include the adjustments that would result if the Company was unable to continue as a going concern.

Declaration

For the purposes of PD regulation we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with item 1.2 of Annex I of Commission Regulation (EC) 809/2004.

Yours faithfully,

Ernst & Young LLP

**Consolidated historical financial information relating to Bank of Cyprus Public Company Limited
as at and for the six months ended 30 June 2016
and as at and for the years ended 31 December 2015, 31 December 2014 and 31 December 2013.**

BOCH was incorporated on 11 July 2016 with a nominal share capital of €1.00 and is expected to become the holding company of the Group upon the Scheme becoming Effective as described under “The Scheme of Arrangement”. BOCH has not traded or undertaken significant transactions since incorporation. As such, no historical financial information of BOCH has been provided.

In this consolidated historical financial information capitalised terms have the meanings given to them herein. In particular, in this section the “**Company**” means Bank of Cyprus Public Company Limited, and the “**Group**” means the Bank of Cyprus Group before the Effective Date (as defined in the prospectus).

Consolidated Income Statement

	Notes	6 months ended 30 June		Year		
		2016 €000	2015 (unaudited) €000	2015 €000	2014 €000	2013 €000
Continuing operations						
Turnover	3.9	<u>640,822</u>	<u>765,436</u>	<u>1,425,989</u>	<u>1,642,002</u>	<u>1,689,886</u>
Interest income	8	<u>467,658</u>	<u>591,115</u>	<u>1,122,105</u>	<u>1,343,014</u>	<u>1,421,505</u>
Interest expense	9	<u>(107,196)</u>	<u>(152,529)</u>	<u>(279,665)</u>	<u>(373,345)</u>	<u>(536,310)</u>
Net interest income		<u>360,462</u>	<u>438,586</u>	<u>842,440</u>	<u>969,669</u>	<u>885,195</u>
Fee and commission income	10	<u>78,412</u>	<u>83,258</u>	<u>162,557</u>	<u>159,827</u>	<u>159,120</u>
Fee and commission expense	10	<u>(4,544)</u>	<u>(4,141)</u>	<u>(9,100)</u>	<u>(7,960)</u>	<u>(19,481)</u>
Net foreign exchange gains/(losses)	11	<u>16,313</u>	<u>23,292</u>	<u>38,367</u>	<u>(14,793)</u>	<u>(9,808)</u>
Net gains on financial instrument transactions	12	<u>57,389</u>	<u>28,717</u>	<u>47,129</u>	<u>176,850</u>	<u>7,174</u>
Insurance income net of claims and commissions	13	<u>24,633</u>	<u>20,269</u>	<u>47,905</u>	<u>45,610</u>	<u>64,956</u>
Gains/(losses) from revaluation and disposal of investment properties	24	<u>5,806</u>	<u>(23,384)</u>	<u>(53,080)</u>	<u>(12,021)</u>	<u>(75,428)</u>
(Losses)/gains on disposal of stock of property		<u>(3,533)</u>	<u>243</u>	<u>882</u>	<u>126</u>	<u>85</u>
Other income	14	<u>7,577</u>	<u>8,846</u>	<u>16,725</u>	<u>11,942</u>	<u>12,268</u>
		<u>542,515</u>	<u>575,686</u>	<u>1,093,825</u>	<u>1,329,250</u>	<u>1,024,081</u>
Staff costs	15	<u>(179,279)</u>	<u>(118,017)</u>	<u>(233,631)</u>	<u>(234,424)</u>	<u>(385,293)</u>
Other operating expenses	16	<u>(109,556)</u>	<u>(97,401)</u>	<u>(225,038)</u>	<u>(228,482)</u>	<u>(208,050)</u>
		<u>253,680</u>	<u>360,268</u>	<u>635,156</u>	<u>866,344</u>	<u>430,738</u>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	17	<u>22,166</u>	<u>230,039</u>	<u>305,089</u>	<u>47,338</u>	<u>26,643</u>
Provisions for impairment of loans and advances to customers and other customer credit losses	17	<u>(179,925)</u>	<u>(463,926)</u>	<u>(1,264,554)</u>	<u>(816,983)</u>	<u>(945,048)</u>
Impairment of other financial instruments	17	<u>(12,228)</u>	<u>(31,168)</u>	<u>(43,503)</u>	<u>(56,540)</u>	<u>(22,525)</u>
Impairment of non-financial instruments	18	<u>(9,362)</u>	<u>—</u>	<u>(18,103)</u>	<u>(33,295)</u>	<u>(410)</u>
Profit/(loss) before share of profit from associates and joint ventures		<u>74,331</u>	<u>95,213</u>	<u>(385,915)</u>	<u>6,864</u>	<u>(510,602)</u>
Share of profit/(loss) from associates and joint ventures	55	<u>1,606</u>	<u>3,438</u>	<u>5,923</u>	<u>4,852</u>	<u>(4,702)</u>
Profit/(loss) before tax from continuing operations		<u>75,937</u>	<u>98,651</u>	<u>(379,992)</u>	<u>11,716</u>	<u>(515,304)</u>
Income tax	19	<u>(13,695)</u>	<u>(10,475)</u>	<u>(9,203)</u>	<u>(10,877)</u>	<u>(1,778)</u>
Profit/(loss) after tax from continuing operations		<u>62,242</u>	<u>88,176</u>	<u>(389,195)</u>	<u>839</u>	<u>(517,082)</u>
Discontinued operations						
Loss after tax from discontinued operations	7	<u>—</u>	<u>(36,267)</u>	<u>(65,107)</u>	<u>(322,216)</u>	<u>(1,551,013)</u>
Profit/(loss) for the period/year		<u>62,242</u>	<u>51,909</u>	<u>(454,302)</u>	<u>(321,377)</u>	<u>(2,068,095)</u>
Attributable to:						
Owners of the Company—continuing operations		<u>56,372</u>	<u>89,325</u>	<u>(382,513)</u>	<u>19,162</u>	<u>(513,962)</u>
Owners of the Company—discontinued operations		<u>—</u>	<u>(29,105)</u>	<u>(55,839)</u>	<u>(280,319)</u>	<u>(1,542,127)</u>
Total profit/(loss) attributable to the owners of the Company		<u>56,372</u>	<u>60,220</u>	<u>(438,352)</u>	<u>(261,157)</u>	<u>(2,056,089)</u>
Non-controlling interests—continuing operations		<u>5,870</u>	<u>(1,149)</u>	<u>(6,682)</u>	<u>(18,323)</u>	<u>(3,120)</u>
Non-controlling interests—discontinued operations		<u>—</u>	<u>(7,162)</u>	<u>(9,268)</u>	<u>(41,897)</u>	<u>(8,886)</u>
Total profit/(loss) attributable to non-controlling interests		<u>5,870</u>	<u>(8,311)</u>	<u>(15,950)</u>	<u>(60,220)</u>	<u>(12,006)</u>
Profit/(loss) for the period/year		<u>62,242</u>	<u>51,909</u>	<u>(454,302)</u>	<u>(321,377)</u>	<u>(2,068,095)</u>
Basic and diluted earnings/(losses) per share (cent) attributable to the owners of the Company—						
continuing operations	20	<u>0.6</u>	<u>1.0</u>	<u>(4.3)</u>	<u>0.3</u>	<u>(14.3)</u>
Basic and diluted earnings/(losses) per share (cent) attributable to the owners of the Company						
	20	<u>0.6</u>	<u>0.7</u>	<u>(4.9)</u>	<u>(4.4)</u>	<u>(57.2)</u>

Consolidated Statement of Comprehensive Income

	Notes	6 months ended 30 June		Year		
		2016	2015 (unaudited)	2015	2014	2013
		€000	€000	€000	€000	€000
Profit/(loss) for the period/year		62,242	51,909	(454,302)	(321,377)	(2,068,095)
Other comprehensive income (OCI)						
<i>OCI to be reclassified in the consolidated income statement in subsequent periods</i>						
Foreign currency translation reserve						
(Loss)/profit on translation of net investment in foreign branches and subsidiaries		(33,993)	(12,642)	19,597	37,843	(30,303)
Profit on translation of net investment in associates and joint ventures		—	—	—	13,408	7,755
Profit/(loss) on hedging of net investments in foreign branches and subsidiaries	23	36,286	7,771	(22,860)	6,102	36,012
Loss on hedging of associates and joint ventures	23	—	—	—	(3,522)	(7,755)
Transfer to the consolidated income statement on dissolution/disposal of foreign operations		1,049	(10,062)	21,020	55,796	104
		3,342	(14,933)	17,757	109,627	5,813
Available-for-sale investments						
Net (losses)/gains from fair value changes before tax		(1,181)	(1,650)	52,056	5,384	19,668
Share of net gains/(losses) from fair value changes of associates and joint ventures		662	—	(2,060)	721	1,339
Transfer to the consolidated income statement on impairment		530	2,252	1,515	7,308	17,457
Transfer to the consolidated income statement on sale		(51,264)	(2,667)	(3,016)	(52,617)	1,177
Tax		—	—	—	—	39
		(51,253)	(2,065)	48,495	(39,204)	39,680
		(47,911)	(16,998)	66,252	70,423	45,493
<i>OCI not to be reclassified in the consolidated income statement in subsequent periods</i>						
Property revaluation						
Fair value (loss)/gain before tax	27	—	—	(4,795)	7,511	(16,417)
Share of fair value gain of associate and joint ventures		—	—	4	10	(54)
Tax	19	(21)	178	3,923	234	3,106
		(21)	178	(868)	7,755	(13,365)

Consolidated Statement of Comprehensive Income (Continued)

	Notes	6 months ended 30 June		Year		
		2016	2015 (unaudited)	2015	2014	2013
		€000	€000	€000	€000	€000
Other comprehensive income (Continued)						
<i>OCI not to be reclassified in the consolidated income statement in subsequent periods (Continued)</i>						
Actuarial (losses)/gains for the defined benefit plans						
Remeasurement (losses)/gains on defined benefit plans	15	<u>(15,143)</u>	<u>—</u>	<u>2,328</u>	<u>(8,383)</u>	<u>(246)</u>
		<u>(15,164)</u>	<u>178</u>	<u>1,460</u>	<u>(628)</u>	<u>(13,611)</u>
Other comprehensive (loss)/income after tax		<u>(63,075)</u>	<u>(16,820)</u>	<u>67,712</u>	<u>69,795</u>	<u>31,882</u>
Total comprehensive (loss)/income for the period/year		<u>(833)</u>	<u>35,089</u>	<u>(386,590)</u>	<u>(251,582)</u>	<u>(2,036,213)</u>
Attributable to:						
Owners of the Company		<u>(2,004)</u>	47,415	<u>(378,679)</u>	<u>(200,068)</u>	<u>(2,020,788)</u>
Non-controlling interests		<u>1,171</u>	<u>(12,326)</u>	<u>(7,911)</u>	<u>(51,514)</u>	<u>(15,425)</u>
Total comprehensive (loss)/income for the period/year		<u>(833)</u>	<u>35,089</u>	<u>(386,590)</u>	<u>(251,582)</u>	<u>(2,036,213)</u>

Consolidated Balance Sheet

	Notes	30 June 2016 €000	31 December 2015 €000	31 December 2014 €000	31 December 2013 €000
<i>Assets</i>					
Cash and balances with central banks	21	1,518,663	1,422,602	1,139,465	1,240,043
Loans and advances to banks	21	1,174,123	1,314,380	1,646,886	1,290,102
Derivative financial assets	23	14,303	14,023	62,598	28,765
Investments	22	316,357	588,255	1,871,136	2,759,855
Investments pledged as collateral	22	523,386	421,032	669,786	672,809
Loans and advances to customers	25	16,253,237	17,191,632	18,168,323	21,764,338
Life insurance business assets attributable to policyholders	26	481,409	475,403	472,992	443,579
Prepayments, accrued income and other assets	30	238,118	281,780	322,832	413,005
Stock of property	29	1,128,793	515,858	12,662	14,110
Investment properties	24	37,505	34,628	488,598	495,658
Property and equipment	27	282,640	264,333	290,420	414,404
Intangible assets	28	138,537	133,788	127,402	130,580
Investments in associates and joint ventures .	55	110,009	107,753	116,776	203,131
Deferred tax assets	19	451,126	456,531	456,871	479,060
Non-current assets and disposal groups held for sale	31	11,460	48,503	942,655	—
Total assets		22,679,666	23,270,501	26,789,402	30,349,439
<i>Liabilities</i>					
Deposits by banks		342,762	242,137	162,388	196,914
Funding from central banks	32	3,100,667	4,452,850	8,283,773	10,956,277
Repurchase agreements		398,408	368,151	579,682	594,004
Derivative financial liabilities	23	59,037	54,399	71,967	83,894
Customer deposits	33	14,746,473	14,180,681	12,623,558	14,971,167
Insurance liabilities	34	569,681	566,925	576,701	551,829
Accruals, deferred income and other liabilities	36	321,435	282,831	350,431	202,042
Debt securities in issue	35	—	712	693	1,023
Subordinated loan stock		—	—	—	4,676
Deferred tax liabilities	19	45,211	40,807	44,741	49,937
Non-current liabilities and disposal groups held for sale	31	—	3,677	614,421	—
Total liabilities		19,583,674	20,193,170	23,308,355	27,611,763
<i>Equity</i>					
Share capital	37	892,294	892,294	892,238	4,683,985
Share premium	37	552,618	552,618	552,539	—
Capital reduction reserve	37	1,952,486	1,952,486	1,952,486	—
Shares subject to interim orders	37	—	—	441	58,922
Revaluation and other reserves		240,004	258,709	146,809	72,251
Accumulated losses	39	(583,710)	(601,152)	(79,021)	(2,151,835)
Equity attributable to the owners of the Company		3,053,692	3,054,955	3,465,492	2,663,323
Non-controlling interests		42,300	22,376	15,555	74,353
Total equity		3,095,992	3,077,331	3,481,047	2,737,676
Total liabilities and equity		22,679,666	23,270,501	26,789,402	30,349,439

Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company												Non-controlling interests	Total equity
	Share capital (Note 37)	Share premium (Note 37)	Capital reduction reserve (Note 37)	Accumulated losses (Note 39)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Treasury shares (Note 37)	Reserve of disposal group and assets held-for-sale (Note 31)	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2016	892,294	552,618	1,952,486	(601,152)	99,218	47,125	6,059	99,050	30,939	(41,301)	17,619	3,054,955	22,376	3,077,331
Profit for the period	—	—	—	56,372	—	—	—	—	—	—	—	56,372	5,870	62,242
Other comprehensive (loss)/ income after tax for the period	—	—	—	(15,137)	(21)	(46,554)	—	—	3,336	—	—	(58,376)	(4,699)	(63,075)
Total comprehensive income/ (loss) for the period	—	—	—	41,235	(21)	(46,554)	—	—	3,336	—	—	(2,004)	1,171	(833)
Increase in value of in-force life insurance business	—	—	—	(852)	—	—	—	852	—	—	—	—	—	—
Disposal of subsidiary (Note 54.2.1)	—	—	—	17,619	—	—	—	—	—	—	(17,619)	—	—	—
Acquisition of subsidiary (Note 54.1.1)	—	—	—	—	—	—	—	—	—	—	—	—	18,753	18,753
Disposals of treasury shares . . .	—	—	—	(40,560)	—	—	—	—	—	41,301	—	741	—	741
30 June 2016	892,294	552,618	1,952,486	(583,710)	99,197	571	6,059	99,902	34,275	—	—	3,053,692	42,300	3,095,992

Consolidated Statement of Changes in Equity (Continued)

Attributable to the owners of the Company

	Share capital	Share premium	Capital reduction reserve	Shares subject to interim orders	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Treasury shares	Reserve of disposal groups and assets held-for-sale	Total	Non-controlling interests	Total equity
	(Note 37)	(Note 37)	(Note 37)	(Note 37)	(Note 39)						(Note 37)	(Note 31)	€000	€000	€000
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2015	892,238	552,539	1,952,486	441	(79,021)	98,211	2,226	6,059	97,698	22,929	(88,051)	(7,737)	3,465,492	15,555	3,481,047
Reclassification from disposal groups and assets held for sale	—	—	—	—	—	17,619	—	—	—	—	—	(17,619)	—	—	—
1 January 2015 (represented)	—	—	—	—	—	115,830	—	—	—	—	—	(9,882)	—	—	—
Profit/(loss) for the period	—	—	—	—	60,220	—	—	—	—	—	—	—	60,220	(8,311)	51,909
Other comprehensive income/(loss) after tax for the period	—	—	—	—	—	178	(2,124)	—	—	(9,659)	—	(1,200)	(12,805)	(4,015)	(16,820)
Total comprehensive income/(loss) for the period	—	—	—	—	60,220	178	(2,124)	—	—	(9,659)	—	(1,200)	47,415	(12,326)	35,089
Issue of share capital	56	79	—	—	—	—	—	—	—	—	—	—	135	—	135
Transfer of realised profits on sale of properties	—	—	—	—	(1,563)	1,641	—	—	—	—	—	(78)	—	—	—
Acquisition of non-controlling interests	—	—	—	—	(68)	—	—	—	—	—	—	—	(68)	68	—
Debt capitalisation for subsidiary non-controlling interests	—	—	—	—	(9,544)	—	—	—	—	—	—	—	(9,544)	9,544	—
Increase in value of in-force life insurance business	—	—	—	—	(518)	—	—	—	518	—	—	—	—	—	—
Tax on increase in value of in-force life insurance business	—	—	—	—	18	—	—	—	(18)	—	—	—	—	—	—
Disposals of treasury shares	—	—	—	(441)	(38,934)	—	—	—	—	—	42,242	—	2,867	—	2,867
30 June 2015 (unaudited)	892,294	552,618	1,952,486	—	(69,410)	117,649	102	6,059	98,198	13,270	(45,809)	(11,160)	3,506,297	12,841	3,519,138

Consolidated Statement of Changes in Equity (Continued)

Attributable to the owners of the Company

	Share capital	Share premium	Capital reduction reserve	Shares subject to interim orders	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Treasury shares	Reserve of disposal groups and assets held-for-sale	Total	Non-controlling interests	Total equity
	(Note 37)	(Note 37)	(Note 37)	(Note 37)	(Note 39)						(Note 37)	(Note 31)	€000	€000	€000
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2015	892,238	552,539	1,952,486	441	(79,021)	98,211	2,226	6,059	97,698	22,929	(88,051)	7,737	3,465,492	15,555	3,481,047
Loss for the year	—	—	—	—	(438,352)	—	—	—	—	—	—	—	(438,352)	(15,950)	(454,302)
Other comprehensive income/(loss) after tax	—	—	—	—	2,328	(906)	44,899	—	—	(15,307)	—	28,659	59,673	8,039	67,712
Total comprehensive (loss)/income for the year	—	—	—	—	(436,024)	(906)	44,899	—	—	(15,307)	—	28,659	(378,679)	(7,911)	(386,590)
Issue of shares	56	79	—	—	—	—	—	—	—	—	—	—	135	—	135
Acquisition of non-controlling interest	—	—	—	—	(68)	—	—	—	—	—	—	—	(68)	68	—
Disposal of subsidiaries (Note 54.4.1)	—	—	—	—	6,805	—	—	—	—	—	—	(6,805)	—	(18,112)	(18,112)
Increase in shareholding of subsidiaries (Note 53)	—	—	—	—	(37,094)	—	—	—	—	11,693	—	—	(25,401)	25,401	—
Debt capitalisation for subsidiary non-controlling interests	—	—	—	—	(9,293)	—	—	—	—	—	—	—	(9,293)	9,293	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,918)	(1,918)
Transfer of realised losses on sale of properties	—	—	—	—	(1,565)	1,641	—	—	—	—	—	(76)	—	—	—
Increase in value of in-force life insurance business	—	—	—	—	(1,499)	—	—	—	1,499	—	—	—	—	—	—
Tax on increase in value of in-force life insurance business	—	—	—	—	147	—	—	—	(147)	—	—	—	—	—	—
Disposals of treasury shares	—	—	—	(441)	(43,540)	—	—	—	—	—	46,750	—	2,769	—	2,769
Reclassification from assets held-for-sale	—	—	—	—	—	272	—	—	—	11,624	—	(11,896)	—	—	—
31 December 2015	892,294	552,618	1,952,486	—	(601,152)	99,218	47,125	6,059	99,050	30,939	(41,301)	17,619	3,054,955	22,376	3,077,331

Consolidated Statement of Changes in Equity (Continued)

Attributable to the owners of the Company

	Share capital	Share premium	Capital reduction reserve	Shares subject to interim orders	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Treasury shares	Reserve of disposal groups and assets held-for-sale	Total	Non-controlling interests	Total equity
	(Note 37)	(Note 37)	(Note 37)	(Note 37)	(Note 39)						(Note 37)	(Note 31)	€000	€000	€000
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2014	4,683,985	—	—	58,922	(2,151,835)	115,958	42,450	6,059	92,297	(96,462)	(88,051)	—	2,663,323	74,353	2,737,676
Loss for the year	—	—	—	—	(261,157)	—	—	—	—	—	—	—	(261,157)	(60,220)	(321,377)
Other comprehensive (loss)/income after tax	—	—	—	—	(8,383)	7,340	(39,251)	—	—	101,383	—	—	61,089	8,706	69,795
Total comprehensive (loss)/income for the year	—	—	—	—	(269,540)	7,340	(39,251)	—	—	101,383	—	—	(200,068)	(51,514)	(251,582)
Disposal groups and non-current assets held for sale	—	—	—	—	—	(24,772)	(973)	—	—	18,008	—	7,737	—	—	—
Allocation of prior year goodwill impairment between the owners of the Company and non-controlling interests	—	—	—	—	32,737	—	—	—	—	—	—	—	32,737	(32,737)	—
Bail-in of deposits and structured products	150	—	—	—	—	—	—	—	—	—	—	—	150	—	150
Issue of shares	416,667	583,333	—	—	—	—	—	—	—	—	—	—	1,000,000	—	1,000,000
Share capital issue costs	—	(30,794)	—	—	—	—	—	—	—	—	—	—	(30,794)	—	(30,794)
Reduction of nominal value of share capital	(4,280,140)	—	1,952,486	—	2,327,654	—	—	—	—	—	—	—	—	—	—
Shares subject to interim orders withdrawn/cancelled	58,625	—	—	(58,481)	—	—	—	—	—	—	—	—	144	—	144
Additional shares issued to Laiki Bank for 2013 acquisition	12,951	—	—	—	(12,951)	—	—	—	—	—	—	—	—	—	—
Transfer of realised profits on sale of properties	—	—	—	—	315	(315)	—	—	—	—	—	—	—	—	—
Increase in value of in-force life insurance business	—	—	—	—	(6,042)	—	—	—	6,042	—	—	—	—	—	—
Tax on increase in value of in-force life insurance business	—	—	—	—	641	—	—	—	(641)	—	—	—	—	—	—
Disposal of subsidiary (Note 54.5.1)	—	—	—	—	—	—	—	—	—	—	—	—	—	(51)	(51)
Acquisitions of subsidiaries held for sale (Note 31)	—	—	—	—	—	—	—	—	—	—	—	—	—	25,942	25,942
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(438)	(438)
31 December 2014	892,238	552,539	1,952,486	441	(79,021)	98,211	2,226	6,059	97,698	22,929	(88,051)	7,737	3,465,492	15,555	3,481,047

Consolidated Statement of Changes in Equity (Continued)

Attributable to the owners of the Company

	Share capital	Share premium	Convertible Enhanced Capital Securities	Shares subject to interim orders	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Treasury shares	Equity component of convertible subordinated loan stock	Total	Non-controlling interests	Total equity
	(Note 37)	(Note 37)		(Note 37)	(Note 39)						(Note 37)		€000	€000	€000
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2013	1,795,141	428,271	428,835	—	(2,500,530)	144,415	2,903	6,059	91,996	(105,693)	(38,595)	5,251	258,053	77,222	335,275
Loss for the year	—	—	—	—	(2,056,089)	—	—	—	—	—	—	—	(2,056,089)	(12,006)	(2,068,095)
Other comprehensive (loss)/income after tax	—	—	—	—	(246)	(13,231)	39,547	—	—	9,231	—	—	35,301	(3,419)	31,882
Total comprehensive (loss)/income for the year	—	—	—	—	(2,056,335)	(13,231)	39,547	—	—	9,231	—	—	(2,020,788)	(15,425)	(2,036,213)
Bail-in of deposits and structured products	3,814,495	—	—	—	—	—	—	—	—	—	(19,631)	—	3,794,864	—	3,794,864
Bail-in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	122,541	—	—	—	—	—	—	—	—	—	(6)	—	122,535	—	122,535
Conversion of CECS into shares	459,399	—	(429,580)	—	—	—	—	—	—	—	(29,819)	—	—	—	—
Reduction of nominal value of share capital and utilisation of share premium	(2,353,349)	(428,271)	—	—	2,786,871	—	—	—	—	—	—	(5,251)	—	—	—
Shares subject to interim orders	—	—	—	58,922	—	—	—	—	—	—	—	—	58,922	—	58,922
Acquisitions (Note 54.6.1)	845,758	—	—	—	(395,871)	—	—	—	—	—	—	—	449,887	13,504	463,391
Foreign exchange difference on CECS	—	—	745	—	(745)	—	—	—	—	—	—	—	—	—	—
Transfer of realised profits on sale of properties	—	—	—	—	15,226	(15,226)	—	—	—	—	—	—	—	—	—
Increase in value of in-force life insurance business	—	—	—	—	(3,275)	—	—	—	3,275	—	—	—	—	—	—
Tax on increase in value of in-force life insurance business	—	—	—	—	2,974	—	—	—	(2,974)	—	—	—	—	—	—
Defence contribution on deemed dividend distribution	—	—	—	—	(150)	—	—	—	—	—	—	—	(150)	(24)	(174)
Disposals	—	—	—	—	—	—	—	—	—	—	—	—	—	(924)	(924)
31 December 2013	4,683,985	—	—	58,922	(2,151,835)	115,958	42,450	6,059	92,297	(96,462)	(88,051)	—	2,663,323	74,353	2,737,676

Consolidated Statements of Cash Flows

	Notes	6 months ended 30 June		Year		
		2016	2015	2015	2014	2013
		€000	(unaudited) €000	€000	€000	€000
Net cash flow from/(used in) operating activities	42	1,150,538	577,959	2,418,378	1,234,001	(2,816,135)
Cash flows from investing activities						
Purchases of debt securities, treasury bills and equity securities		(10,302)	(13,734)	(32,670)	—	—
Proceeds on disposal/redemption of investments:						
–debt securities and treasury bills		130,521	784,127	1,551,748	1,051,324	1,037,839
–equity securities		46,650	1,527	4,446	88,541	22,559
Interest received from debt securities and treasury bills		9,420	17,396	14,937	42,465	219,584
Dividend income from equity securities		119	273	900	338	432
Dividend income from associates		—	—	2,641	—	—
Cash consideration paid for acquisition of subsidiaries net of cash acquired		—	—	—	(520)	1,126,302
Proceeds/(amounts paid) on disposal of subsidiary companies and operations		26,500	—	3,396	98,860	(1,151,100)
Proceeds on disposal of joint ventures		—	83,742	89,011	—	—
Purchase of property and equipment		(6,539)	(4,734)	(8,709)	(8,364)	(24,842)
Proceeds on disposal of property and equipment and intangible assets		216	250	343	3,490	8,838
Purchase of intangible assets		(7,561)	(5,045)	(15,045)	(9,663)	(8,314)
Proceeds on disposal of investment properties and investment properties held for sale		13,790	16,365	30,996	21,336	4,406
Net cash flow from investing activities		202,814	880,167	1,641,994	1,287,807	1,235,704
Cash flows from financing activities						
Proceeds from the issue of shares		—	—	135	894,000	—
Share issue costs paid		—	—	—	(29,620)	—
(Net repayment of)/proceeds from funding from central banks		(1,352,183)	(1,880,595)	(3,830,923)	(2,672,504)	1,853,749
Interest on subordinated loan stock		—	—	—	—	4,319
Redemption of debt securities in issue		—	—	(1,733)	—	(28,877)
Interest on debt securities in issue		—	(22)	(25)	(86)	(629)
Interest on funding from central banks		(21,483)	(45,242)	(78,187)	(138,643)	(167,560)
Proceeds from the issue of debt securities in issue		—	—	—	2,059	—
Proceeds from disposal of treasury shares		741	2,867	2,769	—	—
Redemption of debt securities in issue		(712)	(1,780)	—	—	—
Dividend paid by subsidiaries to non-controlling interests		—	—	(1,918)	—	—
Net cash flow (used in)/from financing activities		(1,373,637)	(1,924,637)	(3,909,882)	(1,944,794)	1,661,002
Net (decrease)/increase in cash and cash equivalents for the period/year		(20,285)	(466,511)	150,490	577,014	80,571
Cash and cash equivalents						
1 January		2,406,344	2,238,601	2,238,601	1,463,243	1,337,956
Foreign exchange adjustments		6,421	(24,116)	17,253	198,344	44,716
Net (decrease)/increase in cash and cash equivalents for the period/year		(20,285)	(466,511)	150,490	577,014	80,571
30 June/31 December	43	2,392,480	1,747,974	2,406,344	2,238,601	1,463,243

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

Notes to the Historical Financial Information

1. Corporate information

Bank of Cyprus Public Company Ltd (the “**Company**”) is the holding company of the Bank of Cyprus Group (the “**Group**”). The principal activities of the Company and its subsidiary companies are the provision of banking, financial, insurance services and management and disposal of property.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Company has a primary listing on the Cyprus Stock Exchange and a secondary listing on the Athens Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws.

A reorganisation, which is described in “*The Scheme of Arrangement*”, is expected to occur immediately prior to Admission, by which Bank of Cyprus Holdings Public Limited Company (“**BOCH**”) will become the parent of the Company. The Company and the consolidated subsidiaries are assumed to represent the trade of the Group headed by the BOCH at Admission. BOCH, together with the Company and its consolidated controlled entities is referred to in this section as the “**BOCH Group**”. BOCH has not traded or undertaken significant transactions since incorporation. As such, no historical financial information of BOCH has been provided.

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group

Following its credit downgrades up to mid 2012, the ability of the Republic of Cyprus to borrow from international markets had been significantly affected. As a result, in June 2012 the Cyprus government applied to the European Union (“**EU**”) and the International Monetary Fund for financial assistance. This led to negotiations with the European Commission (“**EC**”), the European Central Bank (“**ECB**”) and the International Monetary Fund (“**IMF**”) (collectively referred to as the “**Troika**”) for a comprehensive programme of financial assistance.

Cyprus and the Eurogroup reached an agreement on 25 March 2013 on a package of measures intended to restore the viability of the financial sector and sound public finances over the coming years.

The stability support granted to Cyprus was conditional upon the implementation of an extensive programme of policy reforms. A Memorandum of Understanding (“**MoU**”) had been agreed between Cyprus and the Troika which included financial sector reforms, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets. The financial assistance that Cyprus would receive was up to €10 billion and was subject to a restructuring programme. The MoU was approved on 12 April 2013.

During 2013, the economic situation in Cyprus remained challenging but the economic recession had been less severe than expected and the economy was proving relatively resilient. During 2014, the Cyprus economy showed further signs of stabilisation amidst a relatively unfavourable external environment.

Real economic activity in Cyprus contracted by 2.3% in 2014 compared with a 5.4% contraction the year before.

The fiscal adjustment efforts in the public finances continued and the Troika programme targets were comfortably surpassed during 2014.

The most important factor for the Cyprus economy was to be able to restore its credibility and reputation and to enhance the confidence of people towards the banking sector. The successful outcome of the ECB Comprehensive Assessment in November 2014 for the Cypriot banks was a significant milestone, indicating that the banking sector had been significantly recapitalised and restructured and that was in a stronger position so as to support the economic recovery through the provision of credit to creditworthy households and businesses.

Economic recovery started in the first quarter of 2015 and continued throughout the year at an accelerating pace. Real GDP rose as per the Cyprus Statistical Service by 2.7% in the fourth quarter of 2015 when seasonally adjusted. For the year 2015 as a whole, real GDP increased by 1.6% compared with a decline of 2.5% the year before (source: Cyprus Statistical Service).

In the labour market, unemployment reached a peak in the fourth quarter of 2013 at 16.6% seasonally adjusted and had been declining since that time (source: Eurostat) coming down in 2015 to a rate averaging to 15.6% as per Eurostat.

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

Consumer prices declined each year from 2013 onwards dropping by 1.4% and 2.1% in 2014 and 2015 respectively (source: Cyprus Statistical Service).

In the area of public finances, Cyprus achieved considerable consolidation over the period of the programme. Per the Cyprus Statistical Service, the budget deficit has almost been eliminated dropping to near zero in 2014 from 5.7% of GDP in 2011. This constitutes an adjustment of over €1 billion in an economy which is a little more than €17 billion.

The IMF completed a ninth review of Cyprus' economic adjustment programme in January 2016 and approved the disbursement of €126 million, bringing total disbursements under the adjustment programme to about €1 billion. Total disbursements from the European Stability Mechanism ("ESM") amount to €6.3 billion, out of a total committed of €9 billion. That is, about 30% of the funding under the adjustment programme remains unutilised.

The ESM Macroeconomic Adjustment Programme ended on 31 March 2016 and the government had decided to exit without a successor arrangement. The Eurogroup at its 7 March 2016 meeting commended the Cyprus authorities for the overall successful implementation of the programme and highlighted the need for further reform to strengthen the resilience of the Cyprus economy. Following this development, the IMF programme which formally ended on 14 May 2016, was cancelled by the Republic of Cyprus.

Cyprus will remain under post-programme surveillance until at least 75% of the financial assistance received has been repaid. Under the post-programme surveillance, the EC in liaison with the ECB will have regular review missions to analyse fiscal and financial developments and report semi-annual assessments which may recommend further measures when necessary.

In recognition of the progress achieved on the fiscal front and on economic recovery, as well as the adoption in April 2015, of a comprehensive reform framework for corporate and personal insolvency, the international credit rating agencies have upgraded the credit ratings for the Cypriot sovereign debt, paving the way for the sovereign debt to access the international capital markets. In May 2015, the Cyprus Government issued a €1 billion bond maturing in year 2022, with a yield of 4.00% per annum and in October 2015 a €1 billion bond maturing in year 2025 with a yield of 4.25%.

A series of events relating to the above developments have occurred during the years 2013–2015 and the six months ended 30 June 2016 which are described below.

2.1 Restructuring of the financial sector

The main terms of the MoU for the financial sector were:

- Based on a decision by the Central Bank of Cyprus ("CBC") in its capacity as Resolution Authority and in compliance with Cyprus' adopted Bank Resolution Framework, Cyprus Popular Bank Public Co Ltd ("**Laiki Bank**") was subjected to immediate resolution. Laiki Bank, including mostly uninsured depositors and assets outside Cyprus, was expected to be ran down over time. The assets in Cyprus of Laiki Bank, the majority of Laiki Bank liabilities, mainly the insured deposits, €9.1 billion of Emergency Liquidity Assistance ("ELA") funding, and certain assets and liabilities of the UK and Greek operations of Laiki Bank were acquired by the Group. Additional information is presented in Note 54.
- The Company was recapitalised through a bail-in (deposit-to-equity conversion) of 47.5% of deposits subject to bail-in in accordance with the relevant decrees issued by the Resolution Authority ("**uninsured deposits**") with full contribution of equity shareholders and debt holders as discussed in Note 2.5 below.
- The Greek branches of the Company, Laiki Bank and Hellenic Bank were acquired by Greece's Piraeus Bank, which was selected for this transaction by the Hellenic Financial Stability Fund ("**HFSF**"). Piraeus Bank acquired assets of €20 billion and liabilities of €14 billion of these branches.

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

2.1 Restructuring of the financial sector (continued)

The financing programme for Cyprus as agreed with Eurogroup of up to €10 billion would not be used for the recapitalisation of the Company and/or Laiki Bank and the Company would rely on funding and liquidity support by the ECB.

2.2 Tax and other fiscal measures

Pursuant to the implementation of the decision of the Eurogroup, the House of Representatives of Cyprus voted a number of bills regarding direct and indirect taxes, the most important of which were:

Increase of corporation tax rate

The corporate tax rate was increased from 10% to 12.5% as at 1 January 2013.

Carry forward of tax losses

As from 25 March 2013, in case of transfer of operations, assets, rights or obligations from one credit institution to another, under The Credit Institutions' Resolution Law, any accumulated 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 fifteen years from the end of the year during which the transfer took place.

Increase in special defence contribution on interest

The special defence contribution rate on interest was increased from 15% to 30% as at 29 April 2013. The special defence contribution on interest is payable only by tax residents of Cyprus and applies to physical persons as well as legal persons which receive interest which is not associated with the ordinary activities of the Company.

Assessment and Collection of Taxes Law

The law had been amended in order to define the books and records which need to be maintained by a taxable person to enable him to prepare and file tax returns. In addition, supporting documentation should be maintained. Similar amendments were introduced in the Companies Law.

Immovable property taxes

The immovable property tax rates had been increased for 2013 (legislation passed in April 2013) at rates which range from 0.6% to 1.9% of the value of the property as at 1 January 1980.

Annual levy on bank deposits

The special levy paid by banking institutions on deposits was increased from 0.11% to 0.15% as at 1 January 2013. In accordance with the existing legislation, the levy is imposed on deposits as at the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant drop in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0.0375% (Note 16).

2.3 Temporary restrictions on money transfers

The Cypriot authorities had introduced temporary restrictive measures, with respect to banking and cash transactions as a result of the significant liquidity squeeze in the local market and the risk of an outflow of deposits. These measures included restrictions on cash withdrawals, the cashing of cheques and transfers of funds to other credit institutions in Cyprus and abroad. They also provided for the compulsory partial renewal of maturing deposits.

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

2.3 Temporary restrictions on money transfers (continued)

As at May 2014, all restrictive measures within Cyprus were abolished. The capital controls with regards to the transferring of funds outside Cyprus were fully abolished in April 2015.

2.4 Restructuring of the Group as a result of the programme

The Group underwent significant restructuring in order to meet the conditions for the implementation of the MoU, as summarised below:

Sale of the Group's Greek operations to Piraeus Bank

The Resolution Authority decided the sale of the loans, fixed assets and deposits of the banking and leasing operations of the Group in Greece to Piraeus Bank through a Decree issued on 26 March 2013. The loss on disposal of the Greek operations is presented in Note 54.

Acquisition of certain operations of Laiki Bank by the Group

The "Sale of Certain Operations of the Group of Cyprus Popular Bank Public Co Ltd Decree" issued on 29 March 2013, provided for the acquisition of the insured deposits and the majority of assets and loans of the Laiki Bank by the Company. The Company continued to serve all Laiki Bank customers in Cyprus based on existing terms and all employees of Laiki Bank in Cyprus had been transferred to the Group.

Pursuant to the provisions of this decree, the Resolution Authority was required to perform a valuation of the transferred assets and liabilities of Laiki Bank and to determine a fair compensation for Laiki Bank. By a further decree issued on 30 July 2013, the Resolution Authority required the Company to issue to Laiki Bank a number of Class A shares, to compensate Laiki Bank, with no right of further compensation. These Class A shares were subsequently converted into ordinary shares (Note 2.5). The decree issued by the Resolution Authority required that the shares issued to Laiki Bank should constitute 18.1% of the issued share capital of the Company after the recapitalisation. Accordingly 845,758 thousand shares were issued to Laiki Bank.

The provisional fair values of the identifiable assets and liabilities acquired from Laiki Bank are presented in Note 54.

Laiki Bank UK operations

On 1 April 2013, the customer deposits of the UK Branch of Laiki Bank were acquired by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the Group.

Romanian operations

On 25 April 2013, in accordance with a relevant decree issued by the Resolution Authority, the Company's Romanian Branch transferred to Marfin Bank (Romania) SA assets amounting to €82,000 thousand which include certain customer loans and related collateral and cash and other liquid assets and customer deposits amounting to €77,000 thousand.

2.5 Recapitalisation of the Company

The Company has been recapitalised through a bail-in (deposit-to-equity conversion) of uninsured deposits. The holders of ordinary shares and debt securities as at 29 March 2013 had contributed to the recapitalisation of the Company through the absorption of losses.

The recapitalisation was effected in accordance with the provisions of the "Bail-in of Bank of Cyprus Public Company Limited Decree of 2013" (the "Decree") issued on 29 March 2013, the "Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013" (the "Amended Decree") issued on 21 April 2013 and the "Bail-in of Bank of Cyprus Public Company Limited Amended" (No. 2 and 3) Decrees of

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

2.5 Recapitalisation of the Company (continued)

2013 (the “**Amended Decrees No. 2 and 3**”) issued on 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority, (collectively the “**Bail-in Decrees**”).

Pursuant to Article 6(4) of the Resolution of Credit and Other Institutions Law of 2013, the implementation of resolution measures under the Bail-in Decrees should not activate any contractual clause or statutory provision that would be activated in case of bankruptcy or insolvency or upon the occurrence of another event which might be considered as a credit event or an event equivalent to insolvency.

Bail-in of deposits and structured products as at 26 March 2013

As per the provisions of the Decree, 37.5% of the uninsured deposits of the Company as at 26 March 2013 were converted to Class A shares of the Company, 22.5% remained frozen and were subject to partial or total conversion to Class A shares of the Company, and 30% remained frozen and were subject to partial or total conversion to a time deposit.

On 30 July 2013, the Central Bank of Cyprus in its capacity as Resolution Authority, issued a decision whereby an additional 10% of the uninsured deposits had been converted to equity, revising the total percentage of eligible deposits converted to equity to 47.5%. On 30 July 2013, the Resolution Authority issued Amended Decree No. 2 whereby it required the conversion of the structured products which were in issue, into Class A shares. As a result of the bail-in, the Company issued 3,814,495 thousand new Class A shares of a nominal value €1.00 each. These shares were subsequently converted into 1 ordinary share of a nominal value €0.01 each.

As described in Note 37, during the year 2013, the Company was recapitalised partly through a bail-in of uninsured deposits and conversion of debt securities in accordance with the provisions of the relevant decrees and enforced by the Resolution Authority. Up to the date of this transaction, the Company did not have an accounting policy with respect to the accounting treatment of such transactions.

In accordance with IFRS (more specifically IAS 39 Financial Instruments: Recognition and Measurement and related interpretation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments), the difference between the carrying amount of a financial liability (uninsured deposits) extinguished and the consideration paid (shares issued in this case), including any non-cash assets transferred or liabilities assumed, shall be recognised in profit or loss.

Due to the specific conditions under which this transaction took place, i.e. the fact that the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of extinguishment as the discussions and negotiations with the Troika were on-going, the non-availability of up to date financial information as at the date of extinguishment due to the continuing developments and uncertainties, the Company is not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction. Similarly, the fair value of the deposits and debt securities, due to the same uncertainties described above, cannot be reliably measured either.

The Company has therefore accounted for this transaction by reference to the carrying value of deposits and debt securities extinguished and has set the value of shares issued to equal the carrying amount of the liabilities derecognised.

As a result of the above accounting treatment, no profit or loss arose from this transaction. Had the Group been able to determine a fair value for the shares, any difference would have been recognised in profit or loss for the year ended 31 December 2013. Therefore the Group’s total equity as at 31 December 2013 is unaffected by the way this transaction is accounted for.

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

2.5 Recapitalisation of the Company (continued)

Holders of debt securities as at 29 March 2013

The Bail-in Decrees provided that the subordinated debt and claims of the Company included subordinated debt and claims up to Tier 2 capital, including Tier 1 capital. In this respect, the following securities were included:

- Convertible Bonds 2013/2018
- Capital Securities 12/2007
- Convertible Capital Securities
- Convertible Enhanced Capital Securities

According to the Decrees:

- The subordinated debt and claims had been converted to Class D shares at a conversion rate of 1 share of €1.00 nominal amount for each €1.00 of principal amount of such subordinated debt and claims.
- The subordinated debt and claims issued in foreign currency and in particular the Convertible Enhanced Capital Securities issued in US Dollars have been converted to Class D shares with a conversion rate 1 share of €1.00 nominal value for each equivalent of €1.00 principal amount of Convertible Enhanced Capital Securities calculated based on the exchange rate €:\$ 1:1.2861 as contained in the reference exchange rates published by the ECB on 26 March 2013.

According to the Amended Decrees No. 2 and 3, the following had been effected:

- Reduction of the nominal value of all Class D shares from €1.00 each to Class D shares of nominal value of €0.01 each.
- The total amount from the reduction of the share capital, as a result of the reduction in the nominal value of the issued Class D shares, was utilised for the reduction of accumulated losses of the Company.
- Each Class D share of nominal value of €0.01 was converted to an Ordinary Share of €0.01 each.

As a result of the above, the Convertible Bonds 2013/2018, the Capital Securities 12/2007, the Convertible Capital Securities and the Convertible Enhanced Capital Securities in issue as at 29 March 2013 were converted to 581,941 thousand Class D shares of €1.00 nominal value each. The nominal value of these shares was reduced to €0.01 per share and the reduction was applied for the absorption of losses of the Company. These shares were subsequently consolidated and converted to 5,819 thousand ordinary shares of nominal value €1.00 each.

Holders of ordinary shares as at 29 March 2013

According to the Decree, all shareholder rights in relation to the ordinary shares were suspended from the entry into force of the relevant Decree until the Class D reconversion date.

According to the Amended Decrees No. 2 and 3 the following have been effected:

- Reduction of the nominal value of all ordinary shares from €1.00 each to ordinary shares of nominal value of €0.01 each.
- The total amount from the reduction of the share capital following the reduction in the nominal value of the issued ordinary shares has been utilised for the reduction of the accumulated losses of the Company.

As a result of the above amendments, the number of ordinary shares in issue as at 29 March 2013 was adjusted to 17,913 thousand.

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

2.5 Recapitalisation of the Company (continued)

Following the conversion of Class A, Class B, Class C and Class D shares to ordinary shares as described within the Amended Decrees, No. 2 and 3, every 100 Ordinary Shares of a nominal value €0.01 each, registered to the same shareholder were consolidated and converted to one ordinary share of nominal value of €1.00 each. Any remaining ordinary shares of a nominal value of €0.01 not consolidated (being any number of shares below 100 which may be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the accumulated losses of the Company.

All ordinary shares resulting from the above corporate actions comprised the sole class of shares of the Company and each share ranked *pari passu* and had the same voting and dividend rights with the other ordinary shares.

Issue of shares on acquisition of Laiki Bank

The Resolution Authority, pursuant to Decrees issued, required the Company to issue shares to Laiki Bank equal to 18.056371% of the total issued share capital of the Company, representing consideration for the assets and liabilities acquired by the Group on 29 March 2013. Accordingly, 845,758 thousand ordinary shares of €1.00 nominal value each, were issued to Laiki Bank.

All issued ordinary shares carry the same rights.

Share premium reserve

Pursuant to Bail-in Decrees, the balance of the share premium reserve was reduced to zero and the reduction was applied to write off accumulated losses of the Company.

Uninsured deposits not converted to equity

In accordance with Amended Decrees No. 2 and 3 and relevant announcement by the Resolution Authority on 30 July 2013, 37.4% of uninsured deposits have been converted into three equal new fixed term deposits with a term of 6, 9 and 12 months. The Company was allowed unilaterally to renew these for a further equal term.

2.6 Exit from resolution

Following the completion of the recapitalisation of the Company, the Central Bank of Cyprus, in its capacity as the Resolution Authority, announced that as at 30 July 2013, the Company was no longer under resolution.

The duties of the Board of Directors were exercised by the members of the interim Board of Directors until the Annual General Meeting of shareholders held on 10 September 2013 when the new Board of Directors was elected.

On 1 August 2013, the Company was reinstated as an eligible counterparty by the ECB for monetary policy operations. The combination of the restoration of counterparty status and the approval at the beginning of July 2013 for the use of bonds issued or guaranteed by the Republic of Cyprus, resulted in a reduction in funding from ELA, as the Company had access to direct funding from the ECB for monetary policy operations. Furthermore, ECB funding is under improved terms, given that the rate for main refinancing operations (“MRO”) currently stands at 0.25% per annum.

Notes to the Historical Financial Information (Continued)

2. Cyprus-Eurogroup agreement, the recapitalisation of the Company and the restructuring of the Group (continued)

2.7 Focusing on core market in Cyprus

Further to the actions taken as part of the MoU, the Group also proceeded with additional restructuring actions, in order to focus on its core market in Cyprus, mainly:

- On 18 April 2014, the Group sold its Ukrainian business, comprising (i) its holding of 99.77% in its subsidiary bank in Ukraine, PJSC Bank of Cyprus, (ii) the funding provided by the Company to PJSC Bank of Cyprus, and (iii) its loans with Ukrainian exposures, to Alfa Group (Note 54.5.1).
- In April 2014, the Group disposed of its 9.99% shareholding in Banca Transilvania in Romania (Note 12).
- In May 2014, the Group disposed of customer loans in Serbia (Note 12).
- On 31 October 2014, the Group completed the sale of part of a UK loan portfolio acquired from Laiki Bank in 2013, which was largely comprised of residential and commercial real estate-backed facilities (Note 12).
- In September 2015 the Group disposed of the majority of its Russian operations (Note 54.4.1).
- In June 2016 the Group completed the sale of Kermia Hotels Ltd and adjacent land for a sale consideration of €26.5 million and a profit on disposal of €2.5 million (Note 54.2.1).

2.8 Changes in the regulatory body

The Group's operations are supervised by the CBC and the ECB as a supervisory body for all the banks in the Eurozone area (referred to as the Single Supervisory Mechanism ("SSM")). The ECB fully assumed several supervisory responsibilities as from 4 November 2014.

2.9 The Insolvency Framework Laws and Laws Relating to Foreclosure

The Insolvency Framework Laws were enacted in May 2015 and as a result of this, the Laws relating to Foreclosure which were enacted by the House of Representatives of Cyprus in September 2014 has also come into force (see "Financial Services Regulation and Supervision").

The implementation of the foreclosure law is expected to result in the following:

- An improvement in the Group's negotiating power with defaulted customers.
- A reduction in the recovery period in case of repossession of an asset from defaulted customers.
- A likely improvement in the Group's liquidity risk management as proceeds from an earlier repayment period and/or better repayment terms of loans is expected to facilitate the Group's management of its assets and liabilities.

The main objectives of the insolvency framework are to modernise and increase the efficiency of liquidation and bankruptcy proceedings for individuals and companies and to create appropriate incentives for debt repayment, thereby contributing to the reduction of NPLs, while at the same time provide certain protections and benefits to debtors including the following:

- Protection of the primary residence of debtors based upon strict eligibility criteria.
- Provision of the economic rehabilitation of bankrupt individuals where possible.
- Provision of incentives for the preservation and rehabilitation of companies.
- Introduction of a new mechanism for the relief of individual debtors with no income or assets and low total debt.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies

3.1 Basis of preparation

The Historical Financial Information (the “**Historical Financial Information**”) comprises the consolidated financial information of each of the companies of the Group, as defined in Note 1, for the six months ended 30 June 2016 and the years ended 31 December 2015, 31 December 2014 and 31 December 2013.

The Historical Financial Information has been prepared for inclusion in this Prospectus in compliance with item 20.1 of Annex I to the Prospectus Directive Regulation and in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“**IASB**”), and as adopted by the EU (“**IFRS**”). References to IFRS should be construed as references to IFRS as adopted by the EU.

The Historical Financial Information has been prepared on a historical cost basis, except for properties held for own use and investment properties, available-for-sale investments, derivative financial instruments and financial assets at fair value through profit or loss, 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 accounting policies set out in this Note have been applied consistently to all periods presented in the Historical Financial Information.

Presentation of Historical Financial Information

The Historical Financial Information presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

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.

Comparability of Financial Information

The BOC Group has represented and reclassified certain financial information, which is included in its publically available audited financial statements for the years ended 31 December 2013, 2014 and 2015, in the Historical Financial Information included in this Prospectus. These representations and reclassifications were made in order for the presentation to take into account the effects of disposals, and other changes in the presentation of the relevant financial statement line items to conform with the latest period presented, and to present them in such a way that the analysis of the results of continuing and discontinued operations respectively, is comparable for all periods presented in the Historical Financial Information included in this Prospectus. The Historical Financial Information included on pages 215 to 457 in this Prospectus is therefore different in certain respects from the BOC Group’s audited financial statements for the years ended 31 December 2013, 2014 and 2015 previously published and available on the BOC Group website.

Comparatives in the Historical Financial Information have been either represented or reclassified in order to reflect, among other things:

Reclassifications of line items to conform to the latest period presented:

- (a) the representation of the consolidated balance sheet as at 31 December 2013 to reflect the reclassification of part of the debt securities in issue into deposits by banks in 2015;
- (b) the representation of the consolidated balance sheet as at 31 December 2013 to reflect the reclassification stock of property in 2015 which had also been reflected in the 2014 comparatives; in the prior presentation this was included in ‘Other assets’;
- (c) the change in the presentation of ‘Losses from revaluation and disposal of investment properties’ within the consolidated income statement for the year ended 2013; in the prior presentation this was included in ‘Other income/(expenses)’;

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.1 Basis of preparation (continued)

- (d) the change in the presentation of 'Impairment of other financial instruments' within the consolidated income statement for the year ended 2013; in the prior presentation this was included in 'Net gains/(losses) on financial instrument transactions';
- (e) the change in the presentation of 'Impairment of non-financial instruments' within the consolidated income statement for the year ended 2013; in the prior presentation this was included in 'Other operating expenses';
- (f) the change in presentation of 'Gain on derecognition of loans and advances to customers and changes in expected cash flows' so that this line item is presented as adjoining to the 'Provisions for impairment of loans and advances to customers and other customer credit losses' in the consolidated income statement for the year ended 2013; the BOC Group considers this presentation to be more relevant as it considers such gains and changes in expected cash flows (mainly arising from the fair value adjustment on initial recognition for acquired loans) to be credit risk related;

Restatements of analyses between continuing and discontinued operations:

- (g) the change in the presentation of the Russian operations disposed of in September 2015 as discontinued operations (the results of the Russian loan portfolio not disposed of is presented within continuing operations) for the year ended 2013;
- (h) the change in the presentation of the Ukrainian operations disposed of during 2014 as discontinued operations for the year ended 2013; and

Restatement with respect to the finalisation of acquisition accounting:

- (i) the restatement with respect to the finalisation of the accounting for the Laiki Bank acquisition, leading to an increased loss for the year 2013 by €6,587 thousand, increase in total assets by €7,082 thousand and increase in net equity by €7,082 thousand as at 31 December 2014.

The changes in presentation set out in (a) to (h) above did not have an impact on the total equity as at the relevant balance sheet date.

3.2 Accounting standards and interpretations adopted in the Historical Financial information

The Historical Financial Information has been prepared in accordance with the accounting standards endorsed at the date of this Prospectus that are effective for financial years beginning on or after 1 January 2016. Therefore, in preparing this Historical Financial Information, the Group has adopted the following IASB pronouncements relevant to the Group consistently across the Historical Financial information:

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature of each new standard or amendment is described below:

IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortisation

This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.2 Accounting standards and interpretations adopted in the Historical Financial information (continued)

IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.

IAS 27 Separate Financial Statements

This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors.

IAS 1: Disclosure Initiative (Amendment)

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The narrow-focus amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of OCI arising from equity accounted investments. This amendment did not result in any material changes to the financial statements.

Annual Improvements 2012–2014 Cycle

The IASB has issued the Annual Improvements IFRSs 2012–2014 Cycle which is a collection of amendments to IFRSs. They include:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, but rather as a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *IFRS 7 Financial Instruments—Disclosures:* The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- *IAS 19 Employee Benefits:* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *IAS 34 Interim Financial Reporting:* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

IAS 19 Employee benefits (Amended): Employee Contributions

The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.2 Accounting standards and interpretations adopted in the Historical Financial information (continued)

number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

Annual Improvements IFRSs 2010–2012 Cycle

The IASB has issued the Annual Improvements IFRSs 2010–2012 Cycle, which is a collection of amendments to IFRSs. They include:

- *IFRS 2 Share-based Payment*: This improvement amends the definitions of ‘vesting condition’ and ‘market condition’ and adds definitions for ‘performance condition’ and ‘service condition’ (which were previously part of the definition of ‘vesting condition’).
- *IFRS 3 Business combinations*: This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- *IFRS 8 Operating Segments*: This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if the segment assets are reported regularly.
- *IFRS 13 Fair Value Measurement*: This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- *IAS 16 Property Plant & Equipment*: The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- *IAS 24 Related Party Disclosures*: The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- *IAS 38 Intangible Assets*: The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

3.3 Standards and Interpretations that are issued but not yet effective

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

IFRS 9 Financial Instruments—Classification and measurement

In July 2014, the IASB issued IFRS 9 Financial Instruments, which is the comprehensive standard to replace IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

An IFRS 9 implementation project has been initiated by the Group. The project is headed by the Group Chief Risk Officer and a Steering Committee was set up to monitor the project, comprising of members of the Executive Management team.

The project covers all aspects of IFRS 9 out of which the majority of the effort is expected to be consumed by the development of methodologies for the calculation of impairment of customer loans and advances based on expected credit losses, since IFRS 9 moves away from the current incurred loss model to an expected credit loss model, and requires more judgment in considering information for current and future provisioning. The expected credit losses model will result in earlier recognition of credit losses and thus a

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

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

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

higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future. The credit loss expense is also likely to be more volatile as expectations and judgments may change. It is also expected that there will be additional movements within the three stages stipulated by the standard and, thus, further volatility in the provisioning charge. The assessment of the impact of IFRS 9 is ongoing and may significantly change upon its full application reflecting business models and balance sheet dynamics at the time, therefore making it not practical to quantify any potential effect at present. Changes in business models or policies, including as a result of choices made by the Group, could have a material adverse effect on the Group's reported results of operations and financial condition and may have a corresponding material adverse effect on capital ratios.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

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

Hedge accounting

IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, the standard includes an accounting policy choice to remain with IAS 39 hedge accounting.

Transition

The classification, measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

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

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

IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments. The Group is in the process of assessing the impact of this standard on its results and financial position.

IFRS 15: Revenue from Contracts with Customers (Clarifications)

The objective of the Clarifications is to clarify the IASB's 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. The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted.

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). 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. The Group is in the process of assessing the impact of this standard 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 these amendments to have a material impact on its results and financial position.

Amendments to IAS 12 Income Taxes. Recognition of Deferred Tax Assets for Unrealised Losses

The amendment addresses how to account for deferred tax assets related to debt instruments measured at fair value which give rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows. IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendment clarifies the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. The Group does not expect these amendments to have a material impact on its results and financial position. The amendment is effective for annual periods beginning on or after 1 January 2017.

Amendments to IAS 7: Disclosure Initiative

The IASB added an initiative on disclosure to its work programme in 2013 to complement the work being done in the Conceptual Framework project. The initiative is, inter alia, made up of a number of smaller

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

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

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

projects that aim at exploring opportunities to see how presentation and disclosure principles and requirements in existing standards can be improved short-term. Among them was a narrow scope project on IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financing activities and liquidity.

The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments to IAS 7 respond to investors' requests for information that helps them better understand changes in an entity's debt, which is important to their analysis of financial statements. The Group does not expect these amendments to have a material impact on its results and financial position. These amendments are effective for annual periods beginning on or after 1 January 2017.

Amendments to IFRS 2: Classification and Measurement of Share based Payment Transactions

The 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. The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Group is in the process of assessing the impact of these amendments on its results and financial position.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board 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. The amendments are effective for annual periods beginning on or after 1 January 2018. The Group is in the process of assessing the impact of these amendments.

3.4 Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group as at and for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 and 2015. The financial statements of the subsidiaries are prepared as at 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.

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

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.4 Basis of consolidation (continued)

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 period/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 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.

The Group promotes/sponsors the formation of special purpose entities ("SPEs"), primarily for the purpose of asset securitisation transactions and to accomplish certain narrow and well defined objectives. The Group consolidates these SPEs if the substance of its relationship with them indicates that it has control over them.

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 is any gain/loss recognised in the 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.

3.5 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 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 period/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 its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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.

Contingent consideration

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.5 Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured and subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is subsequently measured at fair value through profit or loss.

Provisional accounting

If the initial accounting for a business combination is incomplete at the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Such provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets and liabilities are recognised to reflect the new information obtained about facts and circumstances that existed at the acquisition date that if known, would have affected the amounts recognised as at that date.

3.6 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.

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.

Using 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 profit or loss outside operative profit and represent profit or loss after 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 at 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.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.7 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 has elected to recycle the gain or loss that arises from using this method.

3.7.1 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/losses” in the consolidated income statement, with the exception of differences on foreign currency liabilities that provide a hedge against the net investment in subsidiaries and overseas branches. These differences are recognised in other comprehensive income in the “Foreign currency translation reserve” until the disposal of the net investment, at which time the cumulative amount is reclassified to profit or loss in the consolidated income statement.

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.

3.7.2 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 period/year.

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

3.8 Segmental 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.

3.9 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 business and other income.

3.10 Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

3.10.1 Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments or at fair value through profit or loss, interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or where appropriate a shorter period, to the carrying amount of the financial instruments. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.10 Revenue recognition (continued)

3.10.1 Interest income (continued)

The carrying amount of a financial asset or liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in “Net gains on financial instrument transactions,” or “Gain on derecognition of loans and advances to customers and changes in expected cash flows” for loans and advances to customers.

3.10.2 Fee and commission income

Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised using the effective interest rate method as part of interest income.

3.10.3 Dividend income

Dividend income is recognised in the consolidated income statement when the Group’s right to receive payment is established i.e. upon approval by the general meeting of the shareholders.

3.10.4 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.”

3.10.5 Income from the disposal of investment property

Gains on disposal of investment property are recognised in the consolidated income statement in “Gains/(losses) from revaluation and disposal of investment properties” when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

3.10.6 Income from 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 transfer of risks and rewards to the buyer is completed.

3.11 Retirement benefits

The Group operates several 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 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,

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.11 Retirement benefits (continued)

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 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.

3.12 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 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.

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.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.13 Financial instruments

3.13.1 Date of recognition

All 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. “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.

3.13.2 Initial recognition and measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. 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.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3.13.3 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” 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” in the consolidated income statement.

3.13.4 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. Revaluations are recognised in “Net gains on financial instrument transactions” 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.

3.13.5 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

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.5 Financial assets or financial liabilities designated upon initial recognition at fair value through profit or loss (continued)

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” 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.

3.13.6 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 rate 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.

3.13.7 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 balance sheet. After their initial recognition, loans and receivables are subsequently measured at amortised cost using the effective interest rate 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.

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.

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but 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

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.7 Loans and receivables (continued)

classification in accordance with the rules of the technical standard of the European Banking Authority (“EBA”).

3.13.8 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.”

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 rate 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.

3.13.9 Subordinated loan stock and debt securities in issue

Subordinated loan stock and debt securities in issue are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective interest rate 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 Company has the right to redeem the subordinated loan stock and the debt securities in issue.

Debt instruments issued by the Company and held by the Group are treated as redemptions. Gains or losses on redemption are recognised if the repurchase price of the debt instrument was different from its carrying value at the date of repurchase. Subsequent sales of own debt instruments in the market are treated as debt re-issuance.

Interest on subordinated loan stock and debt securities in issue is included in “Interest expense” in the consolidated income statement.

3.13.10 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 due to banks is at amortised cost, using the effective interest rate method.

3.14 Derecognition of financial assets and financial liabilities

3.14.1 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

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.14 Derecognition of financial assets and financial liabilities (continued)

3.14.1 Financial assets (continued)

(c) has assumed an obligation to pay the received cash flows in full to a third party and has: either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3.14.2 Financial liabilities

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

3.15 Impairment of financial assets

3.15.1 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 IFRS, which requires recognition of impairment losses that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those events are.

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

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

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

Future cash flows for a group of loans and advances that are collectively evaluated for impairment are estimated on the basis of historical loss experience for loans with similar credit risk characteristics to those of the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to remove the impact of conditions in the historical period that do not currently apply. The

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.15 Impairment of financial assets (continued)

3.15.1 Loans and receivables (continued)

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.

3.15.2 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.

3.15.3 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.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.16 Hedge accounting

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.

3.16.1 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." 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."

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.

3.16.2 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" 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.

3.16.3 Hedges of a net investment 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 of an overseas branch or subsidiary, the cumulative gains or losses recognised in other comprehensive income are transferred in the consolidated income statement.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.17 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.

3.18 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 or are repayable within three months of the date of their acquisition.

3.19 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.

3.19.1 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.

3.19.2 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.

3.19.3 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

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.19 Insurance business (continued)

3.19.3 General insurance business (continued)

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.

3.19.4 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.

3.19.5 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.

3.20 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 rate 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 rate method. Reverse repos outstanding at the reporting date relate to agreements with banks. The investments received as security under reverse repurchase agreements can either be sold or repledged by the Group.

3.21 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.

3.22 Operating leases

3.22.1 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."

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.22 Operating leases (continued)

3.22.2 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.

3.23 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 and 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 3 to 5 years or over the period of the lease if this does not exceed 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 3 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.

3.24 Investment properties

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 "Gains/(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 3.23 "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.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.25 Stock of property

The Group in its normal course of business acquires properties in debt satisfaction, 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 Group's consolidated financial statements as stock of property, reflecting the substance of these transactions.

The stock of property is 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.

3.26 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 profit or loss for the period. 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 balance sheet.

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.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

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

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 statement of profit or loss.

Additional disclosures are provided in Note 7. All other notes to the financial statements include amounts from continuing operations, unless otherwise stated.

3.27 Intangible assets

Intangible assets include computer software, licence fees, brands, acquired insurance portfolio customer lists and customer relationships acquired as part of business combinations. 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 10 years for license fees, 7 to 10 years for customer relationships, 8 years for brands and 3 to 5 years for computer software. For the accounting policy of in-force life insurance business, refer to Note 3.19.2.

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.

3.28 Share capital

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.

3.29 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.

3.30 Provisions

3.30.1 Provisions for pending litigation or claims

Provisions for pending litigation or claims 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.

3.30.2 Provisions for undrawn loan commitments

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.

3.31 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.

Notes to the Historical Financial Information (Continued)

3. Summary of significant accounting policies (continued)

3.31 Financial guarantees (continued)

Any increase in the liability relating to financial guarantees is recognised in the consolidated income statement in “Provisions for impairment of loans and advances to customers and other customer credit losses.” 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.

4. Going concern

Management has made an assessment of the Group’s ability to continue as a going concern.

The conditions that existed during the six months ended 30 June 2016 as well as the developments up to the date of approval of the Prospectus that have been considered in management’s going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 5).

The Group’s 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.

Despite the fact that, as disclosed in Notes 5.2.5 and 48, the Group is currently in breach of the regulatory liquidity ratios in Cyprus, which can be considered as a material uncertainty as to its ability to continue as a going concern, the Group’s directors, taking into consideration the factors and uncertainties that existed at the reporting date is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out below.

- The Group’s CET1 ratio at 30 June 2016 stands at 14.4%; higher than the minimum required ratio of 11.75% (31 December 2015: 14.0%; 31 December 2014: 14.0%; 31 December 2013: 10.4%) (transitional) (Note 5.2.1).
- The improved funding structure of the Group as a result of the continuing positive customer flows in Cyprus.
- The significant decrease of its reliance on ELA funding, which as at the date of this Prospectus stands at €0.6 billion, compared to €3.8 billion at 31 December 2015, €7.4 billion at 31 December 2014, €9.6 billion at 31 December 2013 and €11.4 billion at its peak level in April 2013 (Note 5.2.5).
- The improved ratings of both the Company (Fitch Ratings upgrade of long-term issuer default rating from ‘CCC’ to ‘B–’ in April 2016 with stable outlook, and Moody’s Investor Service upgrade of long-term deposit rate from Caa3 with stable outlook to Caa3 with positive outlook in June 2016) and the Republic of Cyprus (Fitch Ratings upgrade by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB– with a positive outlook in September 2015 and Moody’s Investors Service by two notches to B1 with a stable outlook in November 2015). In September 2016, S&P Global Rating improved their rating on the Republic of Cyprus to BB– with a positive outlook. In November 2016, Moody’s Investor Service revised the outlook for the Republic of Cyprus from stable to positive.

5. Operating environment prevailing in 2016

5.1 Cyprus

Cyprus exited its economic adjustment programme at the end of March 2016 after a successful return to capital markets and having utilised only approximately 70% of the €10 billion funding resources made available by the EU and the IMF. Based on the Ministry of Finance Stability Programme 2016–2019 (May 2016), in the area of public finances, the government carried out a strong fiscal adjustment and the budget returned to near balance, public spending was reduced and tax collection was made more efficient.

Unemployment dropped to 12.9% in the first quarter of the year on a seasonally adjusted basis, and further to 11.9% in the second quarter compared to an average unemployment rate of 14.9% for 2015 as a whole and a peak of 16.5% in the fourth quarter of 2014 as per the Cyprus Statistical Service.

Notes to the Historical Financial Information (Continued)

5. Operating environment prevailing in 2016 (continued)

5.1 Cyprus (continued)

Real GDP rose by 2.6% in the first quarter of 2016 and by 2.9% in the second quarter according to the Cyprus Statistical Service, leading to a half yearly increase of 2.8% year-on-year or by 2.7% on a seasonally adjusted basis. This follows a yearly increase of 1.6% in 2015.

Consumer prices continued to decline for the fourth consecutive year, down by 2.2% year-on-year in the first half of 2016, as per the Cyprus Statistical Service.

Tourist arrivals increased significantly in the first half of 2016, up by 21.2% year-on-year. Industrial activity as measured by the index of industrial production continued to expand, up by 9.48% in the five months to May, as per the Cyprus Statistical Service.

Downside risks to the growth projections are associated with high levels of NPLs, prolonged uncertainties in property markets, loss of momentum in structural reforms with associated risks for public finances and the credibility of the government. Downside risks may also be associated with a deterioration of the external environment for Cyprus. This would involve a continuation of the recession in Russia in conditions of protracted declines in oil prices, weaker than expected growth in the euro area as a result of worsening global economic conditions and slower growth in the United Kingdom with a weakening of the pound following the Brexit referendum. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Upside risks to the outlook relate to a longer period of low oil prices, better growth performance in the EU and investment decisions in tourism and energy and in public projects.

The international credit rating agencies have upgraded the rating of the country. Fitch Ratings upgraded the rating of the Republic of Cyprus by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB– with a positive outlook in September 2015 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015. In September 2016, S&P Global Rating improved their rating on the Republic of Cyprus to BB– with a positive outlook. In November 2016, Moody's Investor Service revised the outlook for the Republic of Cyprus from stable to positive.

In July 2016, the Cyprus government accessed international capital markets for the third time since the start of the economic adjustment programme to date, issuing a seven year Eurobond of €1 billion at a yield of 3.8%.

5.2 The Group

5.2.1 Regulatory capital ratios

The Common Equity Tier 1 (“**CET1**”) ratio of the Group at 30 June 2016 stands at 14.4% (transitional) (31 December 2015: 14.0%; 31 December 2014: 14.0%; 31 December 2013: 10.4%). The capital position of the Group was strengthened after the €1 billion capital increase completed in September 2014 (Note 37).

As from 1 January 2014, the new Capital Requirement Regulations (“**CRR**”) and amended Capital Requirement Directive IV (“**CRD IV**”) became effective. The CBC assessed the options over the application of transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment, the CBC set the minimum capital ratios taking into account the parameters of the balance sheet assessment and the EU-wide stress test, in consultation with the Troika and informing European Stability Mechanism.

Since June 2016, the CET1 minimum capital requirement applicable to the BOC Group is 4.5% of RWA. The total capital requirement is 8.0% on a transitional basis, comprising the CET 1 minimum of 4.5% combined with up to 1.5% of Additional Tier 1 (“**AT1**”) capital and 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). The Pillar II total minimum CET1 capital was determined by the ECB to be 11.75% in November 2015. The Group's capital position at 30 June 2016, 31 December 2015 and 31 December 2014 exceeded its Pillar I and its Pillar II add-on capital requirements. However, the Group's Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

5. Operating environment prevailing in 2016 (continued)

5.2 The Group (continued)

5.2.1 Regulatory capital ratios (continued)

It is noted that the Group's Restructuring Plan was approved by the CBC in November 2013. The Plan provided that the core tier 1 capital of the Group will remain above 9% throughout the Restructuring Plan period (without taking into account the €1 billion capital raising).

The Plan defined the strategic objectives and actions the Group took to create a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy through:

- Rebuilding trust and confidence of both depositors and investors.
- Preserving the Group's status as the cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating the operations of Laiki Bank, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- Enhance the capital adequacy of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

5.2.2 ECB Comprehensive Assessment

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

The Comprehensive Assessment was based on a capital benchmark of 8% CET1 ratio, including transitional arrangements of CRR/CRD IV, for both the AQR and the Baseline stress test scenario and 5.5% for the Adverse stress test scenario.

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

5.2.3 Supervisory Review and Evaluation Process ("SREP")

The European Central Bank ("ECB"), as part of its supervisory role under Council Regulation EU No 1024/2013, has conducted during 2015 its annual Supervisory Review and Evaluation Process and a number of onsite inspections. SREP is a holistic assessment of, amongst other things: the Group's business model, strategy 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 SREP is for the ECB to form an up-to-date supervisory view of the Group's risks, viability and sustainability, which in turn forms the basis for supervisory measures and dialogue with the Group. As part of the ongoing supervisory activities, an onsite inspection on credit quality was performed by the ECB with a reference date of 31 December 2014, and its scope included the review and assessment of the Group's non-performing and restructured but performing exposures.

The Group participates in the Single Supervisory Mechanism (SSM) SREP stress test, which is performed at the highest level of consolidation. The exercise is based on the methodology of the European Banking Authority ("EBA") EU-wide exercise, amended to duly respect the principle of proportionality. This is facilitated by an extensive use of materiality thresholds. Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2016, based on the pre-notification received in September 2016, the Group's minimum phased-in CET1 capital ratio was set at 10.75%, comprising of a 4.5% Pillar I

Notes to the Historical Financial Information (Continued)

5. Operating environment prevailing in 2016 (continued)

5.2 The Group (continued)

5.2.3 Supervisory Review and Evaluation Process (“SREP”) (continued)

requirement, a 3.75% Pillar II requirement and the capital conservation buffer (CCB) which stands at 2.5% fully phased-in (in accordance with the prevailing Capital Requirement Directive IV (CRD IV) legislation in Cyprus). The ECB has also provided non public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Requirement has been set at 14.25%, comprising of a Pillar I requirement of 8% (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 3.75% (in the form of CET1), as well as the CCB of 2.5% fully phased in, which has been set for all credit institutions through the requirements of Capital Requirements Regulation (CRR)/CRD IV.

The new SREP requirements will be effective as from 1 January 2017 and as at the date of the prospectus, these requirements remain subject to ECB final confirmation, which is expected by the end of 2016.

5.2.4 Asset quality

The Group’s loans that are impaired or past due for more than 90 days (90+DPD) and information on provisioning coverage ratios and collaterals are presented in the table below:

	30 June 2016	31 December		
		2015	2014	2013
90+DPD ratio (%)	44	50	53	49
90+DPD provision coverage ratio (%)	53	48	41	38
90+DPD (€ million)	9,269	11,329	12,653	13,003
NPEs ratio (%)	59	62	63	n/a
Provisioning coverage ratio of NPEs (for 2013 NPLs new definition) (%)	39	39	34	35
Group’s non-performing exposures (NPEs) (for 2013 NPLs new definition) (€ million)	12,493	13,968	14,961	14,042

The Group is currently addressing the asset quality challenge through the operation of independent, centralised and specialised restructuring and recovery units to manage large or distressed exposures. As a result of these efforts, 90+DPD have decreased by 28% over the past five quarters since the peak of €12,789 million as at 31 March 2015. NPEs have decreased by 17.6% over the past five quarters since their peak of €15,175 million as at 31 March 2015. NPEs adhere to the technical reporting requirements of the EBA standards and the Loan Provisioning Directive. The NPE amounts form a lagging indicator in circumstances where 90+DPD loan balances indicate improvements.

The recently enacted foreclosure and insolvency framework and the law governing the sale of loans provide the Group with additional tools and power to address its asset quality challenges.

5.2.5 Liquidity

The Group had limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus in 2013, the deposit bail-in and the acquisition of certain operations of Laiki Bank in March 2013 had resulted in increased reliance on central bank funding in the form of Emergency Liquidity Assistance (ELA). The transfer of certain operations of Laiki Bank to the Group resulted in an amount of €9.1 billion of ELA funding to Laiki at the acquisition date to be transferred to the Group.

At 30 June 2016, the level of ELA funding amounted to €2.4 billion (Note 32), down from €3.8 billion at 31 December 2015 (31 December 2014: €7.4 billion; 31 December 2013: €9.56 billion) and its peak level of €11.4 billion in April 2013. As at the date of this Prospectus, the level of ELA funding has been further reduced by €1.8 billion to €0.6 billion, a 94.7% reduction since its peak. The Group intends to continue with further ELA repayments, the pace of which will be dependent on both the pace of increase in customer deposits and the prevailing market conditions which affect the Company’s ability to raise

Notes to the Historical Financial Information (Continued)

5. Operating environment prevailing in 2016 (continued)

5.2 The Group (continued)

5.2.5 Liquidity (continued)

wholesale funding. In this context, the Company successfully accessed the international markets for financing in May 2016 for the first time since the events of March 2013, completing a secured financing transaction (in the form of a repurchase agreement transaction) with a major international bank. This was partially repaid in August 2016 and fully terminated by the Company in October 2016.

It is noted that the Group's Restructuring Plan approved in 2013 by the CBC included ELA funding throughout the Restructuring Plan period (2013–2017).

Group customer deposits totalled €14,746 million at 30 June 2016 compared to €14,181 million at 31 December 2015; €13,169 million at 31 December 2014; €14,971 million at 31 December 2013. Customer deposits in Cyprus reached €13,311 million at 30 June 2016 compared to €12,691 million at 31 December 2015; €11,314 million at 31 December 2014 and €12,705 million at 31 December 2013. Customer deposits accounted for 65% of total assets as at 30 June 2016 (compared to 61% at 31 December 2015, 47% at 31 December 2014 and 49% at 31 December 2013).

The Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus and therefore dependant on continuing regulatory forbearance. Additional information on liquidity and details on certain regulatory liquidity ratios are disclosed in Note 48.

Following the restructuring of the Company's Covered Bond Programme in September 2015 and the notes issued by the Company which resulted in their rating being upgraded to Baa3 by Moody's Investors Service, the covered bond became eligible collateral for Eurosystem monetary operations. In October 2015 this eligibility provided access to additional ECB funding which was used for further ELA repayments.

In May 2016, the Bank increased its ECB funding by using as collateral a pool of housing loans which satisfied the criteria of the additional credit claims as determined in accordance with the Implementation of the Eurosystem Monetary Policy Framework directives of 2015 and 2016.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cyprus Government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives of Cyprus have approved in January 2014 the issuance of up to €2.9 billion of guarantees for bonds/loans issued by credit institutions under the "Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012". The EC announced in June 2016 the eighth extension of the bank guarantee scheme, which will see the scheme continue until 31 December 2016. At present, the Company does not expect to utilise the Government's guarantee scheme.

ELA is available to solvent Euro area credit institutions, and is therefore expected to remain available to the Company (subsequent to its repayment of existing ELA funds) if it were to face a 'stress event' that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Company would seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

Furthermore, the Company maintains the rights and obligations as issuer of two bonds guaranteed by the Republic of Cyprus of €500 million each, maturing in November 2017. On 16 August 2016, the Board of Directors decided to proceed with the cancellation of the two bonds. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.

Notes to the Historical Financial Information (Continued)

5. Operating environment prevailing in 2016 (continued)

5.2.6 Pending litigation and claims

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

Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the 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 (Note 41).

6. Significant 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.

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 interim 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.

6.1 Provision for impairment of loans and advances to customers

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.

A very important factor for the estimation of provisions is the timing and net recoverable amount from repossession of collaterals which mainly comprise land and buildings. 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.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. 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 the period covered by the Historical Financial Information, assumptions changed in response to changes in the

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.1 Provision for impairment of loans and advances to customers (continued)

strategy, the macroeconomic environment and the legal framework. The assumptions on the timing of recovery and the cumulative future drop in prices are presented below:

<u>Assumption</u>	<u>Year 2015 and six months ended 30 June 2016</u>	<u>Year 2014</u>	<u>Year 2013</u>	<u>Driver</u>
• Timing of recovery from real estate collateral for loans managed by:				
—Debt Recovery for more than two years	6 years	3 years	2 years	market conditions
—Debt Recovery for less than two years	6 years	3 years	4 years	market conditions
—Any other loans	3 years (except from specific cases)	3 years	5 years immediately after the reclassification into non-performing	market conditions
• Future drop in property values	0%	8%	N/A	market conditions
• Realisable value of the collateral	10% lower than the projected open market value	N/A	N/A	market conditions

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 (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). 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.

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

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.1 Provision for impairment of loans and advances to customers (continued)

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.

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.

6.2 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 24.

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.3 Impairment of available-for-sale investments

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 22.

6.4 Reclassification of financial assets

The Group classifies financial assets into the following categories: at fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables. The appropriate classification of financial assets is determined at the time of initial recognition. In addition, under the amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets" which were approved by the IASB and endorsed by the EU in October 2008, it is permissible to reclassify certain financial assets out of the financial assets at fair value through profit or loss (trading assets) and the available-for-sale classifications into the loans and receivables classification. For assets to be reclassified there must be a clear change in management intent with respect to the assets since initial recognition and the financial asset must meet the definition of a loan and receivable at the reclassification date. Additionally, there must be an intent and ability to hold the asset for the foreseeable future at the reclassification date. There is no ability for subsequent reclassification back to the trading or available-for-sale classifications.

Management judgement and assumptions are required to determine whether an active market exists in order for a financial asset to meet the definition of loans and receivables. Management judgement and assumptions are also required to estimate the fair value of the financial assets identified at the date of reclassification, which becomes the amortised cost base under the loans and receivables classification. The task facing management in both these matters can be particularly challenging in highly volatile and uncertain economic and financial market conditions. The change of intent to hold for the foreseeable future is another matter requiring management judgement. Financial assets proposed for reclassification need to be approved by the Group Assets and Liabilities Committee ("Group ALCO") based on the facts and circumstances of each financial asset under consideration and after taking into account the ability and plausibility to execute the strategy to hold the asset.

In addition to the above, management judgement is also required to assert that the expected repayment of the asset exceeds the estimated fair value and the returns on the asset will be optimised by holding it for the foreseeable future.

Information on assets reclassified is presented in Note 22.

6.5 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

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.5 Retirement benefits (continued)

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.

6.6 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.

6.7 Life insurance business

The Group is engaged in the provision of life insurance services. Whole life insurance plans (life plans) relate to plans 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.

6.7.1 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

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.7 Life insurance business (continued)

6.7.1 Value of in-force business (continued)

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 2013, 2014, 2015 and 30 June 2016, are set out in Note 28.

6.7.2 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 national 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 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 36.

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.8 Tax

The Group operates 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 19.

6.9 Consolidation of Special Purpose Entities (“SPEs”)

The Group sponsors the formation of SPEs for various purposes including asset securitisation, which may or may not be directly or indirectly owned subsidiaries. The Group consolidates those SPEs that it controls. In determining whether the Group controls an SPE, judgements are made about the Group’s exposure to the variable returns of the SPE and about its ability to exercise power over the relevant activities of the SPE in question and its ability to use that power to affect the variable returns.

Details about the Group’s SPEs are disclosed in Note 53.

6.10 Investment in associates and joint ventures

The Group’s investments in joint ventures comprised Byron Capital Partners Ltd (“BCP”) and Marfin Diversified Strategy Fund Plc (“MDSF”) acquired by the Group in 2013 as part of the acquisition of certain operations of Laiki Bank and sold in April 2015 (Note 54.6.1).

The management shares of the MDSF were 100% owned by BCP. The Group was a party to a shareholder agreement with the other shareholder of BCP and this agreement stipulated a number of matters which required consent by both shareholders.

Significant management judgement was required in interpreting the provisions of this shareholder agreement and concluding whether matters requiring the consent by both shareholders were substantive with respect to directing the relevant activities of the two investee entities or convey rights that were of a protective nature. The Group had assessed that these matters were the dominant factor in determine which parties had power over the BCP and MDSF and had concluded that the Group had joint control over BCP and MDSF together with the other shareholder.

The Group determines whether it exercises significant influence on companies in which it has shareholdings of less 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.

6.11 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

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.11 Classification of properties (continued)

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 land and buildings held with an intention to be disposed of. This principally relates to repossessed properties and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, which as a result of the formation of the “Real Estate Management Unit (REMU) and Overseas Run-Down” by the Group in 2015, are being managed with an intention to be disposed of.

6.12 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.

Since the acceleration of the economic crisis in Cyprus in 2010, transaction activity in both commercial and residential properties has recorded a significant decrease and according to local published indices, prices have declined by approximately 15% to 45% since 2011 (depending on the location and type of property). Forced sales activity is expected to accelerate as a result of pressures on the banks to enforce security on property collaterals. The high prevailing uncertainty over the economic developments in Cyprus in the financial and property sectors in particular, makes forecasts of the future developments in the real estate market extremely difficult.

Further information on inputs used is disclosed in Note 24.

6.13 Stock of property—estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The estimated sales price is determined with reference to the fair value of properties adjusted for any impact of specific circumstances on the sale process of each property. 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 29.

6.14 Provisions

The accounting policy for provisions is described in Note 3.30.1. 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 or regulatory 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

Notes to the Historical Financial Information (Continued)

6. Significant judgements, estimates and assumptions (continued)

6.14 Provisions (continued)

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 and claims refer to Note 41.

6.15 Disposal groups held for sale and discontinued operations

In December 2014, the Group determined that its Russian operations met the criteria for classification as held for sale, for the following reasons: (a) the operations were available for immediate sale in their current condition and (b) the actions to dispose the operations have been initiated and are expected to be completed within one year from the date of classification. As a result of the classification as held for sale, the Russian operations were presented as discontinued for all the reporting periods.

More information on discontinued operations and assets held for sale are presented in Notes 7 and 31.

7. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit.

In addition, the Cyprus segment is further organised into operating segments based on the line of business.

On 26 March 2013 through a Decree issued by the Resolution Authority, the Group disposed of the loans, property and equipment, intangible assets and deposits of its banking and leasing operations in Greece to Piraeus Bank. As a result, the Group's banking and leasing activities in Greece are presented as discontinued in years 2014 and 2013. The remaining operations in Greece which have not been sold to Piraeus Bank are presented within "Other countries" due to their small size.

In 2014, the Group classified its Russian operations as a disposal group held for sale. The disposal of the majority of the Russian operations was completed in September 2015 (Note 54.4.1) and the results of the Russian operations which have been disposed of are presented as discontinued operations for all years presented herein. The results of the remaining Russian operations, being the management of a distressed loan portfolio, are represented in the Historical Financial Information from discontinued operating to continuing operations and are disclosed within the "Other countries" segment for all periods (Note 3.1).

In addition, as part of its management of large exposures, the Group acquired a 75% shareholding in Aphrodite Holdings Ltd and Aphrodite Hills (Lakkos tou Frangou) Ltd, collectively referred to as "Aphrodite group", in November 2014. The Group management had classified Aphrodite group as a subsidiary acquired exclusively with a view to resale upon acquisition. In September 2015 the Group completed the disposal of its 65% shareholding in the Aphrodite group and the results of the Aphrodite group are presented as discontinued operations (Note 31) in years 2015 and 2014 and in the six months ended 30 June 2015.

In April 2014, the Group's activities in Ukraine were sold to the Alfa Group as described in Note 54.5.1. As a result, the Ukrainian operations are also presented as discontinued in years 2014 and 2013 respectively.

The remaining Group's activities in Greece, the United Kingdom, Romania and Russia 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 "Other countries".

The Group's activities in Cyprus include the provision of banking, financial and insurance services, as well as management of the properties either held as stock or as investment property and hotel business. In the other countries, the Group provides banking services, financial and insurance services, as well as management of properties either held as stock or as investment property.

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

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

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.

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.

Continuing operations

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
6 months ended 30 June 2016			
Net interest income	336,440	24,022	360,462
Net fee and commission income	70,512	3,356	73,868
Net foreign exchange gains	4,997	11,316	16,313
Net gains/(losses) on financial instrument transactions	57,856	(467)	57,389
Insurance income/(loss) net of claims and commissions	24,646	(13)	24,633
Gains/(losses) from revaluation and disposal of investment properties . .	6,147	(341)	5,806
Losses on disposal of stock of property	(3,428)	(105)	(3,533)
Other income	6,628	949	7,577
	<u>503,798</u>	<u>38,717</u>	<u>542,515</u>
Staff costs (excluding Voluntary Exit Plan (VEP))	(108,661)	(8,205)	(116,866)
Staff costs—VEP	(62,413)	—	(62,413)
Other operating expenses (excluding advisory and other restructuring costs)	(71,942)	(12,655)	(84,597)
Other operating expenses—advisory and other restructuring costs (Note 16)	(23,666)	(1,293)	(24,959)
Profit before impairment of loans and advances to customers and other impairments	237,116	16,564	253,680
Gain on derecognition of loans and advances to customers and changes in expected cash flows	22,137	29	22,166
Provisions for impairment of loans and advances to customers and other customer credit losses	(148,024)	(31,901)	(179,925)
(Impairment)/reversal of impairment of other financial instruments . . .	(12,895)	667	(12,228)
Impairment of non-financial instruments	(4,112)	(5,250)	(9,362)
Share of profit from associates and joint ventures	1,606	—	1,606
Profit/(loss) before tax	95,828	(19,891)	75,937
Income tax	(12,453)	(1,242)	(13,695)
Profit/(loss) after tax	83,375	(21,133)	62,242
Non-controlling interests—profit	(5,870)	—	(5,870)
Profit/(loss) after tax attributable to the owners of the Company	77,505	(21,133)	56,372

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Continuing operations (continued)

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
6 months ended 30 June 2015 (unaudited)			
Net interest income	410,900	27,686	438,586
Net fee and commission income	75,697	3,420	79,117
Net foreign exchange gains	19,689	3,603	23,292
Net gains on financial instrument transactions	28,567	150	28,717
Insurance income net of claims and commissions	19,939	330	20,269
Losses from revaluation and disposal of investment properties	(4,357)	(19,027)	(23,384)
Gains/(losses) on disposal of stock of property	281	(38)	243
Other income	2,806	6,040	8,846
	<u>553,522</u>	<u>22,164</u>	<u>575,686</u>
Staff costs	(109,542)	(8,475)	(118,017)
Other operating expenses (excluding advisory and other restructuring costs)	(67,865)	(8,083)	(75,948)
Other operating expenses-advisory restructuring costs (Note 16)	(18,086)	(3,367)	(21,453)
Profit before impairment of loans and advances to customers and other impairments	358,029	2,239	360,268
Gain on derecognition of loans and advances to customers and changes in expected cash flows	228,911	1,128	230,039
Provisions for impairment of loans and advances to customers and other customer credit losses	(409,818)	(54,108)	(463,926)
Impairment of other financial instruments	(20,031)	(11,137)	(31,168)
Share of profit from associates and joint ventures	3,438	—	3,438
Profit/(loss) before tax	160,529	(61,878)	98,651
Income tax	(10,995)	520	(10,475)
Profit/(loss) after tax	149,534	(61,358)	88,176
Non-controlling interests—(profit)/loss	(225)	1,374	1,149
Profit/(loss) after tax attributable to the owners of the Company	149,309	(59,984)	89,325

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Discontinued operations

	Russia	Subsidiary acquired with the view to resale	Total discontinued operations
	€000	€000	€000
6 months ended 30 June 2015 (unaudited)			
Net interest income	11,540	—	11,540
Net fee and commission income	5,355	—	5,355
Net foreign exchange gains	1,050	—	1,050
Losses from revaluation and disposal of investment properties	(178)	—	(178)
Losses on disposal of stock of property	(47)	—	(47)
Other income	731	9,929	10,660
	<u>18,451</u>	<u>9,929</u>	<u>28,380</u>
Staff costs	(12,120)	(3,173)	(15,293)
Other operating expenses	(12,562)	(4,931)	(17,493)
(Loss)/profit before impairment of loans and advances to customers and other impairments	(6,231)	1,825	(4,406)
Provisions for impairment of loans and advances to customers and other customer credit losses	(29,464)	—	(29,464)
Impairment upon remeasurement of disposal group at fair value less costs to sell	(2,215)	—	(2,215)
(Loss)/profit before tax	(37,910)	1,825	(36,085)
Income tax	(182)	—	(182)
(Loss)/profit after tax	(38,092)	1,825	(36,267)
Non-controlling interests—loss/(profit)	7,618	(456)	7,162
(Loss)/profit after tax attributable to the owners of the Company . .	(30,474)	1,369	(29,105)

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Continuing operations

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
Year 2015			
Net interest income	788,389	54,051	842,440
Net fee and commission income	146,636	6,821	153,457
Net foreign exchange gains/(losses)	48,021	(9,654)	38,367
Net gains/(losses) on financial instrument transactions	48,205	(1,076)	47,129
Insurance income net of claims and commissions	46,961	944	47,905
Losses from revaluation and disposal of investment properties	(14,900)	(38,180)	(53,080)
Gains/(losses) on disposal of stock of property	1,000	(118)	882
Other income	7,303	9,422	16,725
	<u>1,071,615</u>	<u>22,210</u>	<u>1,093,825</u>
Staff costs	(218,057)	(15,574)	(233,631)
Other operating expenses (excluding advisory and other restructuring costs)	(164,950)	(16,958)	(181,908)
Other operating expenses—advisory and other restructuring costs (Note 16)	(38,357)	(4,773)	(43,130)
Profit/(loss) before impairment of loans and advances to customers and other impairments	650,251	(15,095)	635,156
Gain on derecognition of loans and advances to customers and changes in expected cash flows	298,752	6,337	305,089
Provisions for impairment of loans and advances to customers and other customer credit losses	(1,145,460)	(119,094)	(1,264,554)
Impairment of other financial instruments	(29,757)	(13,746)	(43,503)
Impairment of non-financial instruments	(11,326)	(6,777)	(18,103)
Share of profit from associates and joint ventures	5,923	—	5,923
Loss before tax	(231,617)	(148,375)	(379,992)
Income tax	(5,695)	(3,508)	(9,203)
Loss after tax	(237,312)	(151,883)	(389,195)
Non-controlling interests—loss	794	5,888	6,682
Loss after tax attributable to the owners of the Company	(236,518)	(145,995)	(382,513)

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Discontinued operations

	Russia	Subsidiary acquired with the view to resale	Total discontinued operations
	€000	€000	€000
Year 2015			
Net interest income	16,353	—	16,353
Net fee and commission income	8,108	—	8,108
Net foreign exchange gains	1,537	—	1,537
Losses from revaluation and disposal of investment properties	(160)	—	(160)
Losses on disposal of stock of property	(66)	—	(66)
Other income	1,222	18,833	20,055
	<u>26,994</u>	<u>18,833</u>	<u>45,827</u>
Staff costs	(17,010)	(5,433)	(22,443)
Other operating expenses	(17,147)	(7,954)	(25,101)
(Loss)/profit before impairment of loans and advances to customers and other impairments	(7,163)	5,446	(1,717)
Provisions for impairment of loans and advances to customers and other customer credit losses	(42,665)	—	(42,665)
Impairment upon remeasurement of disposal group at fair value less costs to sell	(3,288)	—	(3,288)
(Loss)/profit on disposal of discontinued operations	(23,032)	5,640	(17,392)
(Loss)/profit before tax	(76,148)	11,086	(65,062)
Income tax	(45)	—	(45)
(Loss)/profit after tax	(76,193)	11,086	(65,107)
Non-controlling interests—loss/(profit)	10,630	(1,362)	9,268
(Loss)/profit after tax attributable to the owners of the Company . .	(65,563)	9,724	(55,839)

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Continuing operations

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
Year 2014			
Net interest income	919,403	50,266	969,669
Net fee and commission income	145,405	6,462	151,867
Net foreign exchange losses	(10,458)	(4,335)	(14,793)
Net gains/(losses) on financial instrument transactions	191,225	(14,375)	176,850
Insurance income net of claims and commissions	43,154	2,456	45,610
(Losses)/gains from revaluation and disposal of investment properties	(24,276)	12,255	(12,021)
Gains/(losses) on disposal of stock of property	224	(98)	126
Other income/(expenses)	19,213	(7,271)	11,942
	<u>1,283,890</u>	<u>45,360</u>	<u>1,329,250</u>
Staff costs (excluding VEP)	(219,273)	(14,836)	(234,109)
Staff costs—VEP	(315)	—	(315)
Other operating expenses (excluding advisory and other restructuring costs)	(166,929)	(25,689)	(192,618)
Other operating expenses—advisory and other restructuring costs (Note 16)	(33,464)	(2,400)	(35,864)
Profit before impairment of loans and advances to customers and other impairments	863,909	2,435	866,344
Gain on derecognition of loans and advances to customers and changes in expected cash flows	47,338	—	47,338
Provisions for impairment of loans and advances to customers and other customer credit losses	(579,619)	(237,364)	(816,983)
Impairment of other financial instruments	(48,146)	(8,394)	(56,540)
Impairment of non-financial instruments	(33,295)	—	(33,295)
Share of profit from associates and joint ventures	4,852	—	4,852
Profit/(loss) before tax	255,039	(243,323)	11,716
Income tax	(3,214)	(7,663)	(10,877)
Profit/(loss) after tax	251,825	(250,986)	839
Non-controlling interests—(profit)/loss	(95)	18,418	18,323
Profit/(loss) after tax attributable to the owners of the Company	<u>251,730</u>	<u>(232,568)</u>	<u>19,162</u>

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Discontinued operations

	Russia	Subsidiary acquired with the view to sale	Greece (Note 41)	Ukraine	Total discontinued operations
	€000	€000	€000	€000	€000
Year 2014					
Net interest income	55,593	26	—	4,064	59,683
Net fee and commission income	17,853	—	—	270	18,123
Net foreign exchange gains/(losses)	5,236	(10)	—	617	5,843
Net losses on financial instrument transactions	(25)	—	—	—	(25)
Gains from revaluation and disposal of investment properties	670	—	—	—	670
Losses on disposal of stock of property	(202)	—	—	—	(202)
Other income/(expenses)	887	(1,631)	—	1,051	307
	80,012	(1,615)	—	6,002	84,399
Staff costs	(32,568)	(1,444)	—	(1,233)	(35,245)
Other operating (expenses)/income	(38,779)	(1,229)	36,000	(2,882)	(6,890)
Profit/(loss) before impairment of loans and advances to customers and other impairments	8,665	(4,288)	36,000	1,887	42,264
Provisions for impairment of loans and advances to customers and other customer credit losses	(113,128)	—	—	(38,528)	(151,656)
Loss on disposal of discontinued operations (Note 54.5.1)	—	—	—	(114,228)	(114,228)
Impairment upon measurement of disposal group at fair value less costs to sell	(84,098)	—	—	—	(84,098)
(Loss)/profit before tax	(188,561)	(4,288)	36,000	(150,869)	(307,718)
Income tax	(14,297)	(855)	—	654	(14,498)
(Loss)/profit after tax	(202,858)	(5,143)	36,000	(150,215)	(322,216)
Non-controlling interests—loss	40,572	1,286	—	39	41,897
(Loss)/profit after tax attributable to the owners of the Company	(162,286)	(3,857)	36,000	(150,176)	(280,319)

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Continuing operations

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
Year 2013			
Net interest income	842,318	42,877	885,195
Net fee and commission income	131,918	7,721	139,639
Net foreign exchange losses	6,611	(16,419)	(9,808)
Net gains/(losses) on financial instrument transactions	10,608	(3,434)	7,174
Insurance income net of claims and commissions	57,375	7,581	64,956
Losses from revaluation and disposal of investment properties	(29,398)	(46,030)	(75,428)
Gains on disposal of stock of property	85	—	85
Other income	10,064	2,204	12,268
	1,029,581	(5,500)	1,024,081
Staff costs (excluding VEP)	(247,309)	(17,395)	(264,704)
Staff costs—VEP	(120,589)	—	(120,589)
Other operating expenses (excluding advisory and other restructuring costs)	(146,509)	(25,316)	(171,825)
Other operating expenses—advisory and other restructuring costs (Note 16)	(36,220)	(5)	(36,225)
Profit/(loss) before impairment of loans and advances to customers and other impairments	478,954	(48,216)	430,738
Gain on derecognition of loans and advances to customers and changes in expected cash flows	26,643	—	26,643
Provisions for impairment of loans and advances to customers and other customer credit losses (Note 17)	(856,380)	(88,668)	(945,048)
Impairment of other financial instruments	(22,525)	—	(22,525)
Impairment of non-financial instruments	(410)	—	(410)
Share of loss from associates and joint ventures	(4,511)	(191)	(4,702)
Loss before tax	(378,229)	(137,075)	(515,304)
Income tax	3,360	(5,138)	(1,778)
Loss after tax	(374,869)	(142,213)	(517,082)
Non-controlling interests—(profit)/loss	924	2,196	3,120
Loss after tax attributable to the owners of the Company	(373,945)	(140,017)	(513,962)

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Discontinued operations

	<u>Russia</u>	<u>Greece (Note 54.7.1)</u>	<u>Ukraine</u>	<u>Total discontinued operations</u>
Year 2013	€000	€000	€000	€000
Net interest income	91,645	46,279	22,590	160,514
Net fee and commission income	27,466	11,217	1,714	40,397
Net foreign exchange gains/(losses)	4,437	(14,667)	222	(10,008)
Net losses on financial instrument transactions	—	5,672	(703)	4,969
Losses from revaluation and disposal of investment properties	(1,252)	—	(1,857)	(3,109)
Losses on disposal of stock of property	(47)	—	—	(47)
Other income/(expenses)	1,346	(2,070)	605	(119)
	<u>123,595</u>	<u>46,431</u>	<u>22,571</u>	<u>192,597</u>
Staff costs	(51,171)	(22,241)	(6,332)	(79,744)
Other operating expenses (excluding advisory and other restructuring costs)	(46,459)	(55,001)	(8,801)	(110,261)
Other operating expenses—advisory and other restructuring costs	(172)	—	(766)	(938)
Profit/(loss) before impairment of loans and advances to customers and other impairments	25,793	(30,811)	6,672	1,654
Provisions for impairment of loans and advances to customers and other customer credit losses	(74,260)	(58,908)	(48,037)	(181,205)
Impairment of other financial instruments	—	(261)	—	(261)
Impairment of non-financial instruments	(2,960)	—	—	(2,960)
Impairment upon measurement of disposal group at fair value less costs to sell	—	—	(9,579)	(9,579)
Loss on disposal of Greek banking and leasing operations	—	(1,365,624)	—	(1,365,624)
Loss before tax	(51,427)	(1,455,604)	(50,944)	(1,557,975)
Income tax	7,078	—	(116)	6,962
Loss after tax	(44,349)	(1,455,604)	(51,060)	(1,551,013)
Non-controlling interests—loss	8,851	—	35	8,886
Loss after tax attributable to the owners of the Company	(35,498)	(1,455,604)	(51,025)	(1,542,127)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, net foreign exchange gains/(losses), 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.

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis of total revenue (continued)

Continuing operations

	Cyprus	Other countries	Total operations
	€000	€000	€000
6 months ended 30 June 2016			
Banking and financial services	469,414	46,091	515,505
Insurance services	23,088	55	23,143
Property and hotel business	3,867	—	3,867
Total revenue from third parties	496,369	46,146	542,515
Inter-segment revenue/(expense)	7,429	(7,429)	—
Total revenue	<u>503,798</u>	<u>38,717</u>	<u>542,515</u>

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
6 months ended 30 June 2015 (unaudited)			
Banking and financial services	525,112	29,401	554,513
Insurance services	19,312	427	19,739
Property and hotel business	518	(38)	480
Total revenue from third parties	544,942	29,790	574,732
Inter-segment revenue/(expense)	8,580	(7,626)	954
Total revenue	<u>553,522</u>	<u>22,164</u>	<u>575,686</u>

Discontinued operations

	Russia	Subsidiary acquired with the view to sale	Total discontinued operations
	€000	€000	€000
6 months ended 30 June 2015 (unaudited)			
Banking and financial services	19,405	—	19,405
Property and hotel business	—	9,929	9,929
Total revenue from third parties	19,405	9,929	29,334
Inter-segment expense	(954)	—	(954)
Total revenue	<u>18,451</u>	<u>9,929</u>	<u>28,380</u>

Continuing operations

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
Year 2015			
Banking and financial services	1,007,178	35,969	1,043,147
Insurance services	45,370	1,328	46,698
Property and hotel business	3,011	(55)	2,956
Total revenue from third parties	1,055,559	37,242	1,092,801
Inter-segment revenue/(expense)	16,056	(15,032)	1,024
Total revenue	<u>1,071,615</u>	<u>22,210</u>	<u>1,093,825</u>

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis of total revenue (continued)

Discontinued operations

	Russia €000	Subsidiary acquired with the view to sale €000	Total discontinued operations €000
Year 2015			
Banking and financial services	28,018	—	28,018
Property and hotel business	—	18,833	18,833
Total revenue from third parties	28,018	18,833	46,851
Inter-segment expense	(1,024)	—	(1,024)
Total revenue	<u>26,994</u>	<u>18,833</u>	<u>45,827</u>

Continuing operations

	Cyprus €000	Other countries €000	Total continuing operations €000
Year 2014			
Banking and financial services	1,215,080	52,885	1,267,965
Insurance services	44,175	2,979	47,154
Property and hotel business	2,185	(102)	2,083
Total revenue from third parties	1,261,440	55,762	1,317,202
Inter-segment revenue/(expense)	22,450	(10,402)	12,048
Total revenue	<u>1,283,890</u>	<u>45,360</u>	<u>1,329,250</u>

Discontinued operations

	Russia €000	Subsidiary acquired with the view to sale €000	Ukraine €000	Total discontinued operations €000
Year 2014				
Banking and financial services	91,631	—	6,431	98,062
Property and hotel business	—	(1,615)	—	(1,615)
Total revenue/(expenses) from third parties	91,631	(1,615)	6,431	96,447
Inter-segment expenses	(11,619)	—	(429)	(12,048)
Total revenue/(expenses)	<u>80,012</u>	<u>(1,615)</u>	<u>6,002</u>	<u>84,399</u>

Continuing operations

	Cyprus €000	Other countries €000	Total continuing operations €000
Year 2013			
Banking and financial services	946,866	(4,518)	942,348
Insurance services	57,990	7,568	65,558
Property and hotel business	(3,509)	(2)	(3,511)
Total revenue from third parties	1,001,347	3,048	1,004,395
Inter-segment revenue/(expense)	28,234	(8,548)	19,686
Total revenue	<u>1,029,581</u>	<u>(5,500)</u>	<u>1,024,081</u>

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis of total revenue (continued)

Discontinued operations

	Russia €000	Greece €000	Ukraine €000	Total discontinued operations €000
Year 2013				
Banking and financial services	139,019	49,328	23,936	212,283
Total revenue from third parties	139,019	49,328	23,936	212,283
Inter-segment revenue/ (expense)	(15,424)	(2,897)	(1,365)	(19,686)
Total revenue	<u>123,595</u>	<u>46,431</u>	<u>22,571</u>	<u>192,597</u>

Analysis of assets

	Cyprus €000	Other countries €000	Russia €000	Total €000
30 June 2016				
Assets	<u>21,270,964</u>	<u>2,571,815</u>	<u>—</u>	23,842,779
Inter-segment assets				(1,163,113)
Total assets				<u>22,679,666</u>
31 December 2015				
Assets	<u>21,666,656</u>	<u>2,746,202</u>	<u>—</u>	24,412,858
Inter-segment assets				(1,142,357)
Total assets				<u>23,270,501</u>
31 December 2014				
Assets	<u>24,741,000</u>	<u>2,536,406</u>	<u>715,428</u>	27,992,834
Inter-segment assets				(1,203,432)
Total assets				<u>26,789,402</u>
31 December 2013				
Assets	<u>28,111,784</u>	<u>2,596,044</u>	<u>1,316,068</u>	32,023,896
Inter-segment assets				(1,674,457)
Total assets				<u>30,349,439</u>

At 31 December 2014 and 31 December 2013 the Russia operations were classified as held for sale.

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis of liabilities

	<u>Cyprus</u> €000	<u>Other countries</u> €000	<u>Russia</u> €000	<u>Total</u> €000
30 June 2016				
Liabilities	18,192,911	2,555,973	—	20,748,884
Inter-segment liabilities				(1,165,210)
Total liabilities				<u>19,583,674</u>
31 December 2015				
Liabilities	18,665,209	2,672,612	—	21,337,821
Inter-segment liabilities				(1,144,651)
Total liabilities				<u>20,193,170</u>
31 December 2014				
Liabilities	21,247,697	2,408,893	857,381	24,513,971
Inter-segment liabilities				(1,205,616)
Total liabilities				<u>23,308,355</u>
31 December 2013				
Liabilities	25,183,780	2,724,213	1,380,412	29,288,405
Inter-segment liabilities				(1,676,642)
Total liabilities				<u>27,611,763</u>

Analysis of liabilities

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 33 and 46, respectively.

Analysis by business line

In addition to monitoring operations by geographical location, from 2015 onwards, management also monitors the operating results of each business line for the Cyprus segment of the Group, and such information is presented to the Group Executive Committee, following the reorganisation of the business lines which was completed in 2014. Information on the results of the business lines are presented for the years 2015 and 2014 and for the periods ended 30 June 2016 and 30 June 2015. No comparative information for 2013 has been presented for the results of the new business lines as their reorganisation was completed in 2014.

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/(expenses) includes net foreign exchange gains, net gains/(losses) on financial instrument transactions, insurance income/(loss) net of claims and commissions, gains/(losses) from revaluation and disposal of investment properties, losses 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. Indirect other operating income and indirect other operating expenses are allocated to the head office function. Notional tax at the 12.5% Cyprus tax rate is charged/credited on profit or loss before tax of each business line.

The business line "Other" includes Group and head office functions such as treasury, finance, risk management, compliance, legal, corporate affairs and human resources. Head office functions provide services to the operating segments. From 2016 onwards, following the establishment of REMU in December 2015 (Note 29) real estate management results are also presented as a separate business line, as REMU is considered a separate operating segment and reported as such to management. No information has been presented for the results of this new business line for the earlier years/periods included herein as REMU was only set up in December 2015.

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium- sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus
6 months ended 30 June 2016	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income/(expense)	39,099	32,459	126,092	114,361	31,405	3,631	(4,982)	199	(5,824)	336,440
Net fee and commission income/(expense)	4,639	4,231	22,168	6,499	24,971	1,090	—	(2,140)	9,054	70,512
Total other operating income/(expense)	350	284	2,114	302	3,473	2,022	(3,111)	25,029	66,383	96,846
	44,088	36,974	150,374	121,162	59,849	6,743	(8,093)	23,088	69,613	503,798
Staff costs and other operating expenses	(5,286)	(5,958)	(59,799)	(17,634)	(12,986)	(2,538)	(4,888)	(7,007)	(64,507)	(180,603)
Restructuring costs—voluntary exit plan	(968)	(1,139)	(22,930)	(8,237)	(4,468)	(224)	(97)	(3,230)	(21,120)	(62,413)
Restructuring costs—other operating expenses	(16)	(3)	(54)	(6,047)	(44)	(3)	(1,857)	—	(15,642)	(23,666)
	37,818	29,874	67,591	89,244	42,351	3,978	(14,935)	12,851	(31,656)	237,116
Gain/(loss) on derecognition of loans and advances to customers and changes in expected cash flows	3,342	2,184	6,019	9,622	1,731	868	—	—	(1,629)	22,137
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	8,049	(19,789)	21,706	(157,815)	329	(1,081)	—	—	577	(148,024)
Impairment of other financial instruments	—	—	—	—	—	—	—	—	(12,895)	(12,895)
Impairment of non-financial instruments	—	—	—	—	—	—	(3,726)	—	(386)	(4,112)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	—	1,606	1,606
Profit/(loss) before tax	49,209	12,269	95,316	(58,949)	44,411	3,765	(18,661)	12,851	(44,383)	95,828
Income tax	(6,151)	(1,534)	(11,914)	7,369	(5,551)	(471)	2,333	(1,390)	4,856	(12,453)
Profit/(loss) after tax	43,058	10,735	83,402	(51,580)	38,860	3,294	(16,328)	11,461	(39,527)	83,375
Non-controlling interests—loss	—	—	—	—	—	—	—	—	(5,870)	(5,870)
Profit/(loss) after tax attributable to the owners of the Company	43,058	10,735	83,402	(51,580)	38,860	3,294	(16,328)	11,461	(45,397)	77,505

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus
6 months ended 30 June 2015 (unaudited)	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income	33,350	32,484	114,103	166,377	30,185	2,910	366	31,125	410,900
Net fee and commission income/(expense)	3,868	4,550	27,252	7,133	27,090	939	(1,430)	6,295	75,697
Total other operating income	333	307	2,208	149	3,478	1,812	20,376	38,262	66,925
	37,551	37,341	143,563	173,659	60,753	5,661	19,312	75,682	553,522
Staff costs and other operating expenses	(5,206)	(6,115)	(58,789)	(17,682)	(8,896)	(2,441)	(7,784)	(70,494)	(177,407)
Restructuring costs	—	—	—	—	—	—	—	(18,086)	(18,086)
	32,345	31,226	84,774	155,977	51,857	3,220	11,528	(12,898)	358,029
Gain on derecognition of loans and advances to customers and changes in expected cash flows	28,597	24,218	50,377	114,649	2,245	1,460	—	7,365	228,911
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(14,614)	599	(4,670)	(392,038)	(16)	(68)	—	989	(409,818)
Impairment of other financial instruments	—	—	—	—	—	—	—	(20,031)	(20,031)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	3,438	3,438
Profit/(loss) before tax	46,328	56,043	130,481	(121,412)	54,086	4,612	11,528	(21,137)	160,529
Income tax	(5,791)	(7,005)	(16,310)	15,177	(6,761)	(576)	(1,503)	11,774	(10,995)
Profit/(loss) after tax	40,537	49,038	114,171	(106,235)	47,325	4,036	10,025	(9,363)	149,534
Non-controlling interests—profit	—	—	—	—	—	—	—	(225)	(225)
Profit/(loss) after tax attributable to the owners of the Company	40,537	49,038	114,171	(106,235)	47,325	4,036	10,025	(9,588)	149,309

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus
Year 2015	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income	76,307	68,833	243,461	285,823	62,145	6,576	670	44,574	788,389
Net fee and commission income/(expense)	7,953	9,154	54,146	14,774	47,020	1,806	(2,951)	14,734	146,636
Total other operating income	627	615	4,511	345	7,579	3,956	47,651	71,306	136,590
	84,887	78,602	302,118	300,942	116,744	12,338	45,370	130,614	1,071,615
Staff costs and other operating expenses	(10,709)	(12,250)	(120,618)	(32,673)	(22,629)	(5,159)	(15,510)	(163,459)	(383,007)
Restructuring costs	—	—	—	—	—	—	—	(38,357)	(38,357)
	74,178	66,352	181,500	268,269	94,115	7,179	29,860	(71,202)	650,251
Gain on derecognition of loans and advances to customers and changes in expected cash flows	35,676	30,336	65,537	152,863	2,725	1,797	—	9,818	298,752
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	9,930	(7,020)	(33,706)	(1,098,916)	(11,665)	(3,863)	—	(220)	(1,145,460)
Impairment of other financial instruments	—	—	—	—	—	—	—	(29,757)	(29,757)
Impairment of non-financial instruments	—	—	—	—	—	—	—	(11,326)	(11,326)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	5,923	5,923
Profit/(loss) before tax	119,784	89,668	213,331	(677,784)	85,175	5,113	29,860	(96,764)	(231,617)
Income tax	(14,973)	(11,209)	(26,666)	84,723	(10,647)	(639)	(1,522)	(24,762)	(5,695)
Profit/(loss) after tax	104,811	78,459	186,665	(593,061)	74,528	4,474	28,338	(121,526)	(237,312)
Non-controlling interests—loss	—	—	—	—	—	—	—	794	794
Profit/(loss) after tax attributable to the owners of the Company	104,811	78,459	186,665	(593,061)	74,528	4,474	28,338	(120,732)	(236,518)

Notes to the Historical Financial Information (Continued)

7. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus
Year 2014	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income	85,498	73,965	245,241	286,694	75,519	5,492	846	146,148	919,403
Net fee and commission income/(expense)	8,945	7,329	62,261	11,850	40,251	1,802	(451)	13,418	145,405
Total other operating income	950	538	4,231	348	6,450	2,658	43,780	160,127	219,082
	95,393	81,832	311,733	298,892	122,220	9,952	44,175	319,693	1,283,890
Staff costs and other operating expenses	(11,511)	(11,522)	(120,912)	(38,806)	(25,795)	(4,580)	(14,690)	(158,701)	(386,517)
Restructuring costs	—	—	—	—	—	—	—	(33,464)	(33,464)
	83,882	70,310	190,821	260,086	96,425	5,372	29,485	127,528	863,909
Gain on derecognition of loans and advances to customers and changes in expected cash flows	15,065	6,679	11,649	8,047	1,293	2,503	—	2,102	47,338
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	28,521	(14,468)	41,350	(617,127)	(14,311)	(3,474)	—	(110)	(579,619)
Impairment of other financial instruments	—	—	—	(2,536)	—	—	—	(45,610)	(48,146)
Impairment of non-financial instruments	—	—	—	—	—	—	—	(33,295)	(33,295)
Share of profit from associates and joint ventures . . .	—	—	—	—	—	—	—	4,852	4,852
Profit/(loss) before tax	127,468	62,521	243,820	(351,530)	83,407	4,401	29,485	55,467	255,039
Income tax	(15,934)	(7,815)	(30,478)	43,941	(10,426)	(550)	(2,155)	20,203	(3,214)
Profit/(loss) after tax	111,534	54,706	213,342	(307,589)	72,981	3,851	27,330	75,670	251,825
Non-controlling interests—loss	—	—	—	—	—	—	—	(95)	(95)
Profit/(loss) after tax attributable to the owners of the Company	111,534	54,706	213,342	(307,589)	72,981	3,851	27,330	75,575	251,730

In addition loans and advances to customers and deposits of the above business lines are reported to the Group Executive Committee. Such an analysis is presented in Notes 46 and 33 respectively.

Notes to the Historical Financial Information (Continued)

8. Interest income

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Loans and advances to customers	447,326	524,544	1,009,766	1,115,120	1,171,497
Loans and advances to banks and central banks	4,499	(5,683)	4,534	23,084	28,702
Investments available-for-sale	5,237	7,863	13,664	16,387	33,742
Investments classified as loans and receivables	7,842	60,831	88,456	177,228	173,521
	<u>464,904</u>	<u>587,555</u>	<u>1,116,420</u>	<u>1,331,819</u>	<u>1,407,462</u>
Trading investments	—	71	148	74	111
Derivative financial instruments	2,386	3,121	4,798	10,382	13,193
Other investments at fair value through profit or loss	368	368	739	739	739
	<u>467,658</u>	<u>591,115</u>	<u>1,122,105</u>	<u>1,343,014</u>	<u>1,421,505</u>

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances as defined in Note 46 amounting to €102,377 thousand for the six months ended 30 June 2016 (corresponding period 2015: €116,435 thousand, year 2015: €215,145 thousand, year 2014: €262,035 thousand and year 2013: €188,150 thousand).

9. Interest expense

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Customer deposits	68,337	82,148	154,796	192,494	326,991
Funding from central banks and deposits by banks .	28,474	51,879	95,633	142,045	159,548
Repurchase agreements	2,197	5,721	7,583	11,910	10,130
Subordinated loan stock	—	—	—	—	(4,442)
	<u>99,008</u>	<u>139,748</u>	<u>258,012</u>	<u>346,449</u>	<u>492,227</u>
Derivative financial instruments	8,188	12,781	21,653	26,896	44,083
	<u>107,196</u>	<u>152,529</u>	<u>279,665</u>	<u>373,345</u>	<u>536,310</u>

10. Fee and commission income and expense

Fee and commission income

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Credit-related fees and commissions	35,149	44,432	82,161	78,995	72,840
Other banking commissions	32,429	31,560	64,277	64,654	70,960
Mutual funds and asset management fees	1,332	1,146	2,262	2,503	3,745
Brokerage commissions	439	626	1,183	709	1,624
Other commissions	9,063	5,494	12,674	12,966	9,951
	<u>78,412</u>	<u>83,258</u>	<u>162,557</u>	<u>159,827</u>	<u>159,120</u>

Notes to the Historical Financial Information (Continued)

10. Fee and commission income and expense (continued)

Fee and commission income (continued)

Mutual funds and asset management fees include income of €1,218 thousand for the six months ended 30 June 2016 (corresponding period 2015: €979 thousand, year 2015: €1,964 thousand, year 2014: €2,185 thousand and year 2013: €2,623 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Banking commissions	4,333	3,962	8,731	7,718	18,945
Mutual funds and asset management fees	94	97	184	119	334
Brokerage commissions	117	82	185	123	202
	<u>4,544</u>	<u>4,141</u>	<u>9,100</u>	<u>7,960</u>	<u>19,481</u>

11. Net foreign exchange gains/(losses)

Net foreign exchange gains/(losses) 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 period/year and the revaluation of foreign exchange derivatives.

12. Net gains on financial instrument transactions

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Trading portfolio:					
—equity securities	(316)	676	710	1,107	543
—debt securities	7	11	24	425	(204)
—derivative financial instruments	870	(13,522)	(13,145)	11,877	15,519
Other investments at fair value through profit or loss:					
—debt securities	(236)	401	466	1,742	2,392
—equity securities	377	(118)	26	—	—
Net gains/(losses) on disposal of available-for-sale investments:					
—equity securities	58,330	944	1,075	48,907	962
—debt securities	18	(12)	(9)	2,908	(11,556)
Net gains on disposal/repayment of loans and receivables:					
—debt securities	43	30,820	49,513	99,929	6,681
Realised (losses)/gains on disposal of loans	(690)	—	35	11,444	(6,920)
Revaluation of financial instruments designated as fair value hedges:					
—hedging instruments	(3,818)	8,603	9,746	(11,582)	25,045
—hedged items	3,853	(9,148)	(11,317)	10,093	(23,639)
Loss on disposal/dissolution of subsidiary	(1,049)	—	—	—	(1,361)
Other losses on financial instruments	—	—	—	—	(288)
Gain on disposal of joint ventures (Notes 31 and 55)	—	10,062	10,005	—	—
	<u>57,389</u>	<u>28,717</u>	<u>47,129</u>	<u>176,850</u>	<u>7,174</u>

Notes to the Historical Financial Information (Continued)

12. Net gains on financial instrument transactions (continued)

The gain on disposal of available-for-sale equity securities for the six months ended 30 June 2016 relates mainly to gain on sale of shares held in Visa Europe Ltd, following the approved purchase of Visa Europe Ltd by Visa Inc.

The gain on disposal of joint venture for the six months ended 30 June 2015 and the year ended 31 December 2015, relates mainly to the disposal of Marfin Diversified Strategy Fund Plc (“**MDSF**”) in April 2015 and represents the recycling of the related foreign currency reserves into the consolidated income statement.

The gain on disposal/repayment of debt securities classified as loans and receivables in years 2014 and 2015 and the six months ended 30 June 2015, relates to the gain from the earlier than expected repayment of a Cyprus Government bond.

The realised gains on disposal of loans for 2014 primarily relate to the disposal of Serbian loans and to the disposal of the majority of a UK loan portfolio, both of which were acquired from Laiki Bank in 2013.

Additionally, the gain on disposal of available-for-sale equity securities in 2014 relates mainly to gains on the disposal of the investment in equity securities of the Romanian bank Banca Transilvania in April 2014.

Notes to the Historical Financial Information (Continued)

13. Insurance income net of claims and commissions

	6 months ended 30 June					
	2016			2015 (unaudited)		
	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	47,887	(34,573)	13,314	48,862	(40,538)	8,324
General insurance business	19,263	(7,944)	11,319	19,433	(7,488)	11,945
	<u>67,150</u>	<u>(42,517)</u>	<u>24,633</u>	<u>68,295</u>	<u>(48,026)</u>	<u>20,269</u>

	Year								
	2015			2014			2013		
	Income	Claims and commissions	Insurance income net of claims and commissions	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	€000	€000	€000
Life insurance business	89,575	(63,759)	25,816	115,743	(92,413)	23,330	107,232	(69,950)	37,282
General insurance business	37,664	(15,575)	22,089	40,332	(18,052)	22,280	48,308	(20,634)	27,674
	<u>127,239</u>	<u>(79,334)</u>	<u>47,905</u>	<u>156,075</u>	<u>(110,465)</u>	<u>45,610</u>	<u>155,540</u>	<u>(90,584)</u>	<u>64,956</u>

Notes to the Historical Financial Information (Continued)

13. Insurance income net of claims and commissions (continued)

	6 months ended 30 June				Year					
	2016		2015 (unaudited)		2015		2014		2013	
	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000
Income										
Gross premiums	41,826	32,142	42,335	38,209	85,212	64,828	85,829	66,856	94,789	78,165
Reinsurance premiums	(7,489)	(15,783)	(7,318)	(23,861)	(14,399)	(36,927)	(15,511)	(38,218)	(16,616)	(45,979)
Net premiums	34,337	16,359	35,017	14,348	70,813	27,901	70,318	28,638	78,173	32,186
Change in the provision for unearned premiums	—	(1,531)	—	190	—	613	—	2,181	—	3,197
Total net earned premiums	34,337	14,828	35,017	14,538	70,813	28,514	70,318	30,819	78,173	35,383
Investment income and other income	10,611	3	11,711	14	12,167	18	36,702	35	21,122	39
Commissions from reinsurers and other income	2,087	4,432	1,616	4,881	5,096	9,132	2,681	9,478	4,662	12,886
	47,035	19,263	48,344	19,433	88,076	37,664	109,701	40,332	103,957	48,308
Change in value of in-force business before tax (Note 28)	852	—	518	—	1,499	—	6,042	—	3,275	—
	<u>47,887</u>	<u>19,263</u>	<u>48,862</u>	<u>19,433</u>	<u>89,575</u>	<u>37,664</u>	<u>115,743</u>	<u>40,332</u>	<u>107,232</u>	<u>48,308</u>

Notes to the Historical Financial Information (Continued)

13. Insurance income net of claims and commissions (continued)

	6 months ended 30 June				Year					
	2016		2015 (unaudited)		2015		2014		2013	
	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000
Claims and commissions										
Gross payments to policyholders	(29,821)	(12,480)	(35,158)	(13,184)	(63,912)	(28,175)	(63,970)	(24,093)	(119,922)	(26,835)
Reinsurers' share of payments to policyholders	3,975	5,672	5,847	6,078	10,376	14,423	9,270	9,759	8,564	10,295
Gross change in insurance contract liabilities	(3,805)	2,090	(4,403)	1,002	3,340	5,562	(33,989)	3,232	47,586	(758)
Reinsurers' share of gross change in insurance contract liabilities	(804)	(1,382)	(2,761)	(182)	(5,147)	(4,019)	3,790	(2,304)	2,191	2,590
Commissions paid to agents and other direct selling costs	(4,118)	(1,844)	(4,063)	(1,202)	(8,416)	(3,373)	(7,514)	(4,654)	(8,369)	(5,922)
Changes in equalisation reserve	—	—	—	—	—	7	—	8	—	(4)
	<u>(34,573)</u>	<u>(7,944)</u>	<u>(40,538)</u>	<u>(7,488)</u>	<u>(63,759)</u>	<u>(15,575)</u>	<u>(92,413)</u>	<u>(18,052)</u>	<u>(69,950)</u>	<u>(20,634)</u>

In addition to the above, the following income and expense items related to the insurance operations have been recognised in the relevant captions of the consolidated income statement:

	6 months ended 30 June				Year					
	2016		2015 (unaudited)		2015		2014		2013	
	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000	Life insurance €000	General insurance €000
Net (expense)/income from non-linked insurance business assets	(410)	(1,463)	(332)	(630)	(676)	(1,331)	(355)	1,102	(304)	876
Net gains/(losses) on financial instrument transactions and other non-linked insurance business income	341	52	(23)	18	229	(20)	1,319	305	(12,315)	(2,686)
Staff costs	(4,302)	(3,553)	(2,418)	(2,613)	(4,830)	(5,098)	(4,717)	(4,826)	(7,702)	(9,683)
Other operating expenses	(1,568)	(1,047)	(1,841)	(1,229)	(3,994)	(2,340)	(3,379)	(2,237)	(3,677)	(2,521)

Notes to the Historical Financial Information (Continued)

14. Other income

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Profit on disposal of disposal group held for sale	2,545	—	—	—	—
Dividend income	119	273	885	317	401
Profit/(loss) on sale and write-off of property and equipment and intangible assets	38	48	(50)	(2,272)	(560)
Rental income from investment properties	1,674	573	889	1,042	575
Profit from hotel activities	396	500	2,353	2,303	1,729
Other income	2,805	7,452	12,648	10,552	10,123
	<u>7,577</u>	<u>8,846</u>	<u>16,725</u>	<u>11,942</u>	<u>12,268</u>

15. Staff costs

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Salaries	95,093	93,744	184,797	182,617	210,089
Employer's contributions to state social insurance and pension funds	13,985	12,590	28,759	27,030	29,175
Retirement benefit plan costs	7,788	11,683	20,075	24,462	25,440
	<u>116,866</u>	<u>118,017</u>	<u>233,631</u>	<u>234,109</u>	<u>264,704</u>
Restructuring costs—voluntary exit plans	62,413	—	—	315	120,589
	<u>179,279</u>	<u>118,017</u>	<u>233,631</u>	<u>234,424</u>	<u>385,293</u>

The number of persons employed by the Group as at 30 June 2016 was 4,279 (30 June 2015: 6,668, 31 December 2015: 4,605, 31 December 2014: 6,726, and 31 December 2013: 7,842). The number of staff at 30 June 2015, 31 December 2014 and 31 December 2013 includes employees of Russian operations disposed of in September 2015.

In January and August 2013 the Group proceeded with a VEP for its employees in Cyprus, the cost of which is included in staff costs in 2013 and amounted to €120,589 thousand. During 2013, 1,596 employees left the Group under the VEP.

In February and June 2016 the Group proceeded with a VEP for its employees in Cyprus, the cost of which is included in staff costs and amounted to €62,413 thousand. During the six months ended 30 June 2016, 358 employees left the Group under the VEP.

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance and pension funds, the Group operates plans for the provision of additional retirement benefits as described below:

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Defined benefit plans	253	901	636	433	(1,587)
Defined contribution plans	7,535	10,782	19,439	24,029	27,027
	<u>7,788</u>	<u>11,683</u>	<u>20,075</u>	<u>24,462</u>	<u>25,440</u>

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Cyprus

The main retirement plan for the Group's permanent employees in Cyprus (as at 30 June 2016: 87%, 31 December 2015: 88%, 31 December 2014: 60% and 31 December 2013: 52% of total Group employees) is a defined contribution plan. This plan provided for employer contributions of 14% up until 31 May 2015 and 9% thereafter 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

As part of the disposal of the Greek operations in 2013, the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan were paid out of the Group's assets because this plan is unfunded. A small number of employees of the Group's Greek subsidiaries continue to be members of the defined benefit plans.

United Kingdom

The Group's employees in the United Kingdom (5% of total Group employees at 30 June 2016, 31 December 2015: 4%, 31 December 2014: 3% and 31 December 2013: 2%) are covered by a defined contribution plan for all current employees which provides 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 other retirement benefit plans.

Analysis of the results of the actuarial valuations for the defined benefit plans

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Amounts recognised in the consolidated balance sheet				
Liabilities (Note 36)	24,157	12,588	16,201	9,139
Assets (Note 30)	(725)	(1,203)	(42)	(1,319)
	23,432	11,385	16,159	7,820

One of the plans has a funded status surplus of €12,366 thousand at 30 June 2016 (31 December 2015: €15,066 thousand, 2014: €14,000 thousand and 31 December 2013: €15,000 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.

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (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 2016	94,115	(97,795)	(3,680)	15,065	11,385
Current service cost	234	—	234	—	234
Gains on curtailment and settlement . .	—	—	—	—	—
Net interest expense/(income)	1,520	(1,501)	19	—	19
Total amount recognised in the consolidated income statement	<u>1,754</u>	<u>(1,501)</u>	<u>253</u>	<u>—</u>	<u>253</u>
Remeasurements:					
—Return on plan assets, excluding amounts included in net interest expense	—	(2,494)	(2,494)	—	(2,494)
—Actuarial loss from changes in demographic assumptions	20,336	—	20,336	—	20,336
—Actuarial gain from changes in financial assumptions	—	—	—	(2,699)	(2,699)
—Change in asset ceiling	—	—	—	(2,699)	(2,699)
Total amount recognised in the consolidated OCI	<u>20,336</u>	<u>(2,494)</u>	<u>17,842</u>	<u>(2,699)</u>	<u>15,143</u>
Exchange differences	(8,611)	6,446	(2,165)	—	(2,165)
Contributions:					
—Employer	—	(1,135)	(1,135)	—	(1,135)
—Plan participants	85	(85)	—	—	—
Benefits paid from the plans	(2,449)	2,449	—	—	—
Benefits paid directly by the employer .	(49)	—	(49)	—	(49)
30 June 2016	<u>105,181</u>	<u>(94,115)</u>	<u>11,066</u>	<u>12,366</u>	<u>23,432</u>

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (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 2015	97,164	(94,926)	2,238	13,921	16,159
Current service cost	499	—	499	—	499
Gains on curtailment and settlement . .	(126)	—	(126)	—	(126)
Net interest expense/(income)	3,173	(2,910)	263	—	263
Total amount recognised in the consolidated income statement	<u>3,546</u>	<u>(2,910)</u>	<u>636</u>	<u>—</u>	<u>636</u>
Remeasurements:					
—Return on plan assets, excluding amounts included in net interest expense	—	2,487	2,487	—	2,487
—Actuarial loss from changes in demographic assumptions	16	—	16	—	16
—Actuarial gain from changes in financial assumptions	(5,396)	—	(5,396)	—	(5,396)
—Experience adjustments	(579)	—	(579)	—	(579)
—Change in asset ceiling	—	—	—	1,144	1,144
Total amount recognised in the consolidated OCI	<u>(5,959)</u>	<u>2,487</u>	<u>(3,472)</u>	<u>1,144</u>	<u>(2,328)</u>
Exchange differences	3,988	(3,037)	951	—	951
Contributions:					
—Employer	—	(3,946)	(3,946)	—	(3,946)
—Plan participants	187	(187)	—	—	—
Benefits paid from the plans	(4,724)	4,724	—	—	—
Benefits paid directly by the employer .	(87)	—	(87)	—	(87)
31 December 2015	<u>94,115</u>	<u>(97,795)</u>	<u>(3,680)</u>	<u>15,065</u>	<u>11,385</u>

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (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 2014	80,022	(86,651)	(6,629)	14,449	7,820
Current service cost	622	—	622	—	622
Gains on curtailment and settlement . .	(59)	—	(59)	—	(59)
Net interest expense/(income)	3,446	(3,576)	(130)	—	(130)
Total amount recognised in the consolidated income statement	<u>4,009</u>	<u>(3,576)</u>	<u>433</u>	<u>—</u>	<u>433</u>
Remeasurements:					
—Return on plan assets, excluding amounts included in net interest income	—	(4,944)	(4,944)	—	(4,944)
—Actuarial gain from changes in demographic assumptions	(42)	—	(42)	—	(42)
—Actuarial loss from changes in financial assumptions	14,329	—	14,329	—	14,329
—Experience adjustments	(432)	—	(432)	—	(432)
—Change in asset ceiling	—	—	—	(528)	(528)
Total amount recognised in the consolidated OCI	<u>13,855</u>	<u>(4,944)</u>	<u>8,911</u>	<u>(528)</u>	<u>8,383</u>
Exchange differences	3,672	(3,062)	610	—	610
Contributions:					
—Employer	—	(724)	(724)	—	(724)
—Plan participants	183	(183)	—	—	—
Benefits paid from the plans	(4,214)	4,214	—	—	—
Benefits paid directly by the employer .	(363)	—	(363)	—	(363)
31 December 2014	<u>97,164</u>	<u>(94,926)</u>	<u>2,238</u>	<u>13,921</u>	<u>16,159</u>

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (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 2013	126,861	(112,443)	14,418	22,666	37,084
Current service cost	1,357	—	1,357	—	1,357
Gains on curtailment and settlement . .	(2,749)	—	(2,749)	—	(2,749)
Net interest expense/(income)	3,881	(4,076)	(195)	—	(195)
Total amount recognised in the consolidated income statement	<u>2,489</u>	<u>(4,076)</u>	<u>(1,587)</u>	<u>—</u>	<u>(1,587)</u>
Remeasurements:					
—Return on plan assets, excluding amounts included in net interest income	—	12,512	12,512	—	12,512
—Actuarial gain from changes in demographic assumptions	587	—	587	—	587
—Actuarial loss from changes in financial assumptions	(4,268)	—	(4,268)	—	(4,268)
—Experience adjustments	(368)	—	(368)	—	(368)
—Change in asset ceiling	—	—	—	(8,217)	(8,217)
Total amount recognised in the consolidated OCI	<u>(4,049)</u>	<u>12,512</u>	<u>8,463</u>	<u>(8,217)</u>	<u>246</u>
Exchange differences	(1,156)	929	(227)	—	(227)
Effect of termination of plan upon disposal of operations	(21,894)	4,609	(17,285)	—	(17,285)
Contributions:					
—Employer	—	(2,453)	(2,453)	—	(2,453)
—Plan participants	215	(215)	—	—	—
Benefits paid from the plans	(14,486)	14,486	—	—	—
Benefits paid directly by the employer .	(7,958)	—	(7,958)	—	(7,958)
31 December 2013	<u>80,022</u>	<u>(86,651)</u>	<u>(6,629)</u>	<u>14,449</u>	<u>7,820</u>

The actual return on plan assets for the 6 months ended 30 June 2016 was a gain of €3,995 thousand, (year 2015: gain of €423 thousand, year 2014: gain of €8,520 thousand and year 2013: loss of €8,458 thousand).

The assets of funded plans are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or as insurance contracts. Plan assets held in trust are governed by local regulations and practice in each country.

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

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:

	30 June	31 December		
	2016	2015	2014	2013
	(%)	(%)	(%)	(%)
Equity securities	43	43	42	45
Debt securities	46	46	42	38
Loans and advances to banks	11	11	16	17
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The assets held by the funded plans include equity securities issued by the Company, the fair value of which is as at 30 June 2016: €2,573 thousand (31 December 2015: €2,412 thousand, 31 December 2014: €3,853 thousand and 31 December 2013: €2,982 thousand).

As at 30 June 2016 the Group expects to make contributions to defined benefit plans of €2,384 thousand during the next 12 months (31 December 2015: €2,605 thousand, 31 December 2014: €3,881 thousand and 31 December 2013: €962 thousand).

At 30 June 2016, the average duration of the defined benefit obligation was 17.9 years (31 December 2015: 17.9 years, 31 December 2014: 18.4 years and 31 December 2013: 17.2 years).

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

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

actuarial assumptions used for the valuations of the retirement plans of the Group during the 6 months ended 30 June 2016 and for the years 2015, 2014 and 2013 are set out below:

<u>6 months ended 30 June 2016</u>	<u>Cyprus</u>	<u>Greece</u>	<u>UK</u>
Discount rate	1.23%–1.38%	1.47%	2.90%
Inflation rate	1.75%	1.75%	3.10%
Future salary increases	0% for 2016 and 2% thereafter	0% for 2016 and 2% thereafter	N/a
Rate of pension increase	0% for 2016 and 2% thereafter	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	23.9 years M 25.4 years F
 <u>Year 2015</u>	 <u>Cyprus</u>	 <u>Greece</u>	 <u>UK</u>
Discount rate	2.21%–2.32%	2.30%–2.80%	3.90%
Inflation rate	1.75%	1.75%	3.10%
Future salary increases	0% for 2016 and 2% thereafter	0% for 2016 and 2% thereafter	N/a
Rate of pension increase	0% for 2016 and 2% thereafter	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	23.9 years M 25.4 years F
 <u>Year 2014</u>			
Discount rate	1.87%–2.11%	1.83%–2.30%	3.70%
Inflation rate	1.75%	1.75%	3.10%
Future salary increases	0% for 2015-2016 and 3% thereafter	0% for 2015-2016 and 3% thereafter	N/a
Rate of pension increase	0%–2%	N/a	3.00%
Life expectancy for pensioners at age 60	24.0 years M 30.1 years F	N/a	N/a
Life expectancy for pensioners at age 65	N/a	N/a	23.8 years M 25.3 years F
 <u>Year 2013</u>	 <u>Cyprus</u>	 <u>Greece</u>	 <u>UK</u>
Discount rate	3.47%–3.71%	3.20%–3.76%	4.65%
Inflation rate	2%	2%	3.45%
Future salary increases	0% for 2014–2015, 2% for 2016 and 3% thereafter	0% for 2014–2015, 2% for 2016 and 3% thereafter	N/a
Rate of pension increase	0%–2%	N/a	3.30%
Life expectancy for pensioners at age 60	24.0 years M 30.1 years F	N/a	N/a
Life expectancy for pensioners at age 65	N/a	N/a	23.7 years

Notes to the Historical Financial Information (Continued)

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

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 40% at 30 June 2016 (31 December 2015: 28%, 31 December 2014: 32% and 31 December 2013: 34%) 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 United Kingdom which comprises 60% at 30 June 2016 (31 December 2015: 72%, 31 December 2014: 68% and 31 December 2013: 66%) 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.

A quantitative sensitivity analysis for significant assumptions as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013 is presented below.

Variable	30 June 2016		31 December 2015		31 December 2014		31 December 2013	
	Change +0.5%	Change -0.5%	Change +0.5%	Change -0.5%	Change +0.5%	Change -0.5%	Change +0.5%	Change -0.5%
Discount rate	-8.2%	9.1%	-8.2%	9.1%	-7.9%	8.9%	-7.3%	8.2%
Inflation growth rate .	5.7%	-5.4%	5.7%	-5.4%	5.5%	-5.1%	4.9%	-4.6%
Salary growth rate . .	0.5%	-0.2%	0.5%	-0.2%	0.4%	-0.1%	0.3%	-0.1%
Pension growth rate . .	0.8%	-0.8%	0.8%	-0.8%	0.9%	-0.8%	1.0%	-0.9%
	Plus 1 year	Minus 1 year	Plus 1 year	Minus 1 year	Plus 1 year	Minus 1 year	Plus 1 year	Minus 1 year
Life expectancy	-1.2%	1.6%	-1.2%	1.6%	-1.3%	1.6%	1.5%	-1.2%

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 periods.

Notes to the Historical Financial Information (Continued)

16. Other operating expenses

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Repairs and maintenance of property and equipment	14,000	10,569	25,819	21,383	17,230
Other property-related costs	6,182	5,302	16,934	13,875	17,029
Operating lease rentals for property and equipment	4,837	5,219	10,176	12,618	15,266
Special tax levy on deposits of credit institutions in Cyprus	9,581	8,508	17,347	19,220	20,853
Consultancy and other professional services fees . .	4,326	7,528	16,445	18,601	13,236
Insurance expenses	5,732	7,263	14,941	14,437	8,018
Advertising and marketing	8,104	2,994	13,375	13,488	14,113
Depreciation of property and equipment (Note 27)	5,788	6,159	12,257	13,425	16,539
Amortisation of intangible assets (Note 28)	3,506	3,426	7,001	7,000	11,747
Communication expenses	3,551	3,515	8,543	10,724	8,352
Provisions and settlements of litigations or claims (Note 36)	(191)	2,004	7,604	11,345	6,500
Printing and stationery	1,690	1,956	3,988	5,005	3,464
Local cash transfer expenses	1,406	1,323	2,749	2,457	1,378
Contribution to depositor protection scheme	24	245	381	823	2,266
Other operating expenses	16,061	9,937	24,348	28,217	15,834
	84,597	75,948	181,908	192,618	171,825
Advisory and other restructuring costs	24,959	21,453	43,130	35,864	36,225
	109,556	97,401	225,038	228,482	208,050

In accordance with the existing legislation, the levy is imposed on deposits as at the end of the previous year and is payable in equal quarterly instalments. In order to take into account the significant decrease in bank deposits, specifically for the year 2013, the levy is imposed on deposits as at the end of the previous quarter at the rate of 0.0375% per quarter.

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) disposal of operations and non-core assets and (iii) other expenses including property transfer fees relating to the restructuring process of the Group and costs incurred in closing down branches and operations. For the six months ended 30 June 2016 they also include the fees of external advisors in relation to the contemplated listing on the London Stock Exchange and for the year 2013 they also include the fees of external advisors in relation to the stress-testing exercise and loan diagnostic review.

Notes to the Historical Financial Information (Continued)

16. Other operating expenses (continued)

Consultancy and other professional services fees 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:

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Audit of the financial statements of the Group and its subsidiaries	1,025	583	1,918	1,952	1,980
Other audit-related services	2,718	223	1,890	167	54
Tax services	93	195	488	385	284
Other services	445	405	435	1,276	281
	<u>4,281</u>	<u>1,406</u>	<u>4,731</u>	<u>3,780</u>	<u>2,599</u>
Continuing operations	4,281	1,406	4,633	2,578	2,001
Discontinued operations	—	—	98	1,202	598
	<u>4,281</u>	<u>1,406</u>	<u>4,731</u>	<u>3,780</u>	<u>2,599</u>

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

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Gain on derecognition of loans and advances to customers and changes in expected cash flows	<u>(22,166)</u>	<u>(230,039)</u>	<u>(305,089)</u>	<u>(47,338)</u>	<u>(26,643)</u>
<i>Provisions net of reversals of provisions for impairment of loans and advances to customers and other customer credit losses</i>					
Loans and advances to customers (Note 46)	179,758	467,110	1,305,957	731,232	945,048
Financial guarantees and commitments (Notes 36 & 41)	167	(3,184)	(41,403)	85,751	—
	<u>179,925</u>	<u>463,926</u>	<u>1,264,554</u>	<u>816,983</u>	<u>945,048</u>
<i>Impairment/(reversal of impairment) of the financial instruments</i>					
Available-for-sale debt securities	—	—	—	72	15,898
Available-for-sale equity securities	530	1,228	1,291	7,237	6,627
Available-for-sale mutual funds	56	795	1,206	—	—
Loans and receivables debt securities	—	(167)	(169)	—	—
Loans and advances to banks (Note 46)	13,820	13,470	19,604	18,940	—
Other receivables	(2,625)	15,842	21,571	30,291	—
Deposits by banks	447	—	—	—	—
	<u>12,228</u>	<u>31,168</u>	<u>43,503</u>	<u>56,540</u>	<u>22,525</u>

The gain on derecognition of loans and advances to customers and changes in expected cash flows arose on settlement of loans acquired in 2013 through the acquisition of certain operations of Laiki Bank, at an amount which is higher than their carrying amount on settlement date and on changes in expectations of future cash flows compared to the initial expectations.

Notes to the Historical Financial Information (Continued)

18. Impairment of non-financial instruments

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Property held for own use (Note 27)	—	—	311	1,460	410
Investment in associate	—	—	—	2,078	—
Stock of property (Note 29)	9,362	—	17,792	—	—
Remeasurement of investment in joint venture held for sale at fair value less costs to sell (Note 31)	—	—	—	29,757	—
	<u>9,362</u>	<u>—</u>	<u>18,103</u>	<u>33,295</u>	<u>410</u>

19. Income tax

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Current tax:					
—Cyprus	2,063	1,355	3,271	1,407	2,111
—overseas	1,104	757	1,502	4,822	2,709
Cyprus special defence contribution	31	90	193	159	123
Deferred tax	5,570	7,461	338	4,343	(3,162)
Prior year tax adjustments	2,993	812	3,899	146	(3)
Other tax charges	1,934	—	—	—	—
	<u>13,695</u>	<u>10,475</u>	<u>9,203</u>	<u>10,877</u>	<u>1,778</u>

The Group had no material share of income tax charge from associates for years 2013, 2014 and 2015 as well as for the six month periods ended 30 June 2016 and 30 June 2015 respectively.

The reconciliation between the income tax expense and the profit/(loss) before tax as estimated using the current income tax rates is set out below:

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Profit/(loss) before tax from continuing operations	<u>75,937</u>	<u>98,651</u>	<u>(379,992)</u>	<u>11,716</u>	<u>(515,303)</u>
Income tax at the normal tax rates in Cyprus	<u>9,523</u>	12,421	(47,306)	1,624	(64,248)
Income tax effect of:					
—expenses not deductible for income tax purposes	<u>5,730</u>	4,032	22,368	12,428	21,185
—income not subject to income tax	<u>(16,120)</u>	(7,558)	(20,550)	(18,336)	(5,790)
—change in corporation tax rate in Cyprus	—	—	—	—	(6,526)
—differences between overseas income tax rates and Cyprus income tax rates	<u>1,930</u>	1,864	7,756	15,086	1,734
Reversal of previously recognised deferred tax/ (losses on which deferred tax is not recognised)	<u>7,705</u>	(1,096)	43,036	(71)	55,426
	<u>8,768</u>	9,663	5,304	10,731	1,781
Prior years' income tax adjustments	<u>2,993</u>	812	3,899	146	(3)
Other tax charges	<u>1,934</u>	—	—	—	—
	<u>13,695</u>	<u>10,475</u>	<u>9,203</u>	<u>10,877</u>	<u>1,778</u>

Notes to the Historical Financial Information (Continued)

19. Income tax (continued)

Corporation tax in Cyprus is calculated at the rate of 12.5% on taxable income.

The loss on disposal of the Russian operations and Aphrodite group in 2015 and the Ukrainian operations in 2014 is included in discontinued operations and is partially income tax deductible, whereas the impairment loss on measurement to fair value less costs to sell of the Russian operations, which is also included in discontinued operations, is non-income tax deductible.

The loss on disposal of Greek operations in 2013, included in discontinued operations, is a tax deductible loss.

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% and on interest income from activities outside the ordinary course of business at a rate of 15% until 29 April 2013 and 30% thereafter.

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries. They were as follows for the years 2013, 2014, 2015 and the six months ended 30 June 2016: Greece 26% until 31 December 2014 and 29% thereafter, Romania: 16% throughout, Russia: 20% throughout, UK: 24% until 30 June 2013, 23% from 1 April 2013 until 30 June 2014, 21% from 1 April 2014 until 30 June 2015 and 20% thereafter. The Group has had no operations in Ukraine since 2015 (year 2014: 18% and year 2013: 19%).

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.

Notes to the Historical Financial Information (Continued)

19. 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
	€000	€000	€000
30 June 2016			
Expiring within 4 years	4,699,781	266,800	4,432,981
Expiring between 5 and 10 years	5,959	—	5,959
Expiring between 11 and 15 years	7,378,801	3,336,000	4,042,801
	<u>12,084,541</u>	<u>3,602,800</u>	<u>8,481,741</u>
31 December 2015			
Expiring within 4 years	4,307,396	295,584	4,011,812
Expiring between 5 and 10 years	401,156	—	401,156
Expiring between 11 and 15 years	7,378,801	3,336,000	4,042,801
	<u>12,087,353</u>	<u>3,631,584</u>	<u>8,455,769</u>
31 December 2014			
Expiring within 4 years	4,140,267	297,148	3,843,119
Expiring between 5 and 10 years	216,962	—	216,962
Expiring between 11 and 15 years	7,378,801	3,336,000	4,042,801
No expiry date	6,447	—	6,447
	<u>11,742,477</u>	<u>3,633,148</u>	<u>8,109,329</u>
31 December 2013			
Expiring within 4 years	241,275	18,295	222,980
Expiring between 5 and 10 years	4,303,561	295,584	4,007,977
Expiring between 11 and 15 years	7,378,801	3,336,000	4,042,801
No expiry date	34,923	34,923	—
	<u>11,958,560</u>	<u>3,684,802</u>	<u>8,273,758</u>

The majority of the deferred tax asset relates to the Laiki Bank income tax losses transferred to the Company as a result of the acquisition on 29 March 2013. The income tax losses were transferred under ‘The Resolution of Credit and Other Institutions Law’ which states that any accumulated 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 Group’s acquisition of Laiki Bank, these 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 the Company by 2028 at an income tax rate of 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 Group performed its regular assessment regarding the recoverability of its deferred tax asset as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013 respectively, taking into account the actual results for the periods concerned, the declining trend of loans that are impaired or past due for more than 90 days, the funding structure and considering the loans to deposits ratio, the significant inflow of deposits and the decrease of ELA funding.

The Group performed its assessment for the recoverability of its deferred tax asset taking into account the Group’s actual performance, the improved funding structure with the loans to deposits ratio of 110% at 30 June 2016 the key objective of the Group’s strategy as well as the macroeconomic environment in

Notes to the Historical Financial Information (Continued)

19. Income tax (continued)

Cyprus and the analytical financial projections up to the end of 2018 which had also been used to roll out assumptions thereafter until year 2028. The key assumptions, amongst others, include the following:

- New loan originations and repayments.
- Loan and deposit interest income/expense evolution.
- Funding structure and associated cost.
- Diversified income streams.
- Level of operating expenses, including programme of staff exits.
- Level of loans that are impaired or past due for more than 90 days (new defaults, curing, cost of risk).

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 delinquent loans
- Normalise the funding structure and fully repay the ELA
- Focus on the core markets in Cyprus by providing credit to promising sectors and exit from non-core markets
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital through profitability, deleveraging and disposing of non-core assets
- Deliver value to shareholders and other stakeholders

Based on the above, management has concluded that the deferred tax asset of €451,126 thousand for the Group as at 30 June 2016 is recoverable (31 December 2015: €456,531 thousand, 31 December 2014: €456,871 thousand and 31 December 2013: €479,060 thousand).

No significant income tax losses of prior years were utilised during the six months ended 30 June 2016 and the years 2015, 2014 and 2013.

The income tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Deferred tax

The net deferred tax asset arises from:

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Difference between capital allowances and depreciation	7,841	7,773	6,581	(10,604)
Property revaluation	17,278	16,658	20,722	26,951
Investment revaluation and stock of property	3,807	90	977	(370)
Unutilised income tax losses carried forward	(450,350)	(453,948)	(454,138)	(456,172)
Value of in-force life insurance business	14,271	14,271	14,124	13,483
Other temporary differences	1,238	(568)	(396)	(2,411)
Net deferred tax asset	(405,915)	(415,724)	(412,130)	(429,123)
Deferred tax asset	(451,126)	(456,531)	(456,871)	(479,060)
Deferred tax liability	45,211	40,807	44,741	49,937
Net deferred tax asset	(405,915)	(415,724)	(412,130)	(429,123)

Notes to the Historical Financial Information (Continued)

19. Income tax (continued)

Deferred tax (continued)

The table below sets out the geographical analysis of the deferred tax asset:

	30 June 2016	31 December		
	€000	2015	2014	2013
	€000	€000	€000	€000
Cyprus	(451,126)	(456,531)	(456,581)	(456,563)
United Kingdom	—	—	(190)	(1,578)
Greece	—	—	(38)	(68)
Romania	—	—	(62)	(1,174)
Russia	—	—	—	(18,611)
Romania	—	—	—	(1,066)
Deferred tax asset	(451,126)	(456,531)	(456,871)	(479,060)
Deferred tax liability	45,211	40,807	44,741	49,937
Net deferred tax asset	(405,915)	(415,724)	(412,130)	(429,123)

The movement of the net deferred tax asset is set out below:

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
1 January	(415,724)	(412,130)	(412,130)	(429,123)	(5,597)
Deferred tax recognised in the consolidated income statement—continuing operations	5,570	7,461	338	4,343	(3,162)
Acquisition of subsidiary (Note 54.1.1)	3,807	—	—	—	—
Deferred tax recognised in the consolidated income statement—discontinued operations	—	—	—	13,780	(6,939)
Deferred tax recognised in the consolidated statement of comprehensive income	21	(178)	(3,923)	(234)	(3,145)
Deferred tax related to assets held for sale (Note 31)	—	3,220	—	(3,222)	—
Deferred tax acquired through business combinations (Note 54.6.1)	—	—	—	—	(411,871)
Deferred tax on disposal of subsidiaries	—	—	(510)	392	24
Foreign exchange adjustments	411	172	501	1,934	1,567
30 June/31 December	(405,915)	(401,455)	(415,724)	(412,130)	(429,123)

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.

Notes to the Historical Financial Information (Continued)

19. Income tax (continued)

Deferred tax (continued)

The analysis of the net deferred tax expense/(income) recognised in the consolidated income statement is set out below:

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Difference between capital allowances and depreciation .	256	(90)	1,057	13,953	(5,656)
Investment revaluation	(90)	(995)	(895)	1,672	(1,104)
Unutilised income tax losses carried forward	3,598	8,528	203	1,262	(7,115)
Value of in-force life insurance business	—	18	147	641	2,974
Other temporary differences	1,806	—	(174)	595	800
	<u>5,570</u>	<u>7,461</u>	<u>338</u>	<u>18,123</u>	<u>(10,101)</u>
Continuing operations	5,570	7,461	338	4,343	(3,162)
Discontinued operations	—	—	—	13,780	(6,939)
	<u>5,570</u>	<u>7,461</u>	<u>338</u>	<u>18,123</u>	<u>(10,101)</u>

The analysis of the net deferred tax recognised in the consolidated statement of comprehensive income is set out below:

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Timing differences on property revaluation—(expense)/ income	(21)	178	(3,923)	(234)	(3,106)
Available-for-sale investments	—	—	—	—	(39)
	<u>(21)</u>	<u>178</u>	<u>(3,923)</u>	<u>(234)</u>	<u>(3,145)</u>

Notes to the Historical Financial Information (Continued)

20. Earnings per share

	6 months ended 30 June		Year		
	2016 €000	2015 (unaudited) €000	2015 €000	2014 €000	2013 €000
Basic and diluted earnings/(losses) per share attributable to the owners of the Company					
Profit/(loss) for the period/year attributable to the owners of the Company (€ thousand)	<u>56,372</u>	<u>60,220</u>	<u>(438,352)</u>	<u>(261,157)</u>	<u>(2,056,089)</u>
Weighted average number of shares in issue during the period/year, excluding treasury shares (thousand)	<u>8,919,162</u>	<u>8,905,652</u>	<u>8,911,574</u>	<u>5,922,158</u>	<u>3,597,696</u>
Basic and diluted earnings/(losses) per share (€ cent)	<u>0.6</u>	<u>0.7</u>	<u>(4.9)</u>	<u>(4.4)</u>	<u>(57.2)</u>
Basic and diluted earnings/(losses) per share attributable to the owners of the Company—continuing operations					
Profit/(loss) for the period/year attributable to the owners of the Company—continuing operations (€ thousand)	<u>56,372</u>	<u>89,325</u>	<u>(382,513)</u>	<u>19,162</u>	<u>(513,962)</u>
Weighted average number of shares in issue during the period/year, excluding treasury shares (thousand)	<u>8,919,162</u>	<u>8,905,652</u>	<u>8,911,574</u>	<u>5,922,158</u>	<u>3,597,696</u>
Basic and diluted earnings/(losses) per share—continuing operations (€ cent)	<u>0.6</u>	<u>1.0</u>	<u>(4.3)</u>	<u>0.3</u>	<u>(14.3)</u>
Basic and diluted losses per share attributable to the owners of the Company—discontinued operations					
Loss for the period/year attributable to the owners of the Company (€ thousand)	<u>—</u>	<u>(29,105)</u>	<u>(55,839)</u>	<u>(280,319)</u>	<u>(1,542,127)</u>
Weighted average number of shares in issue during the period/year, excluding treasury shares (thousand)	<u>8,919,162</u>	<u>8,905,652</u>	<u>8,911,574</u>	<u>5,922,158</u>	<u>3,597,696</u>
Basic and diluted losses per share—discontinued operations (€ cent)	<u>—</u>	<u>(0.3)</u>	<u>(0.6)</u>	<u>(4.7)</u>	<u>(42.9)</u>

21. Cash, balances with central banks and loans and advances to banks

	30 June 2016 €000	31 December 2015 €000	31 December 2014 €000	31 December 2013 €000
Cash	<u>158,148</u>	<u>154,017</u>	<u>185,053</u>	<u>155,213</u>
Balances with central banks	<u>1,360,515</u>	<u>1,268,585</u>	<u>954,412</u>	<u>1,084,830</u>
Cash and balances with central banks	<u>1,518,663</u>	<u>1,422,602</u>	<u>1,139,465</u>	<u>1,240,043</u>
Loans and advances to banks	<u>1,174,123</u>	<u>1,314,380</u>	<u>1,646,886</u>	<u>1,290,102</u>

Balances with central banks include obligatory deposits for liquidity purposes as at 30 June 2016 which amount to €126,086 thousand (31 December 2015: €122,807 thousand, 31 December 2014: €484,202 thousand, 31 December 2013: €793,900 thousand).

Notes to the Historical Financial Information (Continued)

21. Cash, balances with central banks and loans and advances to banks (continued)

At 31 December 2013, cash and balances with central banks and loans and advances to banks include balances amounting to €14,842 thousand and €14,049 thousand respectively, which were part of the Ukrainian operations of the Group (Note 54.5.1).

The analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 46.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

22. Investments

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Investments				
Investments at fair value through profit or loss	50,145	50,785	34,347	25,160
Investments available-for-sale	54,567	100,535	53,480	161,258
Investments classified as loans and receivables	211,645	436,935	1,783,309	2,573,437
	<u>316,357</u>	<u>588,255</u>	<u>1,871,136</u>	<u>2,759,855</u>

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Investments pledged as collateral				
Investments available-for-sale	362,291	421,032	669,786	672,809
Investments classified as loans and receivables	161,095	—	—	—
	<u>523,386</u>	<u>421,032</u>	<u>669,786</u>	<u>672,809</u>

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Investments at fair value through profit or loss

	Trading investments				Other investments at fair value through profit or loss				Total			
	30 June 2016	31 December			30 June 2016	31 December			30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000	€000	2015 €000	2014 €000	2013 €000	€000	2015 €000	2014 €000	2013 €000
Debt securities	321	317	1	103	17,187	17,430	17,151	15,549	17,508	17,747	17,152	15,652
Equity securities	3,270	3,832	7,138	2,953	4,350	4,018	991	—	7,620	7,850	8,129	2,953
Mutual funds	8,989	9,205	9,066	6,555	16,028	15,983	—	—	25,017	25,188	9,066	6,555
	12,580	13,354	16,205	9,611	37,565	37,431	18,142	15,549	50,145	50,785	34,347	25,160
Debt securities												
Cyprus government	320	316	—	—	17,187	17,430	17,147	15,413	17,507	17,746	17,147	15,413
Banks and other corporations	1	1	1	103	—	—	4	136	1	1	5	239
	321	317	1	103	17,187	17,430	17,151	15,549	17,508	17,747	17,152	15,652
Listed on the Cyprus Stock Exchange	1	1	1	103	17,187	17,430	17,147	15,413	17,188	17,431	17,148	15,516
Listed on other stock exchanges	320	316	—	—	—	—	4	136	320	316	4	136
	321	317	1	103	17,187	17,430	17,151	15,549	17,508	17,747	17,152	15,652
Equity securities												
Listed on the Cyprus Stock Exchange	2,877	3,384	6,722	2,505	3,582	3,310	427	—	6,459	6,694	7,149	2,505
Listed on other stock exchanges	393	448	416	227	—	—	—	—	393	448	416	227
Unlisted	—	—	—	221	768	708	564	—	768	708	564	221
	3,270	3,832	7,138	2,953	4,350	4,018	991	—	7,620	7,850	8,129	2,953

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Investments at fair value through profit or loss (continued)

The debt securities classified as other investments at fair value through profit or loss were originally classified as such, to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

Mutual funds classified as other investments at fair value through profit or loss represent a group of financial assets managed by the Group and their performance is evaluated on a fair value basis according to the Group's investment strategy. Mutual funds are unlisted and issued in other European countries.

Investments available-for-sale

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Debt securities	400,787	461,934	707,858	733,658
Equity securities	15,802	59,292	14,081	98,606
Mutual funds	269	341	1,327	1,803
	<u>416,858</u>	<u>521,567</u>	<u>723,266</u>	<u>834,067</u>
Debt securities				
Cyprus government	4,479	4,478	204	1,423
French government	293,500	290,205	489,606	476,819
Other governments	68,858	130,832	186,881	191,739
Banks and other corporations	33,950	36,419	31,167	63,362
Local authorities	—	—	—	315
	<u>400,787</u>	<u>461,934</u>	<u>707,858</u>	<u>733,658</u>
Listed on the Cyprus Stock Exchange	4,479	4,478	263	7,256
Listed on other stock exchanges	396,308	457,456	707,595	726,086
Unlisted certificates of deposit, bank and local authority bonds	—	—	—	316
	<u>400,787</u>	<u>461,934</u>	<u>707,858</u>	<u>733,658</u>
<i>Geographic dispersion by country of issuer</i>				
Cyprus	4,479	4,478	263	7,571
France	293,500	290,205	489,606	476,818
Germany	45,631	45,686	59,011	58,258
Italy	23,227	23,234	53,572	52,211
United Kingdom	—	—	6,191	6,365
Other European countries	—	61,912	74,297	106,175
European Financial Stability Facility and European Investment Fund	12,212	11,928	14,640	14,617
Ukraine	—	—	1	1
Supranational organisations	9,675	10,890	10,277	9,590
Other countries	12,063	13,601	—	2,052
	<u>400,787</u>	<u>461,934</u>	<u>707,858</u>	<u>733,658</u>
Equity securities				
Listed on the Cyprus Stock Exchange	5,869	5,427	12,025	8,725
Listed on other stock exchanges	345	271	1,471	87,318
Unlisted	9,588	53,594	585	2,563
	<u>15,802</u>	<u>59,292</u>	<u>14,081</u>	<u>98,606</u>

At 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Investments available-for-sale (continued)

The available-for-sale unlisted equity securities as at 31 December 2015 mainly relate to shares held by the BOC Group in Visa Europe, as revalued following the announcement of the acquisition by Visa Inc. in 2015. As at 30 June 2016, available-for-sale unlisted equity securities mainly relate to shares held by the BOC Group in Visa Inc. following completion of the acquisition of Visa Europe.

Available-for-sale mutual funds are unlisted and issued in other countries.

Investments classified as loans and receivables

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Debt securities	<u>372,740</u>	<u>436,935</u>	<u>1,783,309</u>	<u>2,573,437</u>
Cyprus government	372,740	436,935	1,782,998	2,572,940
Banks and other corporations	—	—	311	300
Local authorities	—	—	—	197
	<u>372,740</u>	<u>436,935</u>	<u>1,783,309</u>	<u>2,573,437</u>
Listed on the Cyprus Stock Exchange	372,740	436,935	1,783,309	2,573,240
Unlisted certificates of deposit, bank and local authority bonds	—	—	—	197
	<u>372,740</u>	<u>436,935</u>	<u>1,783,309</u>	<u>2,573,437</u>
<i>Geographic dispersion by country of issuer</i>				
Cyprus	<u>372,740</u>	<u>436,935</u>	<u>1,783,309</u>	<u>2,573,437</u>

Loans and receivables at 30 June 2016 include €150,825 thousand (31 December 2015: €146,444 thousand, 31 December 2014: €169,365 thousand and 31 December 2013: €169,073 thousand) of debt securities which have been determined to be individually impaired.

Reclassification of investments

Reclassification of trading investments to loans and receivables

On 1 April 2010, in light of the crisis prevailing in global markets, the Group identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading investments to loans and receivables.

Reclassification of available-for-sale investments to loans and receivables

On 1 October 2008 and 30 June 2011 the Group reclassified certain available-for-sale debt securities to investments classified as loans and receivables, in view of the fact that there was no active market for these debt securities and the Group had the intention and ability to hold these securities in the foreseeable future.

Reclassification of held-to-maturity investments to available-for-sale investments

On 1 November 2012, the Group reassessed its policies in respect of the management of its investment portfolio in view of its efforts to strengthen its liquidity and capital adequacy ratios and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Group's accounting policies and IFRSs, the Group was not allowed to classify any investments as held-to-maturity until November 2014.

There were no reclassifications during 2013, 2014, 2015 and the 6 months ended 30 June 2016.

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date €000	30 June 2016		31 December 2015		Six months ended 30 June 2016		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the debt securities not been reclassified	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified	
			€000	€000	€000	€000	€000	€000	
Reclassification of available-for-sale investments to:									
—loans and receivables	1 October 2008	129,497	123,229	127,131	119,683	126,913	—	3,902	4.6%–4.7%
—loans and receivables	30 June 2011	59,130	68,824	65,481	69,813	66,447	—	(3,343)	2.8%–6.3%
Reclassification of held-to-maturity investments to:									
—available-for-sale	1 November 2012	10,237	10,186	10,186	10,375	10,375	—	—	0.4%–3.1%

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Reclassification of investments (continued)

	Reclassification date	Carrying and fair value on reclassification date €000	31 December 2015		31 December 2014		Year 2015		Effective interest rate on reclassification date
			Carrying value €000	Fair value €000	Carrying value €000	Fair value €000	Additional profit in the income statement had the debt securities not been reclassified €000	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified €000	
Reclassification of trading investments to:									
—loans and receivables	1 April 2010	34,810	35,255	35,227	36,722	35,056	171	—	1.2%–4.4%
Reclassification of available-for-sale investments to:									
—loans and receivables	1 October 2008	129,497	119,683	126,913	120,235	120,289	—	7,230	4.6%–4.7%
—loans and receivables	30 June 2011	151,967	90,600	87,327	92,613	84,046	—	(3,273)	2.8%–6.3%
Reclassification of held-to-maturity investments to:									
—available-for-sale	1 November 2012	42,151	41,763	41,763	43,358	43,358	—	—	0.4%–3.1%

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Reclassification of investments (continued)

	Reclassification date	Carrying and fair value on reclassification date €000	31 December 2014		31 December 2013		Year 2014		Effective interest rate on reclassification date
			Carrying value €000	Fair value €000	Carrying value €000	Fair value €000	Additional profit in the income statement had the debt securities not been reclassified €000	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified €000	
Reclassification of trading investments to:									
—loans and receivables	1 April 2010	34,810	36,722	35,056	38,059	32,204	2,852	—	1.2%–4.4%
Reclassification of available-for-sale investments to:									
—loans and receivables	1 October 2008	154,248	156,566	156,728	156,283	136,809	—	162	4.6%–4.7%
—loans and receivables	30 June 2011	155,249	174,785	165,977	176,586	149,088	—	(8,808)	2.8%–6.3%
Reclassification of held-to-maturity investments to:									
—available-for-sale	1 November 2012	72,794	73,813	73,813	75,160	75,160	—	—	0.4%–3.1%

Notes to the Historical Financial Information (Continued)

22. Investments (continued)

Reclassification of investments (continued)

	Reclassification date	Carrying and fair value on reclassification date	31 December 2013		Year 2013		Effective interest rate on reclassification date
			Carrying value	Fair value	Additional profit in the income statement had the debt securities not been reclassified	Additional loss in other comprehensive income had the debt securities not been reclassified	
Reclassification of trading investments to:							
—loans and receivables	1 April 2010	34,810	38,059	32,204	4,098	—	1.2%–4.4%
Reclassification of available-for-sale investments to:							
—loans and receivables	1 October 2008	163,407	164,875	145,171	—	(19,704)	4.6%–4.7%
—loans and receivables	30 June 2011	164,035	185,666	158,170	—	(27,496)	2.8%–6.3%
Reclassification of held-to-maturity investments to:							
—available-for-sale	1 November 2012	103,067	105,698	105,698	—	—	0.4%–3.1%

Notes to the Historical Financial Information (Continued)

23. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	30 June 2016			31 December 2015			31 December 2014			31 December 2013		
	Contract amount	Fair value		Contract amount	Fair value		Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Trading derivatives												
Forward exchange rate contracts	23,385	398	299	90,870	1,113	2,103	108,599	18,927	433	139,847	109	2,674
Currency swaps	1,721,844	9,674	10,636	1,484,763	12,235	5,720	1,268,923	22,623	7,196	1,723,306	3,778	15,465
Interest rate swaps	284,671	391	2,113	34,511	141	2,305	205,661	11,930	3,773	517,264	4,203	11,407
Currency options	12,696	123	490	175	8	167	995	76	919	—	—	—
Equity options	—	—	—	1,515	477	441	3,113	580	346	4,295	1,591	1,485
Interest rate caps/floors	—	2	—	6,562	—	53	10,388	—	153	6,574	11	250
GDP warrant securities	—	—	—	—	—	—	1,208	13	—	1,622,997	19,073	—
	<u>2,042,596</u>	<u>10,588</u>	<u>13,538</u>	<u>1,618,396</u>	<u>13,974</u>	<u>10,789</u>	<u>1,598,887</u>	<u>54,149</u>	<u>12,820</u>	<u>4,014,283</u>	<u>28,765</u>	<u>31,281</u>
Derivatives qualifying for hedge accounting												
Fair value hedges—interest rate swaps	370,900	—	45,499	425,900	45	39,570	674,883	—	59,147	674,888	—	47,090
Net investments—forward exchange rate contracts	175,736	3,715	—	151,246	4	4,040	60,616	8,449	—	126,936	—	5,523
	<u>546,636</u>	<u>3,715</u>	<u>45,499</u>	<u>577,146</u>	<u>49</u>	<u>43,610</u>	<u>735,499</u>	<u>8,449</u>	<u>59,147</u>	<u>801,824</u>	<u>—</u>	<u>52,613</u>
Total	<u>2,589,232</u>	<u>14,303</u>	<u>59,037</u>	<u>2,195,542</u>	<u>14,023</u>	<u>54,399</u>	<u>2,334,386</u>	<u>62,598</u>	<u>71,967</u>	<u>4,816,107</u>	<u>28,765</u>	<u>83,894</u>

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.

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.

Notes to the Historical Financial Information (Continued)

23. Derivative financial instruments (continued)

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 purchase 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.

GDP warrant securities were GDP-linked securities issued by the Greek government as part of the exchange offer of the Greek Government Bonds in March 2012 and they were sold in January and February 2014.

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 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.

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 available-for-sale debt securities 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

Notes to the Historical Financial Information (Continued)

23. Derivative financial instruments (continued)

Hedge accounting (continued)

Hedges of net investments (continued)

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.

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Deposit contract designated as hedging instruments . . .	<u>164,994</u>	<u>178,101</u>	<u>249,967</u>	<u>346,725</u>
Forward exchange contracts designated as hedging instrument	<u>175,736</u>	<u>151,246</u>	<u>60,616</u>	<u>126,936</u>

The resulting gains recognised in the OCI for the six months ended 30 June 2016 amounted to €36,286 thousand (corresponding period of 2015: gain of €7,771 thousand; year 2015: loss of €22,860 thousand; year 2014: gain of €2,580 thousand and year 2013: €28,257 thousand).

The gains/(losses) recognised in the OCI were presented within 'Foreign currencies transaction reserve' against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches and other foreign operations.

24. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	30 June 2016		31 December 2015		31 December 2014		31 December 2013	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	€000	€000	€000	€000	€000	€000	€000	€000
Financial assets								
Cash and balances with central banks	1,518,663	1,518,663	1,422,602	1,422,602	1,139,465	1,139,465	1,240,043	1,240,043
Loans and advances to banks	1,174,123	1,137,415	1,314,380	1,303,414	1,646,886	1,620,413	1,290,102	1,192,513
Investments at fair value through profit or loss . . .	50,145	50,145	50,785	50,785	34,347	34,347	25,160	25,160
Investments available-for-sale	416,858	416,858	521,567	521,567	723,266	723,266	834,067	834,067
Investments classified as loans and receivables . . .	372,740	375,516	436,935	445,521	1,783,309	1,861,909	2,573,437	2,593,941
Derivative financial assets	14,303	14,303	14,023	14,023	62,598	62,598	28,765	28,765
Loans and advances to customers	16,253,237	17,151,351	17,191,632	18,150,401	18,168,323	18,365,310	21,764,338	20,888,492
Life insurance business assets attributable to policyholders	467,509	467,509	462,613	462,613	459,912	459,912	430,119	430,119
Financial assets included in disposal groups held for sale	—	—	—	—	673,104	624,961	—	—
Other assets	160,869	160,869	179,661	179,661	196,739	196,739	217,421	217,421
	<u>20,428,447</u>	<u>21,292,629</u>	<u>21,594,198</u>	<u>22,550,587</u>	<u>24,887,949</u>	<u>25,088,920</u>	<u>28,403,452</u>	<u>27,450,521</u>
Financial liabilities								
Obligations to central banks and deposits by banks	3,443,429	3,443,429	4,694,987	4,694,987	8,446,161	8,446,161	11,153,191	11,153,191
Repurchase agreements	398,408	443,254	368,151	406,014	579,682	592,113	594,004	596,006
Derivative financial liabilities	59,037	59,037	54,399	54,399	71,967	71,967	83,894	83,894
Customer deposits	14,746,473	14,738,239	14,180,681	14,185,996	12,623,558	12,609,522	14,971,167	14,895,350
Debt securities in issue	—	—	712	712	693	693	1,023	1,023
Subordinated loan stock	—	—	—	—	—	—	4,676	4,101
Financial liabilities included in disposal groups held for sale	—	—	—	—	579,930	578,666	—	—
Other liabilities	178,205	178,205	141,357	141,357	172,186	172,186	98,576	98,576
	<u>18,825,552</u>	<u>18,862,164</u>	<u>19,440,287</u>	<u>19,483,465</u>	<u>22,474,177</u>	<u>22,471,308</u>	<u>26,906,531</u>	<u>26,832,141</u>

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.

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

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 the Company's own credit quality respectively.

The Group calculates the CVA by applying the probability of default ("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 loss given default ("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 available-for-sale and other investments at fair value through profit or loss

Available-for-sale investments and investments at fair value through profit or loss 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.

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 funding cost and the cost of capital.

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 the Company. The fair values of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

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.

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.

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.

Notes to the Historical Financial Information (Continued)

24. 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:

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
30 June 2016				
Assets measured at fair value				
<i>Investment properties</i>				
Offices and other commercial properties	—	—	21,871	21,871
Manufacturing and industrial	—	—	1,164	1,164
Land (plots)	—	—	14,470	14,470
	<u>—</u>	<u>—</u>	<u>37,505</u>	<u>37,505</u>
<i>Investment properties held for sale</i>				
Residential				
Offices and other commercial properties	—	359	3,072	3,431
Hotels	—	—	8,029	8,029
	<u>—</u>	<u>359</u>	<u>11,101</u>	<u>11,460</u>
<i>Freehold property</i>				
Offices and other commercial properties	—	10,847	248,455	259,302
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	398	—	398
Currency swaps	—	9,674	—	9,674
Interest rate swaps	—	391	—	391
Currency options	—	123	—	123
Interest rate caps/floors	—	2	—	2
Equity options	—	—	—	—
	<u>—</u>	<u>10,588</u>	<u>—</u>	<u>10,588</u>
<i>Derivatives qualifying for hedge accounting</i>				
Net investments—forward exchange rate contracts	—	3,715	—	3,715
	<u>—</u>	<u>3,715</u>	<u>—</u>	<u>3,715</u>
<i>Investments at fair value through profit or loss</i>				
Trading investments	11,851	—	729	12,580
Other investments at fair value through profit or loss	19,610	17,687	268	37,565
	<u>31,461</u>	<u>17,687</u>	<u>997</u>	<u>50,145</u>
<i>Investments available-for-sale</i>	406,418	41	10,399	416,858
	<u>437,879</u>	<u>43,237</u>	<u>308,457</u>	<u>789,573</u>
Other financial assets not measured at fair value				
Loans and advances to banks	—	1,137,415	—	1,137,415
Loans and receivables—investments	—	365,524	—	365,524
Loans and advances to customers	—	—	17,151,351	17,151,351
	<u>—</u>	<u>1,502,939</u>	<u>17,151,351</u>	<u>18,654,290</u>
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	299	—	299
Currency swaps	—	10,636	—	10,636
Interest rate swaps	—	2,113	—	2,113
Currency options	—	490	—	490
	<u>—</u>	<u>13,538</u>	<u>—</u>	<u>13,538</u>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges—interest rate swaps	—	45,499	—	45,499
	<u>—</u>	<u>45,499</u>	<u>—</u>	<u>45,499</u>
	<u>—</u>	<u>59,037</u>	<u>—</u>	<u>59,037</u>
Other financial liabilities not measured at fair value				
Deposits by banks	—	342,762	—	342,762
Repurchase agreements	—	443,254	—	443,254
Customer deposits	—	—	14,738,239	14,738,239
	<u>—</u>	<u>786,016</u>	<u>14,738,239</u>	<u>15,524,255</u>

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
31 December 2015				
Assets measured at fair value				
<i>Investment properties</i>				
Offices and other commercial properties	—	—	20,325	20,325
Manufacturing and industrial	—	—	583	583
Land (plots)	—	—	13,720	13,720
	<u>—</u>	<u>—</u>	<u>34,628</u>	34,628
<i>Investment properties held for sale</i>				
Residential	—	2,095	—	2,095
Offices and other commercial properties	—	5,222	6,552	11,774
Hotels	—	—	8,466	8,466
	<u>—</u>	<u>7,317</u>	<u>15,018</u>	22,335
<i>Freehold property</i>				
Offices and other commercial properties	—	12,364	227,945	240,309
<i>Freehold property held for sale</i>				
Hotels	—	—	25,400	25,400
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	1,113	—	1,113
Currency swaps	—	12,235	—	12,235
Interest rate swaps	—	141	—	141
Currency options	—	8	—	8
Equity options	—	477	—	477
	<u>—</u>	<u>13,974</u>	<u>—</u>	13,974
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	—	45	—	45
Net investments-forward exchange rate contracts	—	4	—	4
	<u>—</u>	<u>49</u>	<u>—</u>	49
<i>Investments at fair value through profit or loss</i>				
Trading investments	12,865	—	489	13,354
Other investments at fair value through profit or loss	19,293	17,905	233	37,431
	<u>32,158</u>	<u>17,905</u>	<u>722</u>	50,785
<i>Investments available-for-sale</i>	466,995	41	54,531	521,567
	<u>499,153</u>	<u>51,650</u>	<u>358,244</u>	<u>909,047</u>
Other financial assets not measured at fair value				
Loans and advances to banks	—	1,303,414	—	1,303,414
Loans and receivables—investments	—	424,070	—	424,070
Loans and advances to customers	—	—	18,150,401	18,150,401
	<u>—</u>	<u>1,727,484</u>	<u>18,150,401</u>	<u>19,877,885</u>

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

At 30 June 2016, for available-for-sale equity securities of an amount €7,862 thousand (31 December 2015: €51,263 thousand) classified as Level 3, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €786 thousand (31 December 2015: €750 thousand).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	€000	€000	€000	€000
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	2,103	—	2,103
Currency swaps	—	5,720	—	5,720
Interest rate swaps	—	2,305	—	2,305
Currency options	—	167	—	167
Equity options	—	441	—	441
Interest rate caps/floors	—	53	—	53
	<u>—</u>	<u>10,789</u>	<u>—</u>	<u>10,789</u>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	—	39,570	—	39,570
Net investments-forward exchange rate contracts	—	4,040	—	4,040
	<u>—</u>	<u>43,610</u>	<u>—</u>	<u>43,610</u>
	<u>—</u>	<u>54,399</u>	<u>—</u>	<u>54,399</u>
Other financial liabilities not measured at fair value				
Deposits by banks	—	242,137	—	242,137
Repurchase agreements	—	406,014	—	406,014
Customer deposits	—	—	14,185,996	14,185,996
	<u>—</u>	<u>648,151</u>	<u>14,185,996</u>	<u>14,834,147</u>

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
31 December 2014				
Assets measured at fair value				
<i>Investment properties</i>				
Residential	—	—	94,382	94,382
Offices and other commercial properties	—	—	151,897	151,897
Manufacturing and industrial	—	—	60,692	60,692
Hotels	—	—	95,203	95,203
Land (fields and plots)	—	—	86,031	86,031
Properties under construction	—	—	393	393
	<u>—</u>	<u>—</u>	<u>488,598</u>	<u>488,598</u>
<i>Investment properties held for sale</i>				
Residential	—	—	5,090	5,090
Offices and other commercial properties	—	—	6,146	6,146
Manufacturing and industrial	—	—	5,816	5,816
Hotels	—	—	4,283	4,283
Land (fields and plots)	—	—	23,105	23,105
Properties under construction	—	—	126	126
	<u>—</u>	<u>—</u>	<u>44,566</u>	<u>44,566</u>
<i>Freehold property</i>				
Offices and other commercial properties	—	11,939	251,491	263,430
<i>Freehold property held for sale</i>				
Hotels	—	—	25,681	25,681
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	18,927	—	18,927
Currency swaps	—	22,623	—	22,623
Interest rate swaps	—	11,930	—	11,930
Currency options	—	76	—	76
Equity options	—	580	—	580
GDP warrant securities	—	13	—	13
	<u>—</u>	<u>54,149</u>	<u>—</u>	<u>54,149</u>
<i>Derivatives designated as net investment hedges</i>				
Forward exchange rate contracts	—	8,449	—	8,449
<i>Investments at fair value through profit or loss</i>				
Trading investments	16,205	—	—	16,205
Other investments at fair value through profit or loss	431	17,711	—	18,142
	<u>16,636</u>	<u>17,711</u>	<u>—</u>	<u>34,347</u>
<i>Investments available-for-sale</i>	719,373	205	3,688	723,266
	<u>736,009</u>	<u>92,453</u>	<u>814,024</u>	<u>1,642,486</u>
Other financial assets not measured at fair value				
Loans and advances to banks	—	1,620,413	—	1,620,413
Loans and receivables—investments	—	1,682,511	—	1,682,511
Loans and advances to customers	—	—	18,365,310	18,365,310
	<u>—</u>	<u>3,302,924</u>	<u>18,365,310</u>	<u>21,668,234</u>
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	433	—	433
Currency swaps	—	7,196	—	7,196
Interest rate swaps	—	3,773	—	3,773
Currency options	—	919	—	919
Equity options	—	346	—	346
Interest rate caps/floors	—	153	—	153
	<u>—</u>	<u>12,820</u>	<u>—</u>	<u>12,820</u>
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	—	59,147	—	59,147
	<u>—</u>	<u>71,967</u>	<u>—</u>	<u>71,967</u>
Other financial liabilities not measured at fair value				
Deposits by banks	—	162,388	—	162,388
Repurchase agreements	—	592,113	—	592,113
Customer deposits	—	—	12,609,522	12,609,522
	<u>—</u>	<u>754,501</u>	<u>12,609,522</u>	<u>13,364,023</u>

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
31 December 2013				
Assets measured at fair value				
<i>Investment properties</i>				
Residential	—	—	113,126	113,126
Offices and other commercial properties	—	—	142,511	142,511
Manufacturing and industrial	—	—	57,655	57,655
Hotels	—	—	57,640	57,640
Land (fields and plots)	—	—	124,107	124,107
Properties under construction	—	—	619	619
	<u>—</u>	<u>—</u>	<u>495,658</u>	<u>495,658</u>
<i>Freehold property</i>				
Offices and other commercial properties	—	6,978	361,984	368,962
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	109	—	109
Currency swaps	—	3,778	—	3,778
Interest rate swaps	—	4,203	—	4,203
Equity options	—	1,591	—	1,591
Interest rate caps/floors	—	11	—	11
GDP warrant securities	—	19,073	—	19,073
	<u>—</u>	<u>28,765</u>	<u>—</u>	<u>28,765</u>
<i>Investments at fair value through profit or loss</i>				
Trading investments	2,941	6,670	—	9,611
Other investments at fair value through profit or loss	136	15,413	—	15,549
	<u>3,077</u>	<u>22,083</u>	<u>—</u>	<u>25,160</u>
<i>Investments available-for-sale</i>	827,045	2,714	4,308	834,067
	<u>830,122</u>	<u>60,540</u>	<u>861,950</u>	<u>1,752,612</u>
Other financial assets not measured at fair value				
Loans and advances to banks	—	1,192,513	—	1,192,513
Loans and receivables—investments	—	2,394,938	—	2,394,938
Loans and advances to customers	—	—	20,888,492	20,888,492
	<u>—</u>	<u>3,587,451</u>	<u>20,888,492</u>	<u>24,475,943</u>
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	2,674	—	2,674
Currency swaps	—	15,465	—	15,465
Interest rate swaps	—	11,407	—	11,407
Currency options	—	—	—	—
Equity options	—	1,485	—	1,485
Interest rate caps/floors	—	250	—	250
	<u>—</u>	<u>31,281</u>	<u>—</u>	<u>31,281</u>
<i>Derivatives designated as fair value hedges</i>				
Interest rate swaps	—	47,090	—	47,090
<i>Derivatives for fair value of net investments</i>				
Forward exchange rate contracts	—	5,523	—	5,523
	<u>—</u>	<u>52,613</u>	<u>—</u>	<u>52,613</u>
	<u>—</u>	<u>83,894</u>	<u>—</u>	<u>83,894</u>
Other financial liabilities not measured at fair value (represented)				
Deposits by banks	—	196,914	—	196,914
Repurchase agreements	—	596,006	—	596,006
Customer deposits	—	—	14,895,350	14,895,350
	<u>—</u>	<u>792,920</u>	<u>14,895,350</u>	<u>15,688,270</u>

The cash and balances with central banks, the funding from central banks and the treasury bills 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.

During the six months ended 30 June 2016 and years 2015, 2014 and 2013 there were no significant transfers between Level 1 and Level 2.

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

The movement in Level 3 assets which are measured at fair value is presented below:

	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Financial instruments
	€000	€000	€000	€000	€000
30 June 2016					
1 January	34,628	15,018	227,945	25,400	55,253
Additions	755	—	1,324	10	7,863
Acquisition of subsidiary (Note 54.1.1)	—	—	20,308	—	—
Disposals and write offs	—	(3,480)	—	(25,410)	(51,263)
Net losses from fair value changes recognised in the consolidated statement of other comprehensive income	—	—	—	—	(21,115)
Realised gains recognised in the consolidated income statement	—	—	—	—	20,859
Depreciation charge for the period—continuing operations	—	—	(1,120)	—	—
Revaluation gains/(losses)—continuing operations	1,988	(442)	—	—	—
Foreign exchange adjustments	134	5	(2)	—	(201)
30 June	37,505	11,101	248,455	—	11,396
31 December 2015					
1 January	488,598	44,566	251,491	25,681	3,688
Additions	114,404	1,927	1,456	—	339
Disposals and write offs	(13,923)	(18,238)	(191)	—	(45)
Disposal of Russian operations	—	(31,051)	—	—	—
Transfer from own use properties to investment properties (Note 27)	16,782	—	(16,782)	—	—
Transfer to stock of property (Note 29)	(492,927)	(247)	(541)	—	—
Transfer from non-current assets and disposal groups held for sale (Note 27)	—	—	25,681	(25,681)	—
Transfer to non-current assets and disposal groups held for sale (Notes 27 & 31)	(21,908)	21,908	(25,400)	25,400	—
Transfers (to)/from Levels 1 and 2	(7,317)	—	—	—	321
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	—	—	—	—	50,695
Depreciation charge for the year—continuing operations	—	—	(2,688)	—	—
Impairment charge for the year—continuing operations	—	—	(311)	—	—
Revaluation losses—continuing operations	(49,801)	(2,774)	(4,795)	—	—
Foreign exchange adjustments	720	(1,073)	25	—	255
31 December	34,628	15,018	227,945	25,400	55,253
31 December 2014					
1 January	495,658	—	361,984	—	4,308
Additions	117,257	—	2,950	—	—
Disposals and write offs	(19,531)	(1,975)	(530)	—	(855)
Disposal of Ukrainian operations	(34,395)	—	—	—	—
Transfer from own use properties to investment properties (Note 27)	19,847	—	(19,847)	—	—
Transfer to stock of property (Note 29)	(893)	—	—	—	—
Transfer to non-current assets and disposal groups held for sale (Notes 27 & 31)	(46,841)	46,841	(65,764)	65,764	—
Transfer to equipment (Note 27)	(277)	—	—	—	—
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	—	—	—	—	416
Depreciation charge for the year—continuing operations	—	—	(2,609)	—	—
Depreciation charge for the year—discontinued operations	—	—	(1,655)	—	—
Impairment charge for the year—continuing operations	—	—	(1,460)	—	(181)
Impairment loss on measurement at fair value less costs to sell—discontinued operations	—	—	—	(57,579)	—
Revaluation (losses)/gains—continuing operations	(11,771)	(300)	3,028	—	—
Revaluation gains—discontinued operations	949	—	212	—	—
Foreign exchange adjustments	(31,405)	—	(24,818)	17,496	—
31 December	488,598	44,566	251,491	25,681	3,688

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

	<u>Investment properties</u>	<u>Own use properties</u>	<u>Financial instruments</u>
	€000	€000	€000
31 December 2013			
1 January	316,378	412,198	496
Acquired through business combinations	184,732	103,198	5,314
Additions	28,728	15,848	—
Disposals and write offs	(4,406)	(5,989)	(104)
Disposal of Ukrainian operations	—	(73,750)	—
Transfer from own use properties to investment properties (Note 27)	55,096	(55,096)	—
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	—	—	(603)
Realised losses recognised in the consolidated income statement	—	—	(795)
Depreciation charge for the year—continuing operations	—	(2,487)	—
Depreciation charge for the year—discontinued operations	—	(2,141)	—
Impairment charge for the year—continuing operations	—	(192)	—
Impairment loss on measurement at fair value less costs to sell—discontinued operations	—	(4,755)	—
Revaluation losses—continuing operations	(75,428)	(16,417)	—
Revaluation losses—discontinued operations	(2,775)	—	—
Foreign exchange adjustments	(6,667)	(8,433)	—
31 December	<u><u>495,658</u></u>	<u><u>361,984</u></u>	<u><u>4,308</u></u>

Valuation policy and sensitivity analysis

Financial instruments

The valuation policy for Level 3 financial instruments is defined and approved by the Group ALCO committee.

Investment properties, investment properties held for sale and own use properties

The valuation methodology for properties is determined by the Group's Property and Valuations Department. 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.

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	30 June 2016 €000	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 m ²	Building area m ²	Age of building Years
Offices and other commercial properties										
Cyprus	24,635	€54–€457	n/a	€798–€1,130	4%–6%	€1,060–€7,059	€80–€1,053	1,591–30,001	68–7,078	5–32
UK	359	€100	n/a	n/a	n/a	€1,182	n/a	n/a	304	86
Russia	308	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	<u>25,302</u>									
Manufacturing and industrial										
Russia	<u>1,164</u>	n/a	n/a	n/a	n/a	n/a	n/a	1,534–2,926	998–2,528	n/a
Hotels										
Romania	<u>8,029</u>	n/a	n/a	n/a	n/a	n/a	n/a	10,337	4,789	41
Land (fields and plots)										
Cyprus	<u>14,470</u>	n/a	n/a	n/a	n/a	n/a	€374–€750	4,627–29,398	n/a	n/a
Total	<u>48,965</u>									

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and country	30 June 2016 €000	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 m ²	Building area m ²	Age of building Years
Offices and other commercial properties										
Cyprus	234,752	€23–€434	n/a	€674–€2,422	5%–6%	€566–€8,860	€139–€3,007	390–53,155	94–10,985	9–37
Romania	4,113	n/a	n/a	n/a	n/a	n/a	n/a	648	2,284	n/a
UK	10,847	€160–€596	5%–6%	n/a	5%–7%	€2,401–€12,416	n/a	173–1,740	173–1,689	Re- furnished in 2009
	<u>249,712</u>									
Land										
Cyprus	9,590	n/a	n/a	n/a	n/a	€400	€400	11,267–12,708	n/a	n/a
Total	<u><u>259,302</u></u>									

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	31 December 2015	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 m ²	Building area m ²	Age of building Years
	€000									
Residential										
UK	2,095	€548	n/a	n/a	n/a	€12,965	n/a	n/a	156	46
Offices and other commercial properties										
Cyprus	24,427	€54–€353	n/a	€658–€1,302	4%–6%	€1,060–€7,059	€95–€1,053	1,591–30,001	68–4,788	5–32
Greece	2,450	€480	n/a	n/a	7%–10%	€3,926	n/a	447	624	8
UK	5,222	€110–€230	n/a	n/a	n/a	€1,013–€3,123	n/a	n/a	233–954	26–116
	<u>32,099</u>									
Manufacturing and industrial										
Russia	583	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hotels										
Romania	8,466	n/a	n/a	n/a	n/a	n/a	n/a	10,337	4,789	40
Land (fields and plots)										
Cyprus	13,720	n/a	n/a	n/a	n/a	n/a	€248–€750	4,627–29,398	n/a	n/a
Total	<u>56,963</u>									

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and country	31 December 2015 €000	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 m ²	Building area m ²	Age of building Years
Offices and other commercial properties										
Cyprus	224,479	€23–€434	n/a	€674–€2,102	5%–6%	€566–€8,860	€139–€3,007	390–53,155	94–10,985	8–36
Romania	3,466	n/a	n/a	n/a	n/a	n/a	n/a	648	2,284	n/a
UK	12,364	€181–€671	5%–6%	n/a	5%–7%	€2,704–€13,982	n/a	173–1,740	173–1,689	Re-furbished in 2009
Total	240,309									

Analysis of own use properties held for sale

Type and country	31 December 2015 €000	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 m ²	Building area m ²	Age of building Years
Offices and other commercial properties										
Cyprus	25,400	n/a	n/a	n/a	n/a	2,485	n/a	91,887	10,222	33

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	31 December 2014	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 m ²	Building area m ²	Age of building Years
	€000									
Residential										
Cyprus	19,966	€13–€166	n/a	€268–€1,186	n/a	€219–€3,495	€50–€1,350	335–8,057	41–2,526	5–54
Greece	46,896	€28	n/a	€77–€663	9%	€22–€2,894	€8–€400	114–26,896	3–10,441	2–79
Romania	27,520	n/a	n/a	n/a	n/a	€689–€1,379	€6–€974	237–38,717	43–24,753	5–77
Russia	5,090	n/a	n/a	n/a	n/a	€48–€2,038	n/a	301–3,500	28–800	n/a
	99,472									
Offices and other commercial properties										
Cyprus	90,375	€32–€353	n/a	€239–€1,140	4%–6%	€495–€7,059	€98–€6,651	175–9,948	54–15,265	10–52
Greece	60,317	€6–€635	n/a	€92–€318	6%–10%	€33–€8,028	€20–€300	265–8,582	17–5,743	4–70
Romania	1,200	€72	n/a	n/a	16%	€318	n/a	1,372	3,772	34
UK	1,315	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Russia	4,836	n/a	n/a	n/a	n/a	€61–€1,314	n/a	270–5,307	18–1,940	n/a
	158,043									
Manufacturing and industrial										
Cyprus	9,506	€24–€141	n/a	€243–€1,300	5%–7%	€850–€1,658	€65–€1,350	664–25,497	664–5,250	30
Greece	51,186	€6–€36	11%	€46–€422	8%–11%	€12–€949	€1–€200	451–136,620	300–27,146	3–68
Russia	5,816	n/a	n/a	n/a	n/a	€10–€747	n/a	29–11,582	17–10,167	n/a
	66,508									
Hotels										
Cyprus	77,075	n/a	n/a	€739	4%–5%	€518–€1,037	€150–€335	5,604–40,764	2,730–12,386	14–25
Greece	13,870	€15–€59	n/a	n/a	10%–11%	€395–€1,459	n/a	1,390–32,631	619–8,073	8–59
Romania	8,541	n/a	n/a	n/a	n/a	n/a	n/a	10,337	4,789	40
	99,486									

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Type and country	31 December 2014	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 m ²	Building area m ²	Age of building Years
Land (fields and plots)										
Cyprus	84,722	€1–€26	n/a	€530–€1,317	5%	€1–€3,036	€1–€3,036	90–67,225	950	n/a
Greece	6,846	n/a	n/a	n/a	n/a	€1–€798	n/a	88–170,701	n/a	n/a
Russia	17,568	n/a	n/a	n/a	n/a	n/a	€10–€108	680–8,117,500	89–1,709	n/a
	<u>109,136</u>									
Under construction properties										
Cyprus	393	n/a	n/a	€385–€400	n/a	n/a	€139–€165	1,812	285	n/a
Russia	126	n/a	n/a	n/a	n/a	€150–€217	n/a	735	45–182	n/a
	<u>519</u>									
Total	<u>533,164</u>									

Analysis of own use properties

Type and country	31 December 2014	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 m ²	Building area m ²	Age of building Years
Offices and other commercial properties										
Cyprus	244,705	€23–€340	n/a	€133–€6,321	5%–6%	€200–€6,667	€125–€3,429	390–51,947	68–15,805	8–34
Romania	3,274	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK	15,451	€181–€671	5%–6%	n/a	5%–7%	€2,704–€13,982	n/a	173–1,740	173–1,689	Re-furbished in 2009
Total	<u>263,430</u>									

Analysis of own use properties held for sale

Type and country	31 December 2014	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 m ²	Building area m ²	Age of building m ²
Offices and other commercial properties										
Cyprus	<u>25,681</u>	€97	n/a	n/a	5%	€3,118	n/a	91,887	10,222	32

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment and properties held for sale

Type and country	31 December 2013	Index change	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 area	Building area	Age of building
	€000								m ²	m ²	Years
Residential											
Cyprus	19,762	n/a	n/a	n/a	€300–€1,091	n/a	€455–€3,675	€55–€758	335–2,067	41–2,526	5–70
Greece	56,633	–7% to 10%	€4–€7	n/a	n/a	n/a	€595–€1,887	€50–€70	222–8,398	42–18,960	10–55
Romania	21,583	n/a	n/a	n/a	n/a	n/a	€476–€629	n/a	237–8,153	24,753	7
Russia	9,034	n/a	n/a	n/a	n/a	n/a	€6–€3,344	n/a	301–2,559	28–453	n/a
Ukraine	6,114	n/a	n/a	n/a	n/a	n/a	€779	n/a	137–2,445	28–1,117	6–74
	<u>113,126</u>										
Offices and other commercial properties											
Cyprus	41,062	n/a	€11–€353	n/a	€305–€1,140	4%–8%	€75–€7,059	€550–€4,400	175–1,591	54–6,395	10–144
Greece	50,769	–11% to 19%	€1–€80	n/a	€350–€1,200	6%–10%	€290–€9,000	€200–€6,844	100–8,582	69–24,786	8–55
Russia	7,367	n/a	n/a	n/a	n/a	n/a	€52–€2,169	€1–€4	270–5,307	18–2,212	n/a
Ukraine	43,313	n/a	n/a	n/a	€790–€821	n/a	n/a	n/a	392–2,274	34–30,608	5–49
	<u>142,511</u>										
Manufacturing and industrial											
Cyprus	10,371	n/a	€38–€54	n/a	€37–€550	n/a	€895–€900	€63–€1,350	1,155–24,881	1,134–5,250	30
Greece	43,538	–17% to 29%	€1–€5	n/a	€600	9%–11%	€185–€800	€25–€200	541–136,620	450–18,737	9–40
Russia	3,746	n/a	n/a	n/a	n/a	n/a	€15–€366	n/a	11,582	48–10,167	n/a
	<u>57,655</u>										
Hotels											
Cyprus	44,563	n/a	n/a	n/a	€518	n/a	€1,211	€170–€185	5,604–19,115	2,730–12,386	22–24
Greece	13,077	n/a	€16–€42	n/a	n/a	n/a	€335–€1,277	n/a	619–32,631	815–8,040	9–60
	<u>57,640</u>										
Land and plots											
Cyprus	83,069	n/a	€72	n/a	€318–€1,000	5%–16%	€2–€3,163	€2–€3,163	90–67,225	n/a	n/a
Greece	8,428	–7% to 29%	n/a	n/a	n/a	n/a	€106	€15–€106	810–351,732	n/a	n/a
Romania	13,053	n/a	n/a	n/a	n/a	n/a	n/a	€8–€720	237–47,012	n/a	n/a
Russia	19,557	n/a	n/a	n/a	n/a	n/a	n/a	€1–€182	680–8,117,500	n/a	n/a
	<u>124,107</u>										
Under construction properties											
Cyprus	417	n/a	n/a	n/a	€400–€439	n/a	n/a	€47–€185	1,812	285	n/a
Russia	202	n/a	n/a	n/a	n/a	n/a	n/a	€10	735	45–182	n/a
	<u>619</u>										
Total	<u>495,658</u>										

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and area	31 December 2013	Index change	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 area m ²	Building area m ²	Age of building Years
	€000										
Offices and other commercial properties											
Cyprus	292,452	n/a	€56–€245	n/a	€566–€2,076	5%–6%	€200–€8,917	€130–€7,257	390–51,947	98–15,805	8–34
Romania	4,357	n/a	n/a	n/a	n/a	n/a	n/a	€1,579	660	2,284	7
Russia	65,175	n/a	€119–€2,325	n/a	n/a	n/a	€21–€21,310	€11–€417	580–2,212	40–9,511	n/a
UK	6,978	n/a	€45–€53	15%	n/a	6%–8%	€1,322–€5,487	n/a	173–2,520	121–2,415	Re-furbished in 2009
Total	<u>368,962</u>										

Notes to the Historical Financial Information (Continued)

24. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

For the years 2014 and 2013 the majority of investment properties of the Group were not utilised at their highest and best use, as the Group had acquired these assets either in debt satisfaction or as part of the Laiki Bank acquisition and is in the process of initiating an orderly disposal of these properties.

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.

25. Loans and advances to customers

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Gross loans and advances to customers	20,040,321	21,385,065	21,240,277	24,840,608
Provisions for impairment of loans and advances to customers (Note 46)	(3,787,084)	(4,193,433)	(3,071,954)	(3,076,270)
	<u>16,253,237</u>	<u>17,191,632</u>	<u>18,168,323</u>	<u>21,764,338</u>

At 30 June 2016 loans and advances to customers include mortgage loans of €1,010 million (31 December 2015: €1,003 million; 31 December 2014: €1,123 million; 31 December 2013: €1,105 million) in Cyprus which are pledged as collateral for the covered bond issued by the Company in 2011 under the Covered Bond Programme (Note 35).

As at 31 December 2013, loans and advances to customers include loans of a carrying amount of €305,507 thousand, which are part of the Ukrainian operations of the Group (Note 54.5.1).

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 46.

26. Life insurance business assets attributable to policyholders

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Equity securities	8,291	9,288	14,049	32,118
Debt securities	55,645	58,440	64,543	68,329
Mutual funds	355,398	344,331	318,969	256,777
Mortgages and other loans	1,589	1,668	1,859	2,200
Bank deposits	46,586	48,886	60,492	70,695
	<u>467,509</u>	<u>462,613</u>	<u>459,912</u>	<u>430,119</u>
Property	13,900	12,790	13,080	13,460
	<u>481,409</u>	<u>475,403</u>	<u>472,992</u>	<u>443,579</u>

Financial assets of life insurance business attributable to policyholders are classified as investments at fair value through profit or loss.

Notes to the Historical Financial Information (Continued)

26. Life insurance business assets attributable to policyholders (continued)

The analysis of the financial assets of life insurance business attributable to policyholders measured at fair value by level, is presented below:

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
30 June 2016				
Equity securities	7,155	—	1,136	8,291
Debt securities	23,108	32,537	—	55,645
Mutual funds	355,398	—	—	355,398
Mortgages and other loans	1,589	—	—	1,589
	<u>387,250</u>	<u>32,537</u>	<u>1,136</u>	<u>420,923</u>
31 December 2015				
Equity securities	7,852	—	1,436	9,288
Debt securities	27,881	30,559	—	58,440
Mutual funds	344,331	—	—	344,331
Mortgages and other loans	1,668	—	—	1,668
	<u>381,732</u>	<u>30,559</u>	<u>1,436</u>	<u>413,727</u>
31 December 2014				
Equity securities	12,606	—	1,443	14,049
Debt securities	22,229	42,314	—	64,543
Mutual funds	318,969	—	—	318,969
Mortgages and other loans	1,859	—	—	1,859
	<u>355,663</u>	<u>42,314</u>	<u>1,443</u>	<u>399,420</u>
31 December 2013				
Equity securities	30,302	—	1,816	32,118
Debt securities	15,619	52,710	—	68,329
Mutual funds	256,777	—	—	256,777
Mortgages and other loans	2,200	—	—	2,200
	<u>304,898</u>	<u>52,710</u>	<u>1,816</u>	<u>359,424</u>

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:

	30 June 2016 €000	31 December		
	€000	2015 €000	2014 €000	2013 €000
1 January	1,436	1,443	1,816	1,057
Transfer to level 1		—	(517)	—
Unrealised (losses)/gains recognised in the consolidated income statement	(300)	(7)	144	759
30 June/31 December	<u>1,136</u>	<u>1,436</u>	<u>1,443</u>	<u>1,816</u>

During the six months ended 30 June 2016 and the years 2015, 2014 and 2013 there were no significant transfers between Level 1 and Level 2.

Notes to the Historical Financial Information (Continued)

27. Property and equipment

	Property €000	Equipment €000	Total €000
30 June 2016			
Net book value at 1 January	242,941	21,392	264,333
Acquisition of subsidiary (Note 54.1.1)	20,308	—	20,308
Additions	1,414	5,125	6,539
Disposals and write-offs	—	(119)	(119)
Disposals of subsidiary (Note 54.2.1)	—	(952)	(952)
Depreciation charge for the period (Note 16)	(1,953)	(3,835)	(5,788)
Foreign exchange adjustments	(1,378)	(303)	(1,681)
Net book value at 30 June	<u>261,332</u>	<u>21,308</u>	<u>282,640</u>
1 January 2016			
Cost or valuation	278,285	147,602	425,887
Accumulated depreciation	(35,344)	(126,210)	(161,554)
Net book value	<u>242,941</u>	<u>21,392</u>	<u>264,333</u>
30 June 2016			
Cost or valuation	298,475	146,070	444,545
Accumulated depreciation	(37,143)	(124,762)	(161,905)
Net book value	<u>261,332</u>	<u>21,308</u>	<u>282,640</u>
30 June 2015			
Net book value at 1 January	267,126	23,294	290,420
Additions	1,232	2,812	4,044
Transfer to investment properties	(6,792)	—	(6,792)
Transfer to stock of property	(160)	—	(160)
Transfer from disposal group classified as held for sale	25,681	—	25,681
Disposals and write-offs	(1)	(10)	(11)
Depreciation charge for the period—continuing operations (Note 16)	(2,390)	(3,769)	(6,159)
Foreign exchange adjustments	1,337	332	1,669
Net book value at 30 June	<u>286,033</u>	<u>22,659</u>	<u>308,692</u>
1 January 2015			
Cost or valuation	301,535	165,080	466,615
Accumulated depreciation	(34,409)	(141,786)	(176,195)
Net book value	<u>267,126</u>	<u>23,294</u>	<u>290,420</u>
30 June 2015			
Cost or valuation	322,284	150,408	472,692
Accumulated depreciation	(36,251)	(127,749)	(164,000)
Net book value	<u>286,033</u>	<u>22,659</u>	<u>308,692</u>

Notes to the Historical Financial Information (Continued)

27. Property and equipment (continued)

	<u>Property</u> €000	<u>Equipment</u> €000	<u>Total</u> €000
31 December 2015			
Net book value at 1 January	267,126	23,294	290,420
Additions	2,620	6,089	8,709
Revaluation	(4,795)	—	(4,795)
Transfer to investment properties (Note 24)	(16,782)	—	(16,782)
Transfer to stock of property (Note 29)	(541)	—	(541)
Transfer from disposal group classified as held for sale	25,681	—	25,681
Transfer to disposal group classified as held for sale	(25,400)	—	(25,400)
Disposals and write-offs	(191)	(222)	(413)
Depreciation charge for the period—continuing operations (Note 16)	(4,689)	(7,568)	(12,257)
Impairment charge for the year—continuing operations (Note 18)	(311)	—	(311)
Foreign exchange adjustments	223	(201)	22
Net book value at 31 December	<u>242,941</u>	<u>21,392</u>	<u>264,333</u>
1 January 2015			
Cost or valuation	301,535	165,080	466,615
Accumulated depreciation	(34,409)	(141,786)	(176,195)
Net book value	<u>267,126</u>	<u>23,294</u>	<u>290,420</u>
31 December 2015			
Cost or valuation	278,285	147,602	425,887
Accumulated depreciation	(35,344)	(126,210)	(161,554)
Net book value	<u>242,941</u>	<u>21,392</u>	<u>264,333</u>
31 December 2014			
Net book value at 1 January	379,193	35,211	414,404
Additions	4,454	3,910	8,364
Revaluation	7,511	—	7,511
Transfer (to)/from investment properties (Note 24)	(19,847)	277	(19,570)
Transfer to disposal group classified as held for sale (Note 31)	(68,157)	(3,039)	(71,196)
Disposals and write-offs	(1,852)	(1,319)	(3,171)
Depreciation charge for the year—continuing operations (Note 16)	(4,860)	(8,565)	(13,425)
Depreciation charge for the year—discontinued operations	(1,863)	(1,291)	(3,154)
Impairment charge for the year—continuing operations (Note 18)	(1,460)	—	(1,460)
Foreign exchange adjustments	(25,993)	(1,890)	(27,883)
Net book value at 31 December	<u>267,126</u>	<u>23,294</u>	<u>290,420</u>
1 January 2014			
Cost or valuation	417,036	182,974	600,010
Accumulated depreciation	(37,843)	(147,763)	(185,606)
Net book value	<u>379,193</u>	<u>35,211</u>	<u>414,404</u>
31 December 2014			
Cost or valuation	301,535	165,080	466,615
Accumulated depreciation	(34,409)	(141,786)	(176,195)
Net book value	<u>267,126</u>	<u>23,294</u>	<u>290,420</u>

Notes to the Historical Financial Information (Continued)

27. Property and equipment (continued)

	Property €000	Equipment €000	Total €000
31 December 2013			
Net book value at 1 January	445,564	37,629	483,193
Acquired through business combination (Note 54.6.1)	105,165	11,135	116,300
Additions	19,643	12,954	32,597
Revaluation	(16,417)	—	(16,417)
Transfer to investment properties (Note 24)	(55,096)	—	(55,096)
Disposals as a result of discontinued operations	(87,692)	(9,539)	(97,231)
Other disposals and write-offs	(6,689)	(1,148)	(7,837)
Depreciation charge for the year—continuing operations (Note 16) . .	(4,966)	(11,573)	(16,539)
Depreciation charge for the year—discontinued operations	(6,356)	(3,379)	(9,735)
Impairment charge for the year—continuing operations (Note 18) . . .	(192)	(218)	(410)
Impairment charge for the year—discontinued operations	(4,755)	—	(4,755)
Foreign exchange adjustments	(9,016)	(650)	(9,666)
Net book value at 31 December	379,193	35,211	414,404
1 January 2013			
Cost or valuation	552,199	210,760	762,959
Accumulated depreciation	(106,635)	(173,131)	(279,766)
Net book value	445,564	37,629	483,193
31 December 2013			
Cost or valuation	417,036	182,974	600,010
Accumulated depreciation	(37,843)	(147,763)	(185,606)
Net book value	379,193	35,211	414,404

The impact in the consolidated income statement and consolidated statement of comprehensive income is presented in the table below:

	6 months ended 30 June		Year		
	2016 €000	2015 €000	2015 €000	2014 €000	2013 €000
Impairment loss recognised in the consolidated income statement	—	—	311	1,460	4,947
Loss/(gain) on revaluation recognised in the consolidated statement of comprehensive income	—	—	4,795	(7,511)	16,417

The net book value of the Group's property comprises:

	30 June 2016 €000	31 December		
	2016 €000	2015 €000	2014 €000	2013 €000
Freehold property	259,302	240,309	263,430	368,962
Improvements on leasehold property	2,030	2,632	3,696	10,231
	261,332	242,941	267,126	379,193

At 30 June 2016 freehold property includes land amounting to €93,236 thousand (31 December 2015: €89,272 thousand, 31 December 2014: €96,987 thousand, 31 December 2013: €133,205 thousand) for which no depreciation is charged.

Notes to the Historical Financial Information (Continued)

27. Property and equipment (continued)

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 valuations are 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 24.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 30 June 2016 would have amounted to €184,234 thousand (31 December 2015: €164,503 thousand, 31 December 2014: €181,818 thousand, 31 December 2013: €241,276 thousand).

28. Intangible assets

	Computer software €000	In-force life insurance business €000	Total €000
30 June 2016			
Net book value at 1 January	20,464	113,324	133,788
Additions	7,561	—	7,561
Increase in value of in-force life insurance business	—	852	852
Disposals and write-offs	(59)	—	(59)
Amortisation charge for the year—continuing operations (Note 16) . .	(3,506)	—	(3,506)
Foreign exchange adjustments	(99)	—	(99)
Net book value at 30 June	<u>24,361</u>	<u>114,176</u>	<u>138,537</u>
1 January 2016			
Cost	130,151	113,324	243,475
Accumulated amortisation and impairment	(109,687)	—	(109,687)
Net book value	<u>20,464</u>	<u>113,324</u>	<u>133,788</u>
30 June 2016			
Cost	136,876	114,176	251,052
Accumulated amortisation and impairment	(112,515)	—	(112,515)
Net book value	<u>24,361</u>	<u>114,176</u>	<u>138,537</u>

Notes to the Historical Financial Information (Continued)

28. Intangible assets (continued)

	Computer software	In-force life insurance business	Total
	€000	€000	€000
30 June 2015			
Net book value at 1 January	15,577	111,825	127,402
Additions	3,641	—	3,641
Increase in value of in-force life insurance business	—	518	518
Amortisation charge for the year—continuing operations (Note 16) . .	(3,426)	—	(3,426)
Foreign exchange adjustments	100	—	100
Net book value at 30 June	<u>15,892</u>	<u>112,343</u>	<u>128,235</u>
1 January 2015			
Cost	123,027	111,825	234,852
Accumulated amortisation and impairment	(107,450)	—	(107,450)
Net book value	<u>15,577</u>	<u>111,825</u>	<u>127,402</u>
30 June 2015			
Cost	123,846	112,343	236,189
Accumulated amortisation and impairment	(107,954)	—	(107,954)
Net book value	<u>15,892</u>	<u>112,343</u>	<u>128,235</u>
31 December 2015			
Net book value at 1 January	15,577	111,825	127,402
Additions	11,827	—	11,827
Increase in value of in-force life insurance business	—	1,499	1,499
Amortisation charge for the year—continuing operations (Note 16) . .	(7,001)	—	(7,001)
Foreign exchange adjustments	61	—	61
Net book value at 31 December	<u>20,464</u>	<u>113,324</u>	<u>133,788</u>
1 January 2015			
Cost	123,027	111,825	234,852
Accumulated amortisation and impairment	(107,450)	—	(107,450)
Net book value	<u>15,577</u>	<u>111,825</u>	<u>127,402</u>
31 December 2015			
Cost	130,151	113,324	243,475
Accumulated amortisation and impairment	(109,687)	—	(109,687)
Net book value	<u>20,464</u>	<u>113,324</u>	<u>133,788</u>

Notes to the Historical Financial Information (Continued)

28. Intangible assets (continued)

	Computer software	In-force life insurance business	Total
	€000	€000	€000
31 December 2014			
Net book value at 1 January	24,797	105,783	130,580
Additions	9,663	—	9,663
Increase in value of in-force life insurance business	—	6,042	6,042
Disposals and write-offs	(2,592)	—	(2,592)
Amortisation charge for the year—continuing operations (Note 16) . .	(7,000)	—	(7,000)
Amortisation charge for the year—discontinued operations	(1,679)	—	(1,679)
Transfer to disposal group held for sale (Note 31)	(6,990)	—	(6,990)
Foreign exchange adjustments	(622)	—	(622)
Net book value at 31 December	<u>15,577</u>	<u>111,825</u>	<u>127,402</u>
1 January 2014			
Cost	132,821	105,783	238,604
Accumulated amortisation and impairment	(108,024)	—	(108,024)
Net book value	<u>24,797</u>	<u>105,783</u>	<u>130,580</u>
31 December 2014			
Cost	123,027	111,825	234,852
Accumulated amortisation and impairment	(107,450)	—	(107,450)
Net book value	<u>15,577</u>	<u>111,825</u>	<u>127,402</u>

In 2014, a write-off of €1,342 thousand, included in disposals and write-offs, is included as restructuring costs in ‘Other operating expenses’ (Note 16).

	Computer software	In-force life insurance business	Total
31 December 2013			
Net book value at 1 January	21,047	102,508	123,555
Acquired through business combination (Note 54.6.1)	13,479	—	13,479
Additions	8,314	—	8,314
Increase in value of in-force life insurance business	—	3,275	3,275
Disposals and write-offs	(4,065)	—	(4,065)
Amortisation charge for the year—continuing operations (Note 16) . .	(11,747)	—	(11,747)
Amortisation charge for the year—discontinued operations	(1,663)	—	(1,663)
Foreign exchange adjustments	(568)	—	(568)
Net book value at 31 December	<u>24,797</u>	<u>105,783</u>	<u>130,580</u>
1 January 2013			
Cost	137,523	102,508	240,031
Accumulated amortisation and impairment	(116,476)	—	(116,476)
Net book value	<u>21,047</u>	<u>102,508</u>	<u>123,555</u>
31 December 2013			
Cost	132,821	105,783	238,604
Accumulated amortisation and impairment	(108,024)	—	(108,024)
Net book value	<u>24,797</u>	<u>105,783</u>	<u>130,580</u>

Notes to the Historical Financial Information (Continued)

28. Intangible assets (continued)

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:

	30 June 2016	31 December		
	%	2015 %	2014 %	2013 %
Discount rate (after tax)	10.0	10.0	10.0	10.0
Return on investments	5.0	5.0	5.5	5.5
Expense inflation	4.0	4.0	5.0	5.0

29. Stock of property

In December 2015, the Group has changed its business model with respect to real estate assets acquired from customers as part of the Group's efforts to provide solutions to distressed borrowers and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, to a model that involves actively managing such properties with an intention to sell them. To execute its strategy, the Group has set up a dedicated Real Estate Management Unit ("REMU") and Overseas Run-Down. Following the establishment of REMU and certain other actions undertaken by the Group, the Group has assessed that for the majority of properties previously classified as investment properties, there has been a change in use and has therefore transferred such properties from investment properties to stock of property. This has led to a change in the measurement basis of these properties from fair value to the lower of cost and net realisable value. During the six months ended 30 June 2016 an impairment loss of €9,362 thousand (Note 18) was recognised in 'Impairment of non-financial instruments' in the consolidated income statement arising from measuring items at lower of cost and net realisable value (year 2015: €17,792 thousand). No impairment loss was recognised for the six months ended 30 June 2015 and for the years 2014 and 2013. Impairment is recognised if the net realisable value is below the cost of the stock of property. At 30 June 2016, stock of €633,325 thousand (31 December 2015: €496,594 thousand, 31 December 2014: €1,060 thousand, 31 December 2013: €2,224 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. At 30 June 2016 the stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA amounts to €21,348 thousand (31 December 2015: €21,875 thousand, 31 December 2014: nil, 31 December 2013: nil).

The carrying value of the stock of property is analysed in the tables below.

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Net book value at 1 January	515,858	12,662	14,110	11,624
Acquisition of subsidiary (Note 54.1.1)	48,632	—	—	—
Additions	641,856	32,216	605	4,142
Disposals	(68,200)	(4,298)	(920)	(1,522)
Transfer from investment properties (Note 24)	—	492,927	893	—
Transfer from own use properties (Note 27)	—	541	—	—
Transfer from/(to) disposal groups held for sale	—	247	(1,530)	—
Impairment (Note 18)	(9,362)	(17,792)	—	—
Foreign exchange adjustments	9	(645)	(496)	(134)
Net book value at 30 June/ 31 December	<u>1,128,793</u>	<u>515,858</u>	<u>12,662</u>	<u>14,110</u>

Notes to the Historical Financial Information (Continued)

29. Stock of property (continued)

	Cyprus	Greece	Romania	Total
	€000	€000	€000	€000
Analysis by type and country				
30 June 2016				
Residential properties	66,370	37,635	13,034	117,039
Offices and other commercial properties	175,016	60,865	13,347	249,228
Manufacturing and industrial	30,626	57,651	514	88,791
Hotels	70,887	2,183	—	73,070
Land (fields and plots)	584,046	5,825	10,446	600,317
Properties under construction	348	—	—	348
Total	927,293	164,159	37,341	1,128,793
31 December 2015				
Residential properties	17,664	39,222	13,030	69,916
Offices and other commercial properties	122,885	63,934	13,553	200,372
Manufacturing and industrial	18,174	59,279	513	77,966
Hotels	73,630	2,221	—	75,851
Land (fields and plots)	75,494	6,347	9,547	91,388
Properties under construction	365	—	—	365
Total	308,212	171,003	36,643	515,858
31 December 2014				
Residential properties	—	431	202	633
Offices and other commercial properties	74	461	—	535
Land (fields and plots)	10,551	168	775	11,494
Total	10,625	1,060	977	12,662
31 December 2013				
Residential properties	—	405	—	405
Offices and other commercial properties	74	398	—	472
Land (fields and plots)	11,812	256	1,165	13,233
Total	11,886	1,059	1,165	14,110

30. Prepayments, accrued income and other assets

	30 June 2016	31 December		
	€000	2015	2014	2013
	€000	€000	€000	€000
Receivables relating to disposal of operations	59,511	98,454	101,550	129,254
Reinsurers' share of insurance contract liabilities (Note 34) . .	54,088	56,763	66,177	68,387
Taxes refundable	38,032	38,204	48,607	48,544
Debtors	25,134	23,020	21,279	22,956
Prepaid expenses	1,203	1,411	1,279	2,840
Retirement benefit plan assets (Note 15)	725	1,203	42	1,319
Other assets	59,425	62,725	83,898	139,705
	238,118	281,780	322,832	413,005

As at 30 June 2016, the receivables relating to the disposal of operations relate to the disposal of the Ukrainian operations. At 31 December 2015 it related to the disposal of the Ukrainian and Russian operations (Notes 54.5.1 and 54.4.1 respectively). As at 31 December 2014 it related entirely to the disposal of the Ukrainian operations. At 31 December 2013 it related to the disposal of the Greek operations, which was settled in 2014, and the acquisition of certain operations of Laiki Bank.

Notes to the Historical Financial Information (Continued)

30. Prepayments, accrued income and other assets (continued)

During the six months ended 30 June 2016 a reversal of impairment of €2,625 thousand was recognised in relation to other assets (corresponding period of 2015: impairment of €15,842 thousand; year 2015: impairment of €21,571 thousand, year 2014: impairment of €30,291, year 2013: nil) (Note 17).

31. Non-current assets and disposal groups classified as held for sale

Non-current assets and disposal groups classified as held for sale

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Disposal groups classified as held for sale	—	26,168	741,877	—
Subsidiary acquired with the view to sale	—	—	115,965	—
Non-current assets classified as held for sale:				
—investment properties	11,460	22,335	11,130	—
—investment in joint venture	—	—	73,683	—
	<u>11,460</u>	<u>48,503</u>	<u>942,655</u>	<u>—</u>
<i>Non-current liabilities of disposal groups classified as held for sale</i>				
Disposal groups held for sale	—	3,677	589,223	—
Subsidiary acquired with the view to sale	—	—	25,198	—
	<u>—</u>	<u>3,677</u>	<u>614,421</u>	<u>—</u>

The following non-current assets and disposal groups were classified as held for sale as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013:

Non-current assets held for sale

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 'Gains/losses from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment for investment properties in Cyprus and in the Other countries operating segment for Greek, UK and Romanian investment properties. An analysis of investment properties held for sale by country and key valuation inputs is disclosed in Note 24.

Investment in joint venture

As at 31 December 2014 the Group's investment in joint venture held for sale comprised MDSF acquired by the Group as part of the acquisition of certain operations of Laiki Bank in 2013 (Note 54.6.1). The Group held approximately 90% of the units of the fund.

Upon measurement at fair value less costs to sell, an impairment loss of €29,757 thousand was recognised in 2014. This impairment loss was recognised within 'Impairment of non-financial instruments' in the consolidated income statement (Note 18) and is part of the Cyprus operating segment results (Note 7). The investment was sold in April 2015, for a sale consideration of approximately €84,000 thousand and profit on disposal of €10,005 thousand (Note 12) which primarily represents the recycling of the related foreign currency reserves into the consolidated income statement.

Subsidiaries acquired with a view to sale

At 31 December 2014, the subsidiaries acquired with a view to sale related to the Aphrodite group (Note 7), which the Group acquired in November 2014, as part of its strategy to manage large borrower exposures and which the Group was in the process of disposing. The Group therefore classified this as a

Notes to the Historical Financial Information (Continued)

31. Non-current assets and disposal groups classified as held for sale (continued)

Non-current assets held for sale (continued)

Subsidiaries acquired with a view to sale (continued)

subsidiary acquired with a view to sale upon initial recognition, and measured it at fair value less costs to sell. The results of the Aphrodite group for the period to disposal and the gain on disposal is presented in discontinued operations and disclosed in Note 7.

In September 2015, the Group completed the sale of a 65% shareholding in the Aphrodite group to an investment structure managed by a foreign institutional investment management firm, for the amount of €500 thousand. Following the sale, the Group retained a 10% minority equity stake in the Aphrodite group. The transaction also involved the restructuring of the debt owed by these companies to the Group.

Disposal groups classified as held for sale

As at 31 December 2015, the disposal group classified as held for sale relates to the Kermia Hotel business of the Group. In June 2016, the Group completed the sale of Kermia Hotels Ltd and adjacent land for a consideration of €26,500 thousand (Note 54.2.1). The disposal group was also classified as held for sale as at 31 December 2014 but as the disposal did not go through it was classified out of held for sale in March 2015 and classified back to held for sale when the disposal plan was resumed and factors for classification were assessed to be met.

In addition, as at 31 December 2014 the Russian operations of the Group were classified as a disposal group held for sale. In September 2015, the Group completed the sale of the majority of its Russian operations (Note 54.4.1) with the exception of a loan portfolio. The part of the operations not disposed of has ceased to be classified as held for sale.

The major classes of assets and liabilities of the disposal groups classified as held for sale at 31 December 2015 and 31 December 2014 are set out below:

	Kermia Hotel business
	€000
31 December 2015	
Assets	
Property and equipment	25,400
Prepayments, accrued income and other assets	<u>768</u>
	26,168
Liabilities	
Deferred tax liability	<u>(3,677)</u>
	<u>22,491</u>

Notes to the Historical Financial Information (Continued)

31. Non-current assets and disposal groups classified as held for sale (continued)

Disposal groups classified as held for sale (continued)

	<u>Russian operations</u>	<u>Kermia Hotel business</u>	<u>Total</u>
	€000	€000	€000
31 December 2014			
Assets			
Cash and balances with central banks	85,952	—	85,952
Loans and advances to banks	35,994	—	35,994
Investments	348	—	348
Loans and advances to customers	549,830	—	549,830
Property and equipment	—	25,681	25,681
Investment properties	33,436	—	33,436
Prepayments, accrued income and other assets	9,868	768	10,636
	<u>715,428</u>	<u>26,449</u>	<u>741,877</u>
Liabilities			
Deposits by banks	29,650	—	29,650
Customer deposits	545,620	—	545,620
Derivative financial liabilities	589	—	589
Debt securities in issue	1,770	—	1,770
Subordinated loan stock	2,301	—	2,301
Accruals, deferred income and other liabilities	6,071	3,222	9,293
	<u>586,001</u>	<u>3,222</u>	<u>589,223</u>
	<u>129,427</u>	<u>23,227</u>	<u>152,654</u>

In 2014, immediately before classification of the Group's Russian operations as a disposal group held for sale, the recoverable amount of property and equipment and intangible assets was estimated and an impairment loss of €526 thousand was identified. Loans and advances to customers were measured at amortised cost and were stated net of impairment provisions. Investment properties were measured at fair value.

Following the classification of the Russian operations as a disposal group held for sale and the measurement of the disposal group at fair value less costs to sell, an impairment loss of €84,098 thousand was recognised, to reduce the carrying amount of the scoped-in non-current assets (namely the property and equipment, intangible and other non-financial assets) of the disposal group to fair value less costs to sell in 2014. During 2015, additional impairment of €3,288 thousand was recognised. As a result, the carrying value of the scoped-in non-current assets had been reduced to zero prior to disposal. This impairment loss as well as the loss on disposal and results for the period up to disposal is included within losses from discontinued operations in the consolidated income statement (Note 7).

The part of the Russian operations not disposed of, is presented as part of the continuing operations and are within the Other countries operating segment (Note 7).

The results of the Russian operations disposed of in 2015 (Note 54.4.1), along with the results of the Ukrainian operations disposed of in 2014 (Note 54.5.1) and the results of the Aphrodite group which are presented as discontinued operations and are disclosed in Note 7.

The results of the Kermia Hotel business are part of the continuing operations of the Group and are within the Cyprus operating segment (Note 7).

Notes to the Historical Financial Information (Continued)

31. Non-current assets and disposal groups classified as held for sale (continued)

Disposal groups classified as held for sale (continued)

The net cash flows of the Russian operations are as follows:

	Six months ended 30 June		Year		
	2016	2015	2015	2014	2013
	€000	€000	€000	€000	€000
Operating	—	(6,359)	(34,108)	28,160	—
Investing	—	(541)	(15,927)	(5,946)	—
Financing	—	—	(1,733)	2,059	—
Net cash (outflow)/inflow for the period/year	—	(6,900)	(51,768)	24,273	—

The cash and cash equivalents of the Russian operations and the Kermia Hotels Ltd as at the date of disposal amounted to €75,009 thousand and €1,132 thousand respectively.

Cumulative amounts of the consolidated other comprehensive income items of the non-current assets and disposal groups classified as held for sale are presented below:

	Six months ended 30 June		Year		
	2016	2015	2015	2014	2013
	€000	€000	€000	€000	€000
Revaluation reserve of available-for-sale investments	—	1,015	—	973	—
Property revaluation reserve	—	7,076	17,619	24,772	—
Foreign currency translation reserve	—	(19,251)	—	(18,008)	—
Reserve of disposal groups classified as held for sale	—	(11,160)	17,619	7,737	—

32. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations and ELA from the CBC, as set out in the table below:

	30 June	31 December		
	2016	2015	2014	2013
	€000	€000	€000	€000
Emergency Liquidity Assistance (ELA)	2,400,667	3,802,058	7,403,741	9,556,035
Main Refinancing Operations (MRO)	700,000	150,000	380,001	1,400,242
Targeted Long Term Refinancing Operations (TLTRO) . .	—	500,792	500,031	—
	3,100,667	4,452,850	8,283,773	10,956,277

The Company was reinstated by the ECB as an eligible counterparty for monetary policy operations in August 2013, after being suspended on 31 December 2012. This enabled the Company to resort to monetary policy operations which might be used for ELA repayment.

The funding under the MRO bears interest at the ruling rate of the Eurosystem and it was fully repaid during the first quarter of 2016. In May 2016, the Company raised €200 million of new funding from ECB's MRO using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims Framework as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

In 2014, the Group participated in the targeted long term refinancing operations ("TLTRO") of the ECB. The interest rate on the TLTRO was fixed over its life at 15 basis points (being a fixed spread of 10 basis points over the MRO level prevailing at the time of allotment). The Company repaid the amount borrowed through the TLTRO of €500 million on 29 June 2016. An equivalent amount was borrowed through the MRO facility.

The Company's ELA funding bears interest at a rate equal to the ruling marginal lending facility rate (MLF rate) of the Eurosystem, plus a margin.

Details on encumbered assets related to the above funding facilities are disclosed in Note 48.

Notes to the Historical Financial Information (Continued)

33. Customer deposits

	30 June	31 December				
	2016	2015	2014	2013		
	€000	€000	€000	€000		
<i>By type of deposit</i>						
Demand	5,397,006	4,987,078	4,237,590	3,492,789		
Savings	1,036,340	1,033,991	955,556	925,549		
Time or notice	8,313,127	8,159,612	7,430,412	10,552,829		
	<u>14,746,473</u>	<u>14,180,681</u>	<u>12,623,558</u>	<u>14,971,167</u>		
<i>By geographical area</i>						
Cyprus	13,311,262	12,691,090	11,314,137	12,705,254		
Russia	—	—	—	918,491		
United Kingdom	1,429,578	1,486,551	1,304,844	1,244,186		
Romania	5,633	3,040	4,577	30,055		
Ukraine	—	—	—	73,181		
	<u>14,746,473</u>	<u>14,180,681</u>	<u>12,623,558</u>	<u>14,971,167</u>		
	Cyprus	Russia	United Kingdom	Romania	Ukraine	Total
	€000	€000	€000	€000	€000	€000
<i>By customer sector</i>						
30 June 2016						
Corporate	1,009,959	—	40,123	4,981	—	1,055,063
SMEs	490,211	—	216,064	435	—	706,710
Retail	7,330,075	—	1,104,027	217	—	8,434,319
Restructuring						
—Corporate	206,270	—	—	—	—	206,270
—SMEs	31,755	—	—	—	—	31,755
Recoveries						
—Corporate	8,137	—	—	—	—	8,137
International banking services	3,901,674	—	—	—	—	3,901,674
Wealth management	333,181	—	69,364	—	—	402,545
	<u>13,311,262</u>	<u>—</u>	<u>1,429,578</u>	<u>5,633</u>	<u>—</u>	<u>14,746,473</u>
31 December 2015						
Corporate	978,672	—	40,425	2,242	—	1,021,339
SMEs	455,133	—	236,616	461	—	692,210
Retail	6,995,757	—	1,134,334	337	—	8,130,428
Restructuring						
—Corporate	189,196	—	—	—	—	189,196
—SMEs	35,363	—	—	—	—	35,363
Recoveries						
—Corporate	7,865	—	—	—	—	7,865
International banking services	3,710,742	—	—	—	—	3,710,742
Wealth management	318,362	—	75,176	—	—	393,538
	<u>12,691,090</u>	<u>—</u>	<u>1,486,551</u>	<u>3,040</u>	<u>—</u>	<u>14,180,681</u>
31 December 2014						
Corporate	646,993	—	39,946	2,946	—	689,885
SMEs	382,929	—	213,623	1,317	—	597,869
Retail	6,307,379	—	971,071	314	—	7,278,764
Restructuring						
—Corporate	216,784	—	—	—	—	216,784
—SMEs	39,982	—	—	—	—	39,982
Recoveries						
—Corporate	8,466	—	—	—	—	8,466
International banking services	3,467,017	—	—	—	—	3,467,017
Wealth management	244,587	—	80,204	—	—	324,791
	<u>11,314,137</u>	<u>—</u>	<u>1,304,844</u>	<u>4,577</u>	<u>—</u>	<u>12,623,558</u>

Notes to the Historical Financial Information (Continued)

33. Customer deposits (continued)

	<u>Cyprus</u>	<u>Russia</u>	<u>United Kingdom</u>	<u>Romania</u>	<u>Ukraine</u>	<u>Total</u>
31 December 2013						
Corporate	1,432,886	168,426	26,588	29,200	4,061	1,661,161
SMEs	530,140	750,065	173,038	441	12,109	1,465,793
Retail	6,450,589	—	976,166	414	57,011	7,484,180
Recoveries						
—Corporate	2,048	—	—	—	—	2,048
International banking services	4,053,241	—	—	—	—	4,053,241
Wealth management	236,350	—	68,394	—	—	304,744
	<u>12,705,254</u>	<u>918,491</u>	<u>1,244,186</u>	<u>30,055</u>	<u>73,181</u>	<u>14,971,167</u>

Deposits by geographical area are based on the originator country of the deposit.

Notes to the Historical Financial Information (Continued)

34. Insurance liabilities

	30 June 2016			31 December 2015			31 December 2014			31 December 2013		
	Gross	Reinsurers'	Net	Gross	Reinsurers'	Net	Gross	Reinsurers'	Net	Gross	Reinsurers'	Net
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Life insurance												
Life insurance contract liabilities	514,533	(29,592)	484,941	510,729	(30,396)	480,333	514,074	(35,542)	478,532	480,085	(31,752)	448,333
General insurance												
Provision for unearned premiums	25,071	(11,044)	14,027	24,029	(11,533)	12,496	24,891	(11,782)	13,109	30,768	(15,478)	15,290
<i>Other liabilities</i>												
Claims outstanding	29,993	(13,452)	16,541	32,083	(14,834)	17,249	37,581	(18,853)	18,728	40,922	(21,157)	19,765
Unexpired risks reserve	61	—	61	61	—	61	125	—	125	16	—	16
Equalisation reserve	23	—	23	23	—	23	30	—	30	38	—	38
General insurance contract liabilities	55,148	(24,496)	30,652	56,196	(26,367)	29,829	62,627	(30,635)	31,992	71,744	(36,635)	35,109
	569,681	(54,088)	515,593	566,925	(56,763)	510,162	576,701	(66,177)	510,524	551,829	(68,387)	483,442

Reinsurance balances receivable are included in 'Prepayments, accrued income and other assets' (Note 30).

Notes to the Historical Financial Information (Continued)

34. Insurance liabilities (continued)

Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the period/year is analysed as follows:

	6 months ended 30 June					
	2016			2015		
	Gross €000	Reinsurers' share €000	Net €000	Gross €000	Reinsurers' share €000	Net €000
1 January	510,729	(30,396)	480,333	514,074	(35,542)	478,532
New business	3,320	(601)	2,719	909	554	1,463
Change in existing business	484	1,405	1,889	3,484	2,207	5,691
30 June	514,533	(29,592)	484,941	518,467	(32,781)	485,686

	Year								
	2015			2014			2013		
	Gross €000	Reinsurers' share €000	Net €000	Gross €000	Reinsurers' share €000	Net €000	Gross €000	Reinsurers' share €000	Net €000
1 January	514,074	(35,542)	478,532	480,085	(31,752)	448,333	527,673	(29,561)	498,112
New business	8,403	(1,035)	7,368	6,756	(877)	5,879	6,585	(945)	5,640
Change in existing business	(11,748)	6,181	(5,567)	27,233	(2,913)	24,320	(54,173)	(1,246)	(55,419)
31 December	510,729	(30,396)	480,333	514,074	(35,542)	478,532	480,085	(31,752)	448,333

General insurance liabilities

The movement in general insurance contract liabilities and reinsurance assets for the period/year is analysed as follows:

	6 months ended 30 June					
	2016			2015		
	Gross €000	Reinsurers' share €000	Net €000	Gross €000	Reinsurers' share €000	Net €000
Liabilities for unearned premiums						
1 January	24,029	(11,533)	12,496	24,891	(11,782)	13,109
Premium income	32,142	(15,783)	16,359	38,209	(23,861)	14,348
Earned premiums	(31,100)	16,272	(14,828)	(32,627)	18,090	(14,537)
30 June	25,071	(11,044)	14,027	30,473	(17,553)	12,920

	Year								
	2015			2014			2013		
	Gross €000	Reinsurers' share €000	Net €000	Gross €000	Reinsurers' share €000	Net €000	Gross €000	Reinsurers' share €000	Net €000
Liabilities for unearned premiums									
1 January	24,891	(11,782)	13,109	30,768	(15,478)	15,290	36,283	(17,799)	18,484
Premium income . . .	64,828	(36,927)	27,901	66,856	(38,218)	28,638	78,165	(45,979)	32,186
Earned premiums . . .	(65,690)	37,176	(28,514)	(72,733)	41,914	(30,819)	(83,680)	48,300	(35,380)
31 December	24,029	(11,533)	12,496	24,891	(11,782)	13,109	30,768	(15,478)	15,290

Notes to the Historical Financial Information (Continued)

34. Insurance liabilities (continued)

General insurance liabilities (continued)

The provisions for unearned insurance and reinsurance premiums represent the portion of premiums that relates to risks that have not yet expired at the reporting date.

	6 months ended 30 June					
	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
€000	€000	€000	€000	€000	€000	
Claims and adjustments for losses						
1 January	32,083	(14,834)	17,249	37,581	(18,853)	18,728
Amount paid for claims settled in the year	(12,480)	5,672	(6,808)	(13,184)	6,078	(7,106)
Increase in liabilities arising from claims . .	10,390	(4,290)	6,100	12,182	(5,895)	6,287
30 June	<u>29,993</u>	<u>(13,452)</u>	<u>16,541</u>	<u>36,579</u>	<u>(18,670)</u>	<u>17,909</u>
Reported claims	28,077	(12,545)	15,532	34,064	(17,455)	16,609
Incurred but not reported	1,916	(907)	1,009	2,515	(1,215)	1,300
	<u>29,993</u>	<u>(13,452)</u>	<u>16,541</u>	<u>36,579</u>	<u>(18,670)</u>	<u>17,909</u>

	Year								
	2015			2014			2013		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Claims and adjustments for losses									
1 January	37,581	(18,853)	18,728	40,922	(21,157)	19,765	39,703	(18,567)	21,136
Amount paid for claims settled in the year	(28,175)	14,423	(13,752)	(24,093)	9,759	(14,334)	(26,835)	10,295	(16,540)
Increase in liabilities arising from claims	22,677	(10,404)	12,273	20,752	(7,455)	13,297	28,054	(12,885)	15,169
31 December	<u>32,083</u>	<u>(14,834)</u>	<u>17,249</u>	<u>37,581</u>	<u>(18,853)</u>	<u>18,728</u>	<u>40,922</u>	<u>(21,157)</u>	<u>19,765</u>
Reported claims	30,125	(13,916)	16,209	34,838	(17,542)	17,296	37,775	(19,616)	18,159
Incurred but not reported	1,958	(918)	1,040	2,743	(1,311)	1,432	3,147	(1,541)	1,606
	<u>32,083</u>	<u>(14,834)</u>	<u>17,249</u>	<u>37,581</u>	<u>(18,853)</u>	<u>18,728</u>	<u>40,922</u>	<u>(21,157)</u>	<u>19,765</u>

35. Debt securities in issue

	Contractual interest rate	30 June		31 December	
		2016	2015	2014	2013
		€000	€000	€000	€000
Medium term senior debt					
€2 million 2010/2016	DJ EUROSTOXX 50 index	—	531	531	531
USD 2 million 2010/2016	S&P 500 index	—	181	162	143
		—	712	693	674
Other debt securities in issue					
RUB Certificates of Deposit and Promissory Notes	11%	—	—	—	349
		—	712	693	1,023

Notes to the Historical Financial Information (Continued)

35. Debt securities in issue (continued)

Debt securities in issue matured in May 2016. They were not secured and the rights and claims of debt security holders ranked *pari passu* with the claims of depositors and other creditors of the Group.

During the recapitalisation process of the Company in 2013, eligible debt securities in issue by the Company were bailed-in in whole or in part and the principal amount bailed-in was thus converted into ordinary shares and cash deposits. The debt securities in issue outstanding at each balance sheet date represented the residual holding of the debt securities following the bail-in (Note 2.5.).

Medium term senior debt

The Company maintains a Euro Medium Term Note (“EMTN”) Programme under which debt securities with an aggregate nominal amount at 30 June 2016 of up to €4,000 million (31 December 2015, 2014, 2013: €4,000 million) may be issued.

Short term commercial paper

The Company set up a Euro Commercial Paper Programme with an aggregate nominal amount at 30 June 2016 of up to €1,000 million (31 December 2015, 2014 and 2013: €1,000 million). According to the terms of the Programme, the Commercial Paper is issued in various currencies at a discount and pays no interest. Each issue has a maturity period up to 364 days and is unlisted. No commercial paper is currently in issue and the Programme is dormant at 30 June 2016.

Other debt securities in issue

The RUB Certificates of Deposits and Promissory Notes which were issued by CB Uniastrum Bank LLC were at par, were unlisted and had maturities up to one year. As at 31 December 2014 they were part of the disposal group classified as held for sale (Note 31).

Covered Bond

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC.

Under the Programme, the Company issued in December 2011 covered bonds of €1,000 million. The covered bonds issued had a maturity of 3 years with a potential extension of their repayment by one year, bore interest at the three month Euribor plus 1.25% on a quarterly basis and were traded on the Luxemburg Bourse.

The terms of the €1,000 million covered bond secured by residential mortgage loans originated in Cyprus were amended in June 2014 and the maturity date changed to 12 June 2017 with a potential extension of one year and the interest rate to three month Euribor plus 3.25% on a quarterly basis.

On 29 September 2015, the terms of the Covered Bond Programme and the outstanding €1,000 million covered bond were amended to a Conditional Pass-Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650,000 thousand with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations.

Loans and advances pledged as collateral for covered bond are disclosed in Note 48.

No liability from the issue of covered bond is presented in debt securities in issue in the consolidated balance sheet as all the bonds issued are held by the Company.

Bonds guaranteed by the Republic of Cyprus

In accordance with the terms of the decrees issued by the Resolution Authority for the acquisition of Laiki Bank, the Company assumed the rights and obligations of Laiki Bank in its role as issuer of two bonds guaranteed by the Cyprus government of €500 million each, during 2013. The bonds had been issued by Laiki Bank on 14 November and 27 November 2012. At the date of the transfer to the BOC Group the

Notes to the Historical Financial Information (Continued)

35. Debt securities in issue (continued)

Bonds guaranteed by the Republic of Cyprus (continued)

bonds had a maturity date of 13 November 2013 and 26 November 2013 respectively. The maturity of the bonds was extended in November 2013 for a further period of one year.

In November 2014, the maturity of the bonds was extended for a period of 3 years. The bonds bear an annual fixed interest rate at 5%. The bonds are guaranteed by the Republic of Cyprus and are issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds is presented in debt securities in issue in the consolidated balance sheet as all the bonds are held by the Company.¹ The bonds which were cancelled in August 2016, were listed on the Cyprus Stock Exchange.

36. Accruals, deferred income and other liabilities

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Income tax payable	27,017	23,308	25,069	13,247
Special defence contribution payable	1,849	6,354	8,289	12,382
Retirement benefit plans liabilities (Note 15)	24,157	12,588	16,201	9,139
Provisions for pending litigation or claims (Note 41)	26,650	34,749	27,329	52,312
Provisions for financial guarantees and undrawn contractual commitments (Notes 17 and 41)	44,515	44,348	85,751	—
Liabilities for investment-linked contracts under administration	4,805	4,954	4,984	5,391
Accrued expenses and other provisions	80,193	59,850	43,390	32,759
Deferred income	11,205	7,820	8,024	8,761
Shares subject to interim orders (Note 37)	—	—	(441)	(58,922)
Items in the course of settlement	34,166	29,905	31,708	25,754
Other liabilities	66,878	58,955	100,127	101,219
	<u>321,435</u>	<u>282,831</u>	<u>350,431</u>	<u>202,042</u>

Provisions for pending litigation or claims

The movement for the period/year in the provisions for pending litigation or claims is as follows:

	6 months ended		Year		
	30 June 2016	30 June 2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
1 January	34,749	27,329	27,329	52,312	10,042
Increase of provisions during the period/year— continuing operations (Note 16)	4,533	2,004	11,904	11,345	8,500
Increase of provisions during the year—discontinued operations	—	—	—	704	36,919
Utilisation of provisions	(7,813)	(30)	(225)	(800)	(1,089)
Release of provisions during the period/year (Note 16)	(4,724)	—	(4,300)	(36,000)	(2,000)
Foreign exchange adjustments	(95)	69	41	(78)	(60)
30 June/31 December	<u>26,650</u>	<u>29,372</u>	<u>34,749</u>	<u>27,483</u>	<u>52,312</u>
Less: classified as held for sale	—	—	—	(154)	—
	<u>26,650</u>	<u>29,372</u>	<u>34,749</u>	<u>27,329</u>	<u>52,312</u>

¹ In June 2016 one of the Government Guaranteed bonds was released from the ELA collateral pool and as at 25 August 2016, both of the Government Guaranteed bonds were cancelled.

Notes to the Historical Financial Information (Continued)

36. Accruals, deferred income and other liabilities (continued)

Provisions for pending litigation or claims (continued)

The provisions for pending litigation or claims 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 34). Further details are disclosed in Note 41.

37. Share capital

	6 months ended		Year					
	30 June 2016		2015		2014		2013	
	Shares (thousand)	€000	Shares (thousand)	€000	Shares (thousand)	€000	Shares (thousand)	€000
<i>Authorised</i>								
Ordinary shares of €0.10 each (2013: €1.00 each)	47,677,593	4,767,759	47,677,593	4,767,759	47,677,593	4,767,759	4,686,414	4,686,414
<i>Issued</i>								
1 January	8,922,945	892,294	8,922,378	892,238	4,683,985	4,683,985	1,795,141	1,795,141
Bail-in of deposits and structured products	—	—	—	—	150	150	3,814,495	3,814,495
Shares subject to interim orders withdrawn/ cancelled	—	—	—	—	58,625	58,625	—	—
Bail in of Convertible Bonds 2013/2018, Capital Securities 12/2007 and Convertible Capital Securities	—	—	—	—	—	—	122,541	122,541
Additional shares issued to Laiki Bank for 2013 acquisition	—	—	—	—	12,951	12,951	845,758	845,758
Conversion of CECS into shares	—	—	—	—	—	—	459,399	459,399
Reduction of nominal value of share capital	—	—	—	—	—	(4,280,140)	(2,353,349)	(2,353,349)
Issue of shares	—	—	567	56	4,166,667	416,667	—	—
30 June / 31 December	8,922,945	892,294	8,922,945	892,294	8,922,378	892,238	4,683,985	4,683,985

Authorised share capital

On 28 August 2014, an Extraordinary General Meeting approved the authorised share capital reduction from €4,767,759 thousand divided into 4,767,759,272 ordinary shares with a nominal value of €1.00 each, to €476,776 thousand divided into 4,767,759,272 ordinary shares with a nominal value of €0.10 each.

Following the reduction in the nominal value per share, the authorised share capital was increased from €476,776 thousand divided into 4,767,759,272 ordinary shares with a nominal value of €0.10 each to €4,767,759 thousand divided into 47,677,592,720 ordinary shares of €0.10 each, through the increase of 42,909,833,448 new ordinary shares with a nominal value of €0.10 each, which rank *pari passu* in all respects with each other and with all other ordinary shares of the Company.

Issued share capital

2013

The Company has been recapitalised through a bail-in (deposit-to-equity conversion) of uninsured deposits (Note 2.5). The holders of ordinary shares and debt securities as at 29 March 2013 have contributed to the recapitalisation of the Company through the absorption of losses.

The recapitalisation was effected in accordance with the provisions of the “Bail-in of Bank of Cyprus Public Company Limited Decree of 2013” (the “**Decree**”) issued on 29 March 2013, the “Bail-in of Bank of Cyprus Public Company Limited Amended Decree of 2013” (the “**Amended Decree**”) issued on 21 April 2013 and the “Bail-in of Bank of Cyprus Public Company Limited Amended (No. 2 and 3) Decrees of 2013” (the “**Amended Decrees No. 2 and 3**”) issued on 30 July 2013 by the Central Bank of Cyprus in its capacity as Resolution Authority, (collectively the “**Bail-in Decrees**”).

According to the Amended Decrees No. 2 and 3 the following have been decided:

- Reduction of the nominal value of all ordinary shares from €1.00 each to ordinary shares of nominal value of €0.01 each.

Notes to the Historical Financial Information (Continued)

37. Share capital (continued)

Issued share capital (continued)

2013 (continued)

- The total amount from the reduction of the share capital following the reduction in the nominal value of the issued ordinary shares has been utilised for the reduction of the accumulated losses of the Company.
- As a result of the above amendments, the number of ordinary shares in issue as at 29 March 2013 was adjusted to 17,913 thousand.

Following the conversion of Class A, Class B, Class C and Class D shares to Ordinary Shares as described within the Amended Decrees, No. 2 and 3, every 100 Ordinary Shares of a nominal value €0.01 each, registered to the same shareholder were consolidated and converted to one ordinary share of nominal value of €1.00 each. Any remaining ordinary shares of a nominal value of €0.01 not consolidated (being any number of shares below 100 which might be falling short in reference to each shareholder) were cancelled and the total amount of the nominal value of the shares which was cancelled was utilised for the reduction of the accumulated losses of the Company.

2014

Reduction of nominal value of ordinary shares and additional share capital of €1 billion

On 28 July 2014 the Company announced the successful private placement of 4,166,666,667 new ordinary shares at a price of €0.24 per share with total gross proceeds of €1 billion.

The private placement completed Phase 1 of the capital raising, which was open to qualified investors (as defined in the EU Prospectus Directive and in Article 2 of the Cyprus Public Offer and Prospectus Law), and similarly qualified institutional investors in other jurisdictions, both new investors and existing shareholders.

In Phase 2 of the capital raising, existing shareholders were able to apply to purchase up to 20% in aggregate of the total number of shares offered to qualified investors in the first phase and at the same price as in Phase 1 (the “clawback”). The minimum purchase per investor in the clawback was €100 thousand and all existing shareholders were eligible to participate. Shares in the clawback were allocated among participating shareholders pro rata based on their shareholdings at the time of allocation, excluding any shares acquired in Phase 1. Phase 2 of the capital raising, which involved the clawback of up to 20% of the private placement shares, was completed on 21 August 2014. The Company received valid acceptances in respect of 433,042,768 new ordinary shares at a price of €0.24 per share, with total gross proceeds of €103,930 thousand. The shares subscribed during, and the gross proceeds of, Phase 2 represent 10.39% of the shares placed in, and of the total gross proceeds of €1 billion of the private placement (Phase 1).

Following the results of Phase 2, allocations of new ordinary shares of the Company to investors in the private placement (Phase 1) were reduced on a pro-rata basis by 10.39% in order to accommodate the shares subscribed for by existing shareholders during Phase 2.

On 28 August 2014, an Extraordinary General Meeting of the Company’s shareholders was convened to approve the waiving of the pre-emption rights and the reduction of the nominal value of the ordinary shares.

The shareholders’ EGM approved the €1 billion share capital increase through Phases 1 and 2 of the capital raising. The Company’s shareholders also approved the Retail Offer of new ordinary shares at a subscription price of €0.24 per share for raising of up to €100 million (Phase 3).

Particularly, the EGM approved the following regarding the reduction in the nominal value of each ordinary share:

- The reduction of the issued share capital of the Company from €4,755,711 thousand divided into 4,755,710,678 fully paid ordinary shares with a nominal value of €1.00 each, to €475,571 thousand divided into 4,755,710,678 fully paid ordinary shares with a nominal value of €0.10 each through the

Notes to the Historical Financial Information (Continued)

37. Share capital (continued)

Issued share capital (continued)

2014 (continued)

reduction of the nominal value of each of the ordinary shares comprising the authorised and issued share capital of the Company from €1.00 to €0.10.

- The application from the amount of €4,280,140 thousand corresponding to the amount cancelled from Company's paid-up share capital, in an amount of €2,327,654 thousand for writing off accumulated losses of the Company and in an amount of €1,952,486 thousand for the creation of a capital reduction reserve, in accordance with paragraph (e) of subsection (1) of section 64 of the Companies Law.
- The authorised share capital was increased as described above.

The above resolutions were subject to approval by the court, which was issued on 29 August 2014.

The EGM also approved the relevant resolutions regarding the issue and allotment of ordinary shares under the placing and the open offer:

- The issue and allotment of ordinary shares in the Company up to an aggregate nominal amount of €416,667 thousand (equivalent to 4,166,666,667 ordinary shares of €0.10 each) in connection with and/or for the implementation of the capital raising at a subscription price per ordinary share of €0.24.
- The irrevocable and unconditional waiving of the pre-emptive rights of the Company's shareholders.

Additional to the Phase 1 and Phase 2 of the capital raising, the issued share capital increased by 58,625 thousand shares as a result of the cancellation and withdrawal in 2014 of interim orders prohibiting the Company from converting deposits to shares as a result of the bail-in in 2013. Consequently, 12,951 thousand shares were issued to Laiki Bank in accordance with the provisions of the decrees.

Reduction in nominal value of ordinary shares and additional share capital of €1 billion

On 18 September 2014, as a result of the completion of the issuance of 4,166,667 thousand ordinary shares of a nominal value of €0.10 each, at a subscription price of €0.24, the Company's share capital increased by €416,667 thousand.

On 16 December 2014, the issued ordinary shares of the Company arising from Phases 1 and 2 of the capital raising, the ordinary shares issued to bailed-in holders of uninsured deposits and other products of the Company in accordance with the Bail-in Decrees, the ordinary shares issued to bailed-in holders of subordinated debt securities of the Company in accordance with the Bail-in Decrees and the ordinary shares issued to Laiki Bank pursuant to the Laiki Transfer Decrees, were listed on the CSE and the ATHEX and trading of shares commenced. In addition, the trading suspension on the ordinary shares of the Company already listed on the CSE and the ATHEX was lifted.

The Retail Offer comprised the third and final phase of the capital raising. Subject to the terms and conditions set out in the prospectus, each qualifying shareholder was invited to subscribe for up to a maximum of 416,666,667 new shares at the subscription price of €0.24 per share. Phase 3 was completed on 9 January 2015 and a total of 567,188 new ordinary shares were issued on 14 January 2015. These new shares were listed and commenced trading on the CSE and ATHEX on 2 February 2015.

2015

During 2015 the issued share capital was increased by 567 thousand shares of a nominal value of €0.10 each.

2016

There were no changes to the issued share capital during the six months ended 30 June 2016.

All issued ordinary shares carry the same rights.

Notes to the Historical Financial Information (Continued)

37. Share capital (continued)

Share premium reserve

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

In 2014, as a result of the issuance of 4,166,667 thousand shares of a nominal value of €0.10 each at a subscription price of €0.24 each, the Company's share premium increased by €583,333 thousand. Transaction costs of €30,794 thousand associated with the issue of new shares were deducted from share premium.

During 2015, as a result of the issuance of 567 thousand shares of a nominal value of €0.10 each at a subscription price of €0.24 each, the Company's share premium increased by €79 thousand.

Capital reduction reserve

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

The capital reduction reserve was created upon the reduction of the nominal value of ordinary shares from €1.00 each to €0.10 each in 2014. The reduction in capital amounted to €4,280,140 thousand, of which an amount of €2,327,654 thousand was applied against accumulated losses and an amount of €1,952,486 thousand was credited to the capital reduction reserve.

Shares subject to interim orders

Following the issue of the Bail-in Decrees in 2013, a number of the affected depositors had filed claims against the Company and other parties (CBC, Ministry of Finance, etc) on the ground, inter alia, that the "Resolution of Credit and Other Institutions Law of 2013" and the various Decrees issued by virtue of the Law to implement the bail-in, were in conflict with the Constitution of the Republic and the European Convention of Human Rights.

In some of the actions, interim orders were issued prohibiting the Company from treating the deposits of the applicants in question as bailed-in, i.e. converted into shares. The said actions were contested by the Company and were pending before the District Courts.

The shares which as per the bail-in Decree corresponded to the deposits which were subject to these interim orders were included in equity in the consolidated balance sheet as "Shares subject to interim orders", with an equivalent debit balance included in "Accruals, deferred income and other liabilities" within total liabilities. As at 30 June 2016 and 31 December 2015 there were no shares subject to interim orders (31 December 2014: €441 thousand; 31 December 2013: €58,922 thousand).

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 table below present the number of treasury shares, nominal value and cost of acquisition.

	30 June 2016	31 December		
		2015	2014	2013
	€000	€000	€000	€000
Number of treasury shares (thousands)	—	5,136	20,751	20,767
Nominal value (€ cent)	—	10	10	100
Cost of acquisition (€ thousand)	—	41,301	88,051	88,051

Notes to the Historical Financial Information (Continued)

37. Share capital (continued)

Treasury shares of the Company (continued)

Part of these shares held by entities controlled by the Group resulted from the bail-in of deposits that these entities maintained with the Company. During the six months ended 30 June 2016 all treasury shares have been disposed of, therefore there were no treasury shares as at 30 June 2016.

In addition, the life insurance subsidiary of the Group held, as at 30 June 2016 a total of €2,889 thousand (31 December 2015: €2,889 thousand; 31 December 2014: €3,156 thousand and 31 December 2013: €3,043 thousand) shares of the Company, as part of its financial assets which are invested for the benefit of insurance policyholders (Note 26). As at 30 June 2016 the cost of acquisition of these shares was €25,333 thousand (31 December 2015: €25,333 thousand; 31 December 2014: €25,333 thousand and 31 December 2013: €25,333 thousand).

Share-based payments-share options

On 24 November 2015, the Annual General Meeting of the Company's shareholders authorised the Board to establish and implement a Long Term Incentive Plan and allowed the Company the flexibility to increase the ratio of variable remuneration relative to fixed remuneration up to a maximum of 100% of fixed remuneration for members of senior management ("**Shareholder Resolution**"). The authorised Long Term Incentive Plan involved the granting of options for the acquisition of shares to a defined group of employees of the Group and under the current terms of the Shareholder Resolution:

- (i) the total amount of shares that may be issued and allotted under the Long Term Incentive Plan shall not exceed 178,458,891 ordinary shares of nominal value of €0.10 each,
- (ii) the exercise price shall be set at €0.25 per share,
- (iii) the vested share options will only be able to be exercised three years after the grant date, and
- (iv) any share options not exercised by 31 March 2026 will lapse.

The options will be designed to vest only if certain key performance conditions are met, including amongst other things, the full repayment of ELA, the lifting of dividend restrictions, the cancellation of government guarantee and the performance of eligible employees.

The Long Term Incentive Plan is currently under regulatory review. Therefore, the original proposed grant date under the Shareholder Resolution of 31 March 2016 was postponed until such time that all relevant regulatory approvals have been obtained for the Long Term Incentive Plan.

No share options were issued until the date of approval of this Prospectus.

38. Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividend was declared or paid during the 6 months ended 30 June 2016 and the years 2015, 2014 and 2013 respectively.

39. Accumulated losses

Retained earnings 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 20% for years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals 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-Cypriot tax residents.

Notes to the Historical Financial Information (Continued)

39. Accumulated losses (continued)

For the purpose of arriving at the profit subject to deemed distribution, any capital expenditure incurred in the acquisition of plant and machinery (excluding private saloon cars) and buildings during the years 2012 to 2014 is deducted from the after tax profits. 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 the six months ended 30 June 2016 and years 2015, 2014 and 2013 respectively no deemed dividend distribution was paid by the Company.

40. 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 30 June 2016 amounted to €983,167 thousand (31 December 2015: €1,012,357 thousand, 2014: €951,293 thousand and 31 December 2013: €930,000 thousand).

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).

During 2014, the Group had recognised a provision of €85,751 thousand relating to these obligations. During 2015 the Group had reversed a provision of €41,403 thousand (Notes 17 and 36). There was no additional movement during the six months ended 30 June 2016.

Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 30 June 2016 amount to €14,538 thousand (31 December 2015: €17,099 thousand; 31 December 2014: €5,203 thousand; 31 December 2013: €1,867 thousand).

Pending litigation and claims

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 the Company in 2013 as a result of the Bail-in Decrees, the Company 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

Notes to the Historical Financial Information (Continued)

41. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 30 June 2016 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

Investigations and litigation relating to securities issued by the Company

A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of mis-selling in relation to securities issued by the Company between 2007 and 2011. Remedies sought include the return of the money investors paid for their investments. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Company in related matters by CySEC and/or 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).

The Company 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 Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties. To date, a small number of cases have been tried in Greece. The Company 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. Provision has been made based on management's best estimate of probable outflows based on advice of legal counsel.

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 the Company'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 the Company'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

CySEC is currently in the process of investigating:

- Matters concerning possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transilvania.
- The adequacy of provisions for the impairment of loans and advances in year 2011, which is at the final stages of completion.
- The adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the Asset Quality Review.

Additionally, in late 2014 CySEC completed an investigation into the value of goodwill in CB Uniastrom Bank LLC disclosed in the interim financial statements of the BOC Group in 2012. In October 2016, CySEC issued a decision, concluding that the Company was in breach of certain laws regarding disclosure in accordance, *inter alia*, with the Market Manipulation (Market Abuse) Law of 2005 and has imposed an administrative fine upon the Company of €25,000. CySEC also imposed higher fines upon certain former members of the Board of Directors and former management of the Company. On 24 October 2016, the

Notes to the Historical Financial Information (Continued)

41. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

The Cyprus Securities and Exchange Commission (CySEC) Investigations (continued)

Bank filed a recourse before the Administrative Court against the decisions of CySEC and the fine imposed upon the Bank.

In 2015, CySEC completed an investigation into the reclassification of Greek Government bonds in April 2010. This investigation is currently pending with the Attorney General and CySEC Board.

As the above investigations are in progress or decisions have been reserved, it is not practical at this stage for the Group to estimate reliably the possible consequences thereof, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

Bail-in related litigation

Depositors

A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company 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. The Company is defending these actions.

Shareholders

Numerous claims were filed by shareholders in 2013 (some of whom are current shareholders of the Company) against the Government and the CBC before the Supreme Court of Cyprus 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. The Company 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 of Cyprus 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 date of this Prospectus, 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. It is expected that actions for damages will be instituted by the shareholders in due course before the District Courts of Cyprus.

Claims based on set-off

Certain claims have been filed by customers against the Company 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. The Company intends to contest such claims.

Laiki Bank depositors and shareholders

The Company 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 the Company's bailed-in depositors and shareholders as described above. The Company, *inter alia*, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees

Occasionally, other claims are brought against the Company 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).

Notes to the Historical Financial Information (Continued)

41. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

Bail-in related litigation (continued)

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.

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, the Company and JCC Payment Systems Ltd (“JCC”), a card-processing business currently 75% owned by the Company.

The CPC also alleged that the Company’s arrangements with American Express violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) breached relevant competition law requirements. For the time being, the proceedings before the CPC are not proceeding due to an Administrative Court decision holding that the composition of the CPC was contrary to law. This decision is subject to an appeal instituted before the Supreme Court of Cyprus by the Attorney General. The Company intends to file a recourse before the Administrative Court for the annulment of the CPC’s decision in the event that such decision stands and if and when a fine is imposed in reliance thereof. At this stage it is not possible to predict the amount of the fine that may be imposed upon the Company, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

CNP Arbitration

The French entity CNP Assurances S.A. had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in, *inter alia*, Cyprus through the formation of a local company (CNP Cyprus Insurance Holdings Ltd (a company in which the Group now has a 49.9% shareholding, acquired as part of the acquisition of certain operations of Laiki Bank pursuant to Regulatory Administrative Act 104/2013)). CNP Assurances S.A. held 50.1% of the shares of CNP Cyprus Insurance Holdings Ltd and Laiki Bank held 49.9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP Assurances S.A. and Laiki Bank, a Shareholders’ Agreement and a Distribution Agreement (to which Distribution Agreement CNP Cyprus Insurance Holdings Ltd was also a party).

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Company was a successor to Laiki Bank in respect of both the Shareholders’ and Distribution Agreements and that the said Agreements were violated by the Company. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amounted to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The Tribunal award was issued in September 2016, rejecting all claims made by the Claimants with costs in favour of the Company.

Provident fund cases

A number of claims which were pending before the Cypriot Labour Disputes Tribunal by certain of the Company’s former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Company, utilising part of the provisions for pending litigation in place.

Notes to the Historical Financial Information (Continued)

41. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

Provident fund cases (continued)

In December 2015, the Bank of Cyprus Employees Provident Fund (the “Provident Fund”) filed an action against the Company claiming €70 million allegedly owed as part of the Company’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 the Company to predict the resolution of this matter, including the timing or any possible impact on the Company, however at this stage the Group does not expect a material impact on its financial position.

Employment litigation

Former senior officers of the Company have instituted a total of three claims for unfair dismissal and for Provident Fund entitlements against the Bank and Trustees of the Provident Fund. As at the date of this Prospectus one case had been dismissed as filed out of time but the plaintiff has appealed against this ruling. The Group does not consider that these cases will have a material impact upon its financial position.

Greek case

In connection with a legal dispute (one case by the Company against Themis and one by Themis against the Company) relating to the Company’s discontinued operations in Greece (Themis case), a provision was recognised in previous periods (30 September 2014: €39.0 million) following a court judgment of the Athens Court of Appeal (dismissing the Company’s case and upholding the Themis case). This provision was reversed as at 31 December 2014 following the dismissal of the judgment by the Greek Supreme Court in March 2015. The Supreme Court further ruled that these claims (the Company’s claim against Themis for approximately €25 million which had been transferred to Piraeus Bank SA in March 2013, as well as Themis’ claim against the Company for a similar amount) be reconsidered by the Supreme Court on the merits at the instigation of the affected party. Both cases are fixed to be heard in December 2016. The Group does not consider that this case will have a material impact upon its financial position.

Swiss Francs loans litigation in Cyprus and UK

A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). Borrowers have seen their monthly loan repayments increase significantly due to the strengthening of the Swiss Franc during recent years and especially in 2015, and the interest rate and margin being charged by certain Cypriot banks (including the Company). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company intends to contest such proceedings. The Group does not expect that these actions will have a material impact upon its financial position.

UK property lending claims

The Company is the defendant in certain proceedings alleging that the Company 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

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney General and the Cypriot police (the “Police”) are conducting various investigations into the Company’s investment in Greek Government bonds, including their reclassification in the Company’s financial statements. The Company 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.

Notes to the Historical Financial Information (Continued)

41. Contingent liabilities and commitments (continued)

Pending litigation and claims (continued)

General criminal investigations and proceedings (continued)

The Attorney General has filed a criminal case against the Company and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. The Company denies all allegations. The case is fixed for hearing on 2, 5, 12, 13 and 16 December 2016. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

The Attorney General has filed a separate criminal case against the Company and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The alleged offence refers to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. The Company denies all allegations. The next stage is that the case is fixed for argument and objections before plea on 6 December 2016. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

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.

Notes to the Historical Financial Information (Continued)

42. Net cash flow from operating activities

	6 months ended		Year		
	30 June 2016	30 June 2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Profit/(loss) before tax from continuing operations	75,937	98,651	(379,992)	11,716	(515,304)
Loss before tax from discontinued operations	—	(36,085)	(65,062)	(307,718)	(1,557,975)
<i>Adjustments for:</i>					
Provisions for impairment of loans and advances to customers and other customer credit losses and gain on derecognition and changes in expected cash flows	157,759	263,351	1,002,130	921,301	1,099,610
Depreciation of property and equipment	5,788	6,159	12,257	16,579	26,274
Amortisation of intangible assets	3,506	3,426	7,001	8,679	13,410
Impairment of property and equipment	—	—	1,203	1,460	5,165
Impairment on measurement of disposal groups at fair value less costs to sell	—	2,215	3,288	113,855	—
Impairment of other financial instruments	12,228	31,168	43,503	56,540	22,786
Losses on disposal of discontinued operations	—	—	17,392	114,228	1,365,624
Profit upon disposal of disposal group classified as held for sale	(2,545)	—	—	—	—
Amortisation of discounts/premiums and catch-up adjustment of debt securities	(13,447)	(40,234)	(65,215)	(53,764)	(98,328)
(Gains)/losses on disposal and write-offs of property and equipment and intangible assets	(38)	(31)	70	2,273	3,064
(Gains)/losses on disposal and revaluation of investment properties and investment properties held for sale	(5,806)	23,562	665	170	—
Losses from revaluation of investment properties and investment properties held for sale	—	—	52,575	11,122	78,203
Interest on debt securities	—	—	(7,037)	(140,732)	(208,262)
Dividend income	(119)	(273)	(900)	(338)	(432)
Net gains on disposal of available-for-sale investments in equity securities	(58,330)	(944)	(1,075)	(48,907)	(962)
Net (gains)/losses on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	(61)	12	(49,504)	(102,837)	11,530
Share of (profit)/losses from associates and joint ventures	(1,606)	(3,438)	(5,923)	(4,852)	4,702
Loss on dissolution/disposal of subsidiaries	1,049	—	—	—	1,361
(Profit)/loss from revaluation of debt securities designated as fair value hedges	(1,323)	5,456	11,600	(2,162)	28,168
Impairment of investment in associate	—	—	—	2,078	—
Interest on subordinated loan stock	—	—	—	—	(4,319)
Gain on disposal of joint ventures	—	(10,062)	(10,005)	—	—
Losses/(gains) on disposal of stock of property	3,533	(196)	—	—	—
Impairment of stock of property	9,362	—	17,792	—	—
Interest on funding from central banks	21,483	45,242	78,187	138,643	167,560
Interest on debt securities in issue	—	22	25	86	629
Change in value of in-force life insurance business	(852)	(518)	(1,499)	(6,042)	(3,275)
	206,518	387,483	661,476	731,378	439,229

Notes to the Historical Financial Information (Continued)

42. Net cash flow from operating activities (continued)

	6 months ended		Year		
	30 June 2016	30 June 2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
<i>Change in:</i>					
Loans and advances to banks	31,250	45,061	119,140	88,053	1,577,763
Deposits by banks	101,072	37,202	51,029	(66,684)	(1,356,804)
Obligatory balances with central banks . . .	(3,279)	(43,063)	362,954	283,715	422,212
Customer deposits	565,792	459,905	1,503,754	(1,648,459)	(6,080,246)
Value of in-force life insurance policies and liabilities	(3,250)	738	(12,187)	(4,541)	(164)
Loans and advances to customers	72,655	(269,162)	(51,339)	1,730,517	2,345,033
Other assets	52,852	(11,198)	6,373	139,921	224,680
Accrued income and prepaid expenses . . .	208	604	446	(233)	(691)
Other liabilities	5,422	(24,790)	(44,366)	40,607	(93,559)
Accrued expenses and deferred income . .	23,728	(31,022)	16,042	13,548	(3,510)
Derivative financial instruments	4,358	31,469	30,418	(45,171)	(132,199)
Investments at fair value through profit or loss	640	(2,339)	(16,438)	(9,187)	(3,342)
Repurchase agreements	30,257	(3,214)	(211,531)	(14,322)	(13,769)
Subordinated loan stock	—	(11)	475	(918)	(129,574)
Proceeds on disposal of stock of property .	64,667	196	5,617	—	—
	1,152,890	577,859	2,421,863	1,238,224	(2,804,941)
Tax (paid)/received	(2,352)	100	(3,485)	(4,223)	(11,194)
Net cash flow from operating activities . . .	1,150,538	577,959	2,418,378	1,234,001	(2,816,135)

Non-cash transactions

Six months ended 30 June 2016

Acquisition of S.Z. Eliades Leisure Ltd

During the six months ended 30 June 2016, the Group acquired a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of the majority of the borrowing due from S.Z. Eliades Leisure Ltd to the Company, as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 54.1.1.

Sale of shares held in Visa Europe Ltd

During the six months ended 30 June 2016, the Group sold its shares held in Visa Europe Ltd following the purchase of Visa Europe Ltd by Visa Inc. The transaction in addition to the cash paid, involved the granting of preferred stock in Visa Inc. with a carrying value of approximately €8 million and a deferred cash component of a carrying value of approximately €4 million.

Repossession of collaterals

During the six months ended 30 June 2016, the Group acquired stock of property by taking possession of collaterals held as security for customer loans and advances and held by the Group as at 30 June 2016 of €641.856 thousand (Note 29).

2015

Disposal of the majority of the Russian operations

On 25 September 2015, the Group completed the disposal of the majority of its Russian operations. As part of the sales agreement the parties agreed to an asset swap arrangement which involved the exchange of certain assets between them that resulted in a €41,849 thousand receivable for the Group.

Notes to the Historical Financial Information (Continued)

42. Net cash flow from operating activities (continued)

Non-cash transactions (continued)

2015 (continued)

Disposal of Aphrodite group

During 2015, the Group disposed of a 65% shareholding in the Aphrodite group. The transaction involved the restructuring of the debt owed by this group to the Company. Further information is disclosed in Note 31.

2014

Bail-in

Deposits under interim orders withdrawn and cancelled in 2014 of €58,625 thousand were converted into issued share capital. Customer deposits were reduced by an equivalent amount and the respective credit entry was reflected in “Accruals, deferred income and other liabilities”.

Further details on the recapitalisation of the Company through the Bail-in Decrees are presented in Note 37.

During 2014, following the withdrawal and cancellation of interim orders described in Note 37, 12,951 thousand additional shares were issued to Laiki Bank in relation to the 2013 acquisition.

Disposal of Ukrainian operations

In April 2014, the Group completed the disposal of its Ukrainian operations. The sale consideration was €198,860 thousand, comprising €98,860 thousand received and €100,000 thousand deferred up to 31 March 2015. In 2015, the settlement terms of the deferred consideration and the related interest rate were amended. The deferred consideration is due to be paid to the Group under a repayment programme which extends until 1 June 2019. The assets and liabilities of the Group’s Ukrainian business at the date of its disposal are presented in Note 54.5.1.

Reduction of nominal value of ordinary shares and share capital issue

During 2014, the Company reduced the nominal value of its issued ordinary shares from €1.00 each to €0.10 each and the total amount from the reduction was applied for the absorption of losses of the Company and the creation of a capital reduction reserve.

As part of the 2014 capital raising, existing customer deposits amounting to €106,000 thousand were used to subscribe for new shares.

Details of the 2014 reduction of the nominal value of ordinary shares and the 2014 capital raising are presented in Note 37.

2013

Bail-in

As part of the recapitalisation of the Company, 47.5% of uninsured deposits and structured products as well as debt securities in issue on 29 March 2013 were converted into ordinary shares further to the decrees issued by the Resolution Authority. In addition the nominal value of the ordinary shares was reduced and the full amount of the share premium was applied against the accumulated losses. Further details on the recapitalisation of the Company through the Bail-in Decrees are presented in Note 37.

Acquisition of certain operations of Laiki Bank

In 2013, following the “Sale of Certain Operations of the Group of Cyprus Popular Bank Public Co Ltd Decree” issued on 29 March 2013, the Company acquired the insured deposits, ELA funding and the majority of assets and loans of the Laiki Bank. In consideration of the transaction the Company issued ordinary shares to Laiki Bank which comprised 18.1% of the share capital of the Company following completion of the recapitalisation. More details on the shares issued to Laiki Bank and the net assets acquired are presented in Note 54.6.1.

Notes to the Historical Financial Information (Continued)

42. Net cash flow from operating activities (continued)

Net cash flow used in operating activities—interest and dividends

	6 months ended		Year		
	30 June 2016	30 June 2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
Interest paid	(113,976)	(189,597)	(342,158)	(477,593)	(811,421)
Interest received	545,261	553,305	1,270,146	1,251,613	1,714,437
Dividends received	119	273	900	338	421
	<u>431,404</u>	<u>363,981</u>	<u>928,888</u>	<u>774,358</u>	<u>903,437</u>

43. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2016	30 June 2015 (unaudited)	31 December		
	€000	€000	2015	2014	2013
	€000	€000	€000	€000	€000
Cash and non-obligatory balances with central banks	1,392,577	482,946	1,299,795	655,263	446,143
Treasury bills repayable within three months	9,992	23,463	21,451	179,398	199,003
Loans and advances to banks with original maturity less than three months	989,911	1,134,643	1,085,098	1,304,358	818,097
Cash and balances with central banks and loans and advances to banks with maturity less than three months classified as held for sale	—	106,922	—	99,582	—
Cash and non-obligatory balances with central banks	<u>2,392,480</u>	<u>1,747,974</u>	<u>2,406,344</u>	<u>2,238,601</u>	<u>1,463,243</u>

Analysis of cash and balances with central banks and loans and advances to banks

	30 June 2016	31 December		
	€000	2015	2014	2013
	€000	€000	€000	€000
Cash and non-obligatory balances with central banks	1,392,577	1,299,795	655,263	446,143
Obligatory balances with central banks	126,086	122,807	484,202	793,900
Total cash and balances with central banks (Note 21)	<u>1,518,663</u>	<u>1,422,602</u>	<u>1,139,465</u>	<u>1,240,043</u>
Loans and advances to banks with original maturity less than three months	989,911	1,085,098	1,304,358	818,097
Other restricted loans and advances to banks	78,091	82,123	70,771	221,255
Other loans and advances to banks	106,121	147,159	271,757	250,750
Total loans and advances to banks (Note 21)	<u>1,174,123</u>	<u>1,314,380</u>	<u>1,646,886</u>	<u>1,290,102</u>

At 30 June 2016, other restricted loans and advances to banks relate to collateral under derivative transactions of €78,091 thousand (31 December 2015: €82,123 thousand, 31 December 2014: €70,771 thousand and 31 December 2013: €221,255 thousand) which is not immediately available for use by the Group, but is released once the transactions are terminated.

Notes to the Historical Financial Information (Continued)

44. Operating leases—The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 30 June 2016 and 31 December 2015, 2014 and 2013 are presented below:

	30 June 2016	31 December		
	<u>€000</u>	<u>2015</u> €000	<u>2014</u> €000	<u>2013</u> €000
Within one year	2,376	1,615	2,309	3,803
Between one and five years	5,529	3,680	3,845	4,761
After five years	333	472	1,057	1,338
	<u>8,238</u>	<u>5,767</u>	<u>7,211</u>	<u>9,902</u>

The above mainly relate to property leases for the Group's branches and offices.

Notes to the Historical Financial Information (Continued)

45. Analysis of assets and liabilities by expected maturity

	30 June 2016			31 December 2015			31 December 2014			31 December 2013		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Assets												
Cash and balances with central banks	1,393,737	124,926	1,518,663	1,300,846	121,756	1,422,602	660,104	479,361	1,139,465	784,128	455,915	1,240,043
Loans and advances to banks	1,040,743	133,380	1,174,123	1,212,418	101,962	1,314,380	1,522,315	124,571	1,646,886	734,578	555,524	1,290,102
Derivative financial assets	14,012	291	14,303	13,939	84	14,023	61,896	702	62,598	25,045	3,720	28,765
Investments	200,248	639,495	839,743	348,596	660,691	1,009,287	571,863	1,969,059	2,540,922	261,731	3,170,933	3,432,664
Loans and advances to customers	6,717,355	9,535,882	16,253,237	5,147,878	12,043,754	17,191,632	4,487,855	13,680,468	18,168,323	6,006,000	15,758,338	21,764,338
Life insurance business assets attributable to policyholders	14,439	466,970	481,409	17,243	458,160	475,403	20,906	452,086	472,992	17,323	426,256	443,579
Prepayments, accrued income and other assets	111,606	126,512	238,118	87,690	194,090	281,780	234,670	88,162	322,832	317,295	95,710	413,005
Property, equipment and intangible assets	197	420,980	421,177	485	397,636	398,121	8,086	409,736	417,822	1,025	543,959	544,984
Investment properties	—	37,505	37,505	—	34,628	34,628	—	488,598	488,598	49,426	446,232	495,658
Investments in associates and joint ventures	—	110,009	110,009	—	107,753	107,753	—	116,776	116,776	—	203,131	203,131
Deferred tax assets	6,402	444,724	451,126	8,828	447,703	456,531	9,905	446,966	456,871	23,498	455,562	479,060
Stock of property	266,945	861,848	1,128,793	90,115	425,743	515,858	1,799	10,863	12,662	127	13,983	14,110
Non-current assets and disposal groups held for sale	11,460	—	11,460	48,503	—	48,503	942,655	—	942,655	—	—	—
	<u>9,777,144</u>	<u>12,902,522</u>	<u>22,679,666</u>	<u>8,276,541</u>	<u>14,993,960</u>	<u>23,270,501</u>	<u>8,522,054</u>	<u>18,267,348</u>	<u>26,789,402</u>	<u>8,220,176</u>	<u>22,129,263</u>	<u>30,349,439</u>

Notes to the Historical Financial Information (Continued)

45. Analysis of assets and liabilities by expected maturity (continued)

	30 June 2016			31 December 2015			31 December 2014			31 December 2013		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Liabilities												
Deposits by banks	282,515	60,247	342,762	206,997	35,140	242,137	114,143	48,245	162,388	117,711	79,203	196,914
Funding from central banks	2,400,667	700,000	3,100,667	2,744,764	1,708,086	4,452,850	1,554,000	6,729,773	8,283,773	157,000	10,799,277	10,956,277
Repurchase agreements	54,554	343,854	398,408	111,605	256,546	368,151	230,305	349,377	579,682	13,928	580,076	594,004
Derivative financial liabilities	13,037	46,000	59,037	16,032	38,367	54,399	13,371	58,596	71,967	16,027	67,867	83,894
Customer deposits	4,996,686	9,749,787	14,746,473	4,981,609	9,199,072	14,180,681	4,416,865	8,206,693	12,623,558	5,579,459	9,391,708	14,971,167
Insurance liabilities	85,622	484,059	569,681	80,118	486,807	566,925	93,837	482,864	576,701	97,394	454,435	551,829
Accruals, deferred income and other liabilities	252,612	68,823	321,435	219,346	63,485	282,831	317,664	32,767	350,431	138,609	63,433	202,042
Debt securities in issue	—	—	—	712	—	712	—	693	693	349	674	1,023
Subordinated loan stock	—	—	—	—	—	—	—	—	—	2,598	2,078	4,676
Deferred tax liabilities	293	44,918	45,211	415	40,392	40,807	565	44,176	44,741	5,930	44,007	49,937
Non-current liabilities and disposal groups held for sale	—	—	—	3,677	—	3,677	614,421	—	614,421	—	—	—
	<u>8,085,986</u>	<u>11,497,688</u>	<u>19,583,674</u>	<u>8,365,275</u>	<u>11,827,895</u>	<u>20,193,170</u>	<u>7,355,171</u>	<u>15,953,184</u>	<u>23,308,355</u>	<u>6,129,005</u>	<u>21,482,758</u>	<u>27,611,763</u>

Notes to the Historical Financial Information (Continued)

45. Analysis of assets and liabilities by expected maturity (continued)

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

The MRO which forms part of the funding from central banks has been included in the over one year time band, since it is expected that it will continue to be required and available. It is noted, however, that funding under both MRO and ELA has a contractual maturity of less than one year whereas funding under TLTRO has a contractual maturity of over one year.

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.

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 impaired loans as defined in Note 46, net of specific and collective provisions, and the loans which are past due for more than 90 days, 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. Loans and advances to customers in Russia are classified based on historic behavioural data.

A percentage of customer deposits in Cyprus maturing within one year is transferred in the over one year time band, based on the observed behavioural analysis. In the United Kingdom, Romania, Ukraine and Channel Islands deposits are classified on the basis of contractual maturities. Customer deposits in Russia are classified based on behavioural data, with the exception of demand deposits which are classified in the less than one year time band.

Trading investments are classified in the less than one year column.

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 do not 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 department sets the Group's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line and monitors 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.

The Credit Risk 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 modern 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 department determines the prohibitive/high risk sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of risk.

Notes to the Historical Financial Information (Continued)

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 recommendations for limits to be set for banks and countries to the Group ALCO for approval.

The Group applies stricter lending criteria and has significantly reduced the approval limits of the various credit authorities since 2013. Lending criteria and approval limits are revised in a dynamic way to accommodate new market conditions and satisfy the Group's Risk Appetite Statement.

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:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
On-balance sheet				
Cyprus	17,900,020	18,851,208	21,443,313	23,382,465
Greece	56,923	57,032	156,043	253,267
Russia	43,788	93,432	625,207	1,253,638
United Kingdom	1,590,790	1,673,293	1,525,666	1,933,459
Romania	216,649	266,695	478,432	617,170
Ukraine	—	—	—	336,591
	<u>19,808,170</u>	<u>20,941,660</u>	<u>24,228,661</u>	<u>27,776,590</u>
Off-balance sheet				
Cyprus	2,636,099	2,736,014	3,067,737	3,629,580
Greece	118,627	131,172	185,271	335,073
Russia	—	20,000	79,926	154,901
United Kingdom	19,131	21,063	18,225	18,995
Romania	307	307	317	3,466
Ukraine	—	—	—	586
	<u>2,774,164</u>	<u>2,908,556</u>	<u>3,351,476</u>	<u>4,142,601</u>
Total on and off-balance sheet				
Cyprus	20,536,119	21,587,222	24,511,050	27,012,045
Greece	175,550	188,204	341,314	588,340
Russia	43,788	113,432	705,133	1,408,539
United Kingdom	1,609,921	1,694,356	1,543,891	1,952,454
Romania	216,956	267,002	478,749	620,636
Ukraine	—	—	—	337,177
	<u>22,582,334</u>	<u>23,850,216</u>	<u>27,580,137</u>	<u>31,919,191</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

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

Loans and advances to customers (continued)

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.

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.

As at 31 December 2014, off-balance sheet exposures include exposures in the Group's Russian operations classified as a disposal group held for sale (Note 31).

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

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	
	€000	€000	€000	€000	€000	€000	€000	€000
30 June 2016								
Balances with central banks (Note 21)	1,360,515	—	—	—	—	—	—	1,360,515
Loans and advances to banks (Note 21)	1,174,123	—	—	—	—	—	—	1,174,123
Trading investments—debt securities (Note 22)	321	—	—	—	—	—	—	321
Debt securities at fair value through profit or loss (Note 22)	17,187	—	—	—	—	—	—	17,187
Debt securities classified as available-for-sale and loans and receivables (Note 22)	773,527	—	—	—	—	—	—	773,527
Derivative financial instruments (Note 23)	14,303	—	—	—	—	—	—	14,303
Loans and advances to customers (Note 25)	16,253,237	397,544	208,089	392,724	22,774,149	317,765	(9,435,395)	14,654,876
Debtors (Note 30)	25,134	—	—	—	—	—	—	25,134
Reinsurers' share of insurance contract liabilities (Note 30)	54,088	—	—	—	—	—	—	54,088
Other assets	135,735	—	—	—	—	—	—	135,735
On-balance sheet total	19,808,170	397,544	208,089	392,724	22,774,149	317,765	(9,435,395)	14,654,876
<i>Contingent liabilities</i>								
Acceptances and endorsements	8,200	534	—	24	9,637	9	(4,081)	6,123
Guarantees	781,420	68,909	4,094	78,048	164,565	525	(200)	315,941
<i>Commitments</i>								
Documentary credits	17,796	1,474	9	98	7,705	231	—	9,517
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,966,748	32,346	781	2,326	269,272	7,134	—	311,859
Off-balance sheet total	2,774,164	103,263	4,884	80,496	451,179	7,899	(4,281)	643,440
Total credit risk exposure	22,582,334	500,807	212,973	473,220	23,225,328	325,664	(9,439,676)	15,298,316

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

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	
	€000	€000	€000	€000	€000	€000	€000	€000
31 December 2015								
Balances with central banks (Note 21)	1,268,585	—	—	—	—	—	—	1,268,585
Loans and advances to banks (Note 21)	1,314,380	28,667	—	—	—	—	28,667	1,285,713
Trading investments—debt securities (Note 22)	317	—	—	—	—	—	—	317
Debt securities at fair value through profit or loss (Note 22)	17,430	—	—	—	—	—	—	17,430
Debt securities classified as available-for-sale and loans and receivables (Note 22)	898,869	—	—	—	—	—	—	898,869
Derivative financial instruments (Note 23)	14,023	—	—	—	—	—	—	14,023
Loans and advances to customers (Note 25)	17,191,632	484,628	253,305	377,011	23,791,204	348,057	(9,717,984)	15,536,221
Debtors (Note 30)	23,020	—	—	—	—	—	—	23,020
Reinsurers' share of insurance contract liabilities (Note 30)	56,763	—	—	—	—	—	—	56,763
Other assets	156,641	—	4,600	—	19,043	—	—	23,643
On-balance sheet total	20,941,660	513,295	257,905	377,011	23,810,247	348,057	(9,717,984)	15,588,531
<i>Contingent liabilities</i>								
Acceptances and endorsements	8,385	717	—	—	13,124	32	(7,478)	6,395
Guarantees	793,111	52,455	687	73,436	187,437	10,442	(237)	324,220
<i>Commitments</i>								
Documentary credits	18,441	1,123	9	71	8,245	495	—	9,943
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,088,619	30,445	1,302	1,744	336,646	14,433	(28,544)	356,026
Off-balance sheet total	2,908,556	84,740	1,998	75,251	545,452	25,402	(36,259)	696,584
Total credit risk exposure	23,850,216	598,035	259,903	452,262	24,355,699	373,459	(9,754,243)	16,285,115

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

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						Surplus collateral	Net collateral	Net exposure to credit risk
		Cash	Securities	Letters of credit/ guarantee	Property	Other				
	€000	€000	€000	€000	€000	€000	€000	€000	€000	
31 December 2014										
Balances with central banks (Note 21)	954,412	—	—	—	—	—	—	—	954,412	
Loans and advances to banks (Note 21)	1,646,886	3,316	—	—	—	—	—	3,316	1,643,570	
Trading investments—debt securities (Note 22)	1	—	—	—	—	—	—	—	1	
Debt securities at fair value through profit or loss (Note 22)	17,151	—	—	—	—	—	—	—	17,151	
Debt securities classified as available-for-sale and loans and receivables (Note 22)	2,491,167	—	—	—	—	—	—	—	2,491,167	
Derivative financial instruments (Note 23)	62,598	16,685	—	—	—	—	—	16,685	45,913	
Loans and advances to customers (Note 25)	18,168,323	599,824	370,302	1,395,931	24,762,117	238,068	(11,366,689)	15,999,553	2,168,770	
Assets held for sale (Note 31)	625,207	250	—	8,299	1,160,777	20,562	(688,682)	501,206	124,001	
Debtors (Note 30)	21,279	—	—	—	—	—	—	—	21,279	
Reinsurers' share of insurance contract liabilities (Note 30)	66,177	—	—	—	—	—	—	—	66,177	
Other assets	175,460	—	—	—	—	—	—	—	175,460	
On-balance sheet total	24,228,661	620,075	370,302	1,404,230	25,922,894	258,630	(12,055,371)	16,520,760	7,707,901	
<i>Contingent liabilities</i>										
Acceptances and endorsements	9,227	6	—	—	1,311	—	(840)	477	8,750	
Guarantees	972,673	102,555	1,705	14,803	700,181	8,167	(33,715)	793,696	178,977	
Guarantees related to the disposal group held for sale	8,547	1,499	—	—	9,662	996	(3,991)	8,166	381	
<i>Commitments</i>										
Documentary credits	16,217	—	—	—	—	—	—	—	16,217	
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,273,433	210	—	—	45,649	—	(29,236)	16,623	2,256,810	
Undrawn formal stand-by facilities, credit lines and other commitments to lend for disposal group held for sale	71,379	—	—	—	—	—	—	—	71,379	
Off-balance sheet total	3,351,476	104,270	1,705	14,803	756,803	9,163	(67,782)	818,962	2,532,514	
Total credit risk exposure	27,580,137	724,345	372,007	1,419,033	26,679,697	267,793	(12,123,153)	17,339,722	10,240,415	

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

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
31 December 2013									
Balances with central banks (Note 21)	1,084,830	—	—	—	—	—	—	—	1,084,830
Loans and advances to banks (Note 21)	1,290,102	915	—	—	—	—	—	915	1,289,187
Trading investments—debt securities (Note 22)	103	—	—	—	—	—	—	—	103
Debt securities at fair value through profit or loss (Note 22)	15,549	—	—	—	—	—	—	—	15,549
Debt securities classified as available-for-sale and loans and receivables (Note 22)	3,307,095	—	—	—	—	—	—	—	3,307,095
Derivative financial instruments (Note 23)	28,765	10,291	—	—	—	—	—	10,291	18,474
Loans and advances to customers (Note 25)	21,764,338	816,977	699,086	1,129,167	26,555,058	778,019	(11,025,923)	18,952,384	2,811,954
Debtors (Note 30)	22,956	—	—	—	—	—	—	—	22,956
Reinsurers' share of insurance contract liabilities (Note 30)	68,387	—	—	—	—	—	—	—	68,387
Other assets	194,465	—	—	—	—	—	—	—	194,465
On-balance sheet total	27,776,590	828,183	699,086	1,129,167	26,555,058	778,019	(11,025,923)	18,963,590	8,813,000
<i>Contingent liabilities</i>									
Acceptances and endorsements	20,467	1,094	80	3,760	11,225	1,011	(5,805)	11,365	9,102
Guarantees	1,207,501	22,324	1,929	9,321	384,327	16,982	(167,442)	267,441	940,060
<i>Commitments</i>									
Documentary credits	10,919	27	—	—	—	—	—	27	10,892
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,903,714	—	—	14,440	—	—	—	14,440	2,889,274
Off-balance sheet total	4,142,601	23,445	2,009	27,521	395,552	17,993	(173,247)	293,273	3,849,328
Total credit risk exposure	31,919,191	851,628	701,095	1,156,688	26,950,610	796,012	(11,199,170)	19,256,863	12,662,328

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and 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.

In addition to the above, the Group's overseas subsidiaries must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

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 book value 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.

Classification of loans and advances to customers by customer sector

The Group is monitoring the loan portfolio by customer sector. An important component of the Group's operational structure is the establishment of the Restructuring and Recoveries Division (“**RRD**”) for the purposes of centralising and streamlining the management of its delinquent loans. RRD is responsible for the management of all activity relating to corporate exposures greater than €100 million, debt restructuring and debt collection and recovery on delinquent loans across all customer segments and all corporate exposures greater than €6 million and/or corporate clients with a minimum annual credit turnover of €10 million which are, in each case, more than 60 days past due. RRD was established in 2014 and therefore no comparative information for 2013 was available for the new operational structure.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

Geographical and industry concentrations of Group loans and advances to customers are presented below:

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000
30 June 2016								
By economic activity								
Trade	2,146,294	—	14,889	12,328	60,610	2,234,121	(109,637)	2,124,484
Manufacturing	763,446	—	7,869	7,785	16,852	795,952	(30,069)	765,883
Hotels and catering	1,343,628	—	95,391	6,395	—	1,445,414	(62,225)	1,383,189
Construction	3,324,401	—	19,247	78,395	11,208	3,433,251	(258,480)	3,174,771
Real estate	2,123,416	19,798	939,977	241,135	6,561	3,330,887	(133,378)	3,197,509
Private individuals	7,138,901	216	31,795	3,382	—	7,174,294	(241,118)	6,933,176
Professional and other services	1,379,379	—	57,310	13,017	99,378	1,549,084	(84,926)	1,464,158
Other sectors	1,055,016	24,887	12,054	28,439	—	1,120,396	(123,245)	997,151
	<u>19,274,481</u>	<u>44,901</u>	<u>1,178,532</u>	<u>390,876</u>	<u>194,609</u>	<u>21,083,399</u>	<u>(1,043,078)</u>	<u>20,040,321</u>
By customer sector								
Corporate	8,150,852	44,685	922,564	374,269	177,601	9,669,971	(550,984)	9,118,987
Small and medium-sized enterprises (“SMEs”)	4,297,807	—	225,048	16,169	10,447	4,549,471	(230,709)	4,318,762
Retail								
—housing	4,258,789	—	14,851	102	—	4,273,742	(105,432)	4,168,310
—consumer, credit cards and other	2,105,955	216	16,069	336	6,561	2,129,137	(145,965)	1,983,172
International banking services	396,505	—	—	—	—	396,505	(4,336)	392,169
Wealth management	64,573	—	—	—	—	64,573	(5,652)	58,921
	<u>19,274,481</u>	<u>44,901</u>	<u>1,178,532</u>	<u>390,876</u>	<u>194,609</u>	<u>21,083,399</u>	<u>(1,043,078)</u>	<u>20,040,321</u>
By business line								
Corporate	2,239,601	44,685	922,564	276,607	163,916	3,647,373	(55,437)	3,591,936
SMEs	1,489,096	—	225,048	16,169	10,447	1,740,760	(41,230)	1,699,530
Retail								
—housing	3,598,852	—	14,851	102	—	3,613,805	(43,732)	3,570,073
—consumer, credit cards and other	1,358,497	216	16,069	336	—	1,375,118	(31,822)	1,343,296
Restructuring								
—major corporate	2,491,394	—	—	35,156	—	2,526,550	(165,423)	2,361,127
—corporate	1,369,298	—	—	—	—	1,369,298	(40,898)	1,328,400
—SMEs	1,300,952	—	—	—	—	1,300,952	(57,095)	1,243,857
Recoveries								
—corporate	2,050,559	—	—	62,506	13,685	2,126,750	(289,226)	1,837,524
—SMEs	1,507,759	—	—	—	—	1,507,759	(132,384)	1,375,375
—retail housing	659,937	—	—	—	—	659,937	(61,700)	598,237
—retail other	747,458	—	—	—	6,561	754,019	(114,143)	639,876
International banking services	396,505	—	—	—	—	396,505	(4,336)	392,169
Wealth management	64,573	—	—	—	—	64,573	(5,652)	58,921
	<u>19,274,481</u>	<u>44,901</u>	<u>1,178,532</u>	<u>390,876</u>	<u>194,609</u>	<u>21,083,399</u>	<u>(1,043,078)</u>	<u>20,040,321</u>

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000
31 December 2015								
By economic activity								
Trade	2,267,092	—	23,138	12,360	57,704	2,360,294	(121,192)	2,239,102
Manufacturing	801,536	—	9,214	7,604	15,066	833,420	(31,596)	801,824
Hotels and catering	1,463,129	—	98,871	6,209	—	1,568,209	(77,444)	1,490,765
Construction	3,976,254	—	27,119	56,830	10,457	4,070,660	(335,803)	3,734,857
Real estate	2,130,028	43,443	927,423	250,956	69,132	3,420,982	(137,185)	3,283,797
Private individuals	7,282,322	216	44,627	5,684	—	7,332,849	(268,496)	7,064,353
Professional and other services	1,595,010	—	64,398	38,834	96,542	1,794,784	(101,913)	1,692,871
Other sectors	1,145,327	24,866	12,325	28,759	—	1,211,277	(133,781)	1,077,496
	<u>20,660,698</u>	<u>68,525</u>	<u>1,207,115</u>	<u>407,236</u>	<u>248,901</u>	<u>22,592,475</u>	<u>(1,207,410)</u>	<u>21,385,065</u>
By customer sector								
Corporate	9,222,429	68,309	918,423	386,973	232,733	10,828,867	(666,631)	10,162,236
SMEs	4,408,096	—	248,647	17,523	9,520	4,683,786	(263,630)	4,420,156
Retail								
—housing	4,285,156	—	17,336	1,306	—	4,303,798	(108,267)	4,195,531
—consumer, credit cards and other	2,152,950	216	22,709	1,434	6,648	2,183,957	(154,174)	2,029,783
International banking services	528,795	—	—	—	—	528,795	(8,056)	520,739
Wealth management	63,272	—	—	—	—	63,272	(6,652)	56,620
	<u>20,660,698</u>	<u>68,525</u>	<u>1,207,115</u>	<u>407,236</u>	<u>248,901</u>	<u>22,592,475</u>	<u>(1,207,410)</u>	<u>21,385,065</u>
By business line								
Corporate	2,188,777	68,309	918,423	305,980	219,040	3,700,529	(83,695)	3,616,834
SMEs	1,502,261	—	248,647	17,523	9,520	1,777,951	(46,973)	1,730,978
Retail								
—housing	3,657,181	—	17,336	1,306	—	3,675,823	(45,585)	3,630,238
—consumer, credit cards and other	1,409,855	216	22,709	1,434	—	1,434,214	(36,834)	1,397,380
Restructuring								
—major corporate	2,877,985	—	—	35,736	—	2,913,721	(175,920)	2,737,801
—corporate	1,814,518	—	—	—	—	1,814,518	(75,945)	1,738,573
—SMEs	1,376,635	—	—	—	—	1,376,635	(67,758)	1,308,877
Recoveries								
—corporate	2,341,149	—	—	45,257	13,693	2,400,099	(331,071)	2,069,028
—SMEs	1,529,200	—	—	—	—	1,529,200	(148,899)	1,380,301
—retail housing	627,975	—	—	—	—	627,975	(62,682)	565,293
—retail other	743,095	—	—	—	6,648	749,743	(117,340)	632,403
International banking services	528,795	—	—	—	—	528,795	(8,056)	520,739
Wealth management	63,272	—	—	—	—	63,272	(6,652)	56,620
	<u>20,660,698</u>	<u>68,525</u>	<u>1,207,115</u>	<u>407,236</u>	<u>248,901</u>	<u>22,592,475</u>	<u>(1,207,410)</u>	<u>21,385,065</u>

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

	Cyprus	Greece	United Kingdom	Romania	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2014							
By economic activity							
Trade	2,280,096	—	22,058	12,904	2,315,058	(169,687)	2,145,371
Manufacturing	819,309	—	10,079	7,620	837,008	(46,564)	790,444
Hotels and catering	1,411,823	—	87,487	6,379	1,505,689	(94,943)	1,410,746
Construction	3,839,921	—	46,487	47,164	3,933,572	(407,901)	3,525,671
Real estate	2,030,507	44,274	645,641	279,266	2,999,688	(170,448)	2,829,240
Private individuals	7,447,640	234	37,733	8,767	7,494,374	(336,364)	7,158,010
Professional and other services	1,503,453	—	51,446	39,342	1,594,241	(122,444)	1,471,797
Other sectors	1,867,190	129,632	13,183	116,753	2,126,758	(217,760)	1,908,998
	21,199,939	174,140	914,114	518,195	22,806,388	(1,566,111)	21,240,277
By customer sector							
Corporate	9,435,472	173,906	488,868	486,900	10,585,146	(868,788)	9,716,358
SMEs	4,504,394	—	392,422	27,992	4,924,808	(339,515)	4,585,293
Retail							
—housing	4,358,366	—	24,327	1,577	4,384,270	(125,294)	4,258,976
—consumer, credit cards and other . . .	2,228,198	234	8,497	1,726	2,238,655	(210,372)	2,028,283
International banking services	603,557	—	—	—	603,557	(12,472)	591,085
Wealth management	69,952	—	—	—	69,952	(9,670)	60,282
	21,199,939	174,140	914,114	518,195	22,806,388	(1,566,111)	21,240,277
By business line							
Corporate	2,028,081	173,906	488,868	400,806	3,091,661	(168,703)	2,922,958
SMEs	1,715,930	—	392,422	27,992	2,136,344	(77,973)	2,058,371
Retail							
—housing	3,795,958	—	24,327	1,577	3,821,862	(56,086)	3,765,776
—consumer, credit cards and other . . .	1,538,872	234	8,497	1,726	1,549,329	(83,560)	1,465,769
Restructuring							
—major corporate	3,299,378	—	—	35,609	3,334,987	(200,226)	3,134,761
—corporate	2,018,514	—	—	—	2,018,514	(147,787)	1,870,727
—SMEs	1,401,022	—	—	—	1,401,022	(110,044)	1,290,978
Recoveries							
—corporate	2,089,499	—	—	50,485	2,139,984	(352,072)	1,787,912
—SMEs	1,387,442	—	—	—	1,387,442	(151,498)	1,235,944
—retail housing	562,408	—	—	—	562,408	(69,208)	493,200
—retail other	689,326	—	—	—	689,326	(126,812)	562,514
International banking services	603,557	—	—	—	603,557	(12,472)	591,085
Wealth management	69,952	—	—	—	69,952	(9,670)	60,282
	21,199,939	174,140	914,114	518,195	22,806,388	(1,566,111)	21,240,277

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

31 December 2013	Cyprus	Greece	United Kingdom	Romania	Russia	Ukraine	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
By economic activity									
Trade	2,466,479	—	48,816	21,728	261,518	34,571	2,833,112	(187,369)	2,645,743
Manufacturing	828,210	—	33,608	23,818	99,790	13,631	999,057	(63,157)	935,900
Hotels and catering	1,610,289	—	165,499	105,434	—	6,610	1,887,832	(112,051)	1,775,781
Construction	4,072,249	—	44,746	55,531	64,096	12,028	4,248,650	(383,290)	3,865,360
Real estate	2,812,382	—	802,346	250,816	172,732	162,905	4,201,181	(350,743)	3,850,438
Private individuals	8,025,126	542	43,476	9,270	399,116	61,585	8,539,115	(392,344)	8,146,771
Professional and other services	1,673,236	—	56,638	72,858	404,403	99,628	2,306,763	(179,998)	2,126,765
Other sectors	1,311,772	171,465	88,620	117,989	27,506	10,257	1,727,609	(233,759)	1,493,850
	<u>22,799,743</u>	<u>172,007</u>	<u>1,283,749</u>	<u>657,444</u>	<u>1,429,161</u>	<u>401,215</u>	<u>26,743,319</u>	<u>(1,902,711)</u>	<u>24,840,608</u>
By customer sector									
Corporate	8,746,329	171,465	634,572	590,424	773,340	330,703	11,246,833	(932,672)	10,314,161
SMEs	5,184,651	—	592,048	40,695	256,705	24,838	6,098,937	(508,289)	5,590,648
Retail									
—housing	5,330,242	—	34,809	1,767	41,792	14,909	5,423,519	(170,351)	5,253,168
—consumer, credit cards and other	2,449,751	542	22,320	1,879	357,324	30,765	2,862,581	(168,833)	2,693,748
International									
banking services	981,695	—	—	22,679	—	—	1,004,374	(109,612)	894,762
Wealth management	107,075	—	—	—	—	—	107,075	(12,954)	94,121
	<u>22,799,743</u>	<u>172,007</u>	<u>1,283,749</u>	<u>657,444</u>	<u>1,429,161</u>	<u>401,215</u>	<u>26,743,319</u>	<u>(1,902,711)</u>	<u>24,840,608</u>
By business line									
Corporate	6,852,880	171,465	611,487	539,939	773,340	330,703	9,279,814	(416,536)	8,863,278
SMEs	3,998,405	—	508,201	40,695	256,705	24,838	4,828,844	(348,063)	4,480,781
Retail									
—housing	4,784,468	—	34,809	1,767	41,792	14,909	4,877,745	(64,141)	4,813,604
—consumer, credit cards and other	1,955,602	542	21,505	1,879	357,324	30,765	2,367,617	(112,463)	2,255,154
Recoveries									
—corporate	1,893,449	—	23,085	50,485	—	—	1,967,019	(516,136)	1,450,883
—SMEs	1,186,246	—	83,847	—	—	—	1,270,093	(160,226)	1,109,867
—retail housing	545,774	—	—	—	—	—	545,774	(106,210)	439,564
—retail other	494,149	—	815	—	—	—	494,964	(56,370)	438,594
International									
banking services	981,695	—	—	22,679	—	—	1,004,374	(109,612)	894,762
Wealth management	107,075	—	—	—	—	—	107,075	(12,954)	94,121
	<u>22,799,743</u>	<u>172,007</u>	<u>1,283,749</u>	<u>657,444</u>	<u>1,429,161</u>	<u>401,215</u>	<u>26,743,319</u>	<u>(1,902,711)</u>	<u>24,840,608</u>

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value at 30 June 2016 of €81,389 thousand (31 December 2015: €81,078 thousand, 31 December 2014: €94,703 thousand and 31 December 2013: €87,056 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €144.322 thousand (31 December 2015: €69,983 thousand, 31 December 2014: €71,473 thousand and 31 December 2013: €67,976 thousand).

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers held for sale

Geographical and industry concentrations of loans and advances to customers held for sale are presented below:

	Russia
	31 December 2014
	€000
By economic activity	
Trade	160,632
Manufacturing	59,466
Construction	43,932
Real estate	131,943
Private individuals	294,733
Professional and other sectors	275,018
	965,724
By customer sector	
Corporate	507,838
SMEs	163,152
Retail	
—housing	25,999
—consumer, credit cards and other	204,867
International banking services	63,868
	965,724
By business line	
Corporate	507,838
SMEs	163,152
Retail	
—housing	25,999
—consumer, credit cards and other	204,867
International banking services	63,868
	965,724

There are no loans and advances to customers held for sale as at 30 June 2016, 31 December 2015 and 31 December 2013 (Note 31).

Currency concentration of loans and advances to customers

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
30 June 2016	€000	€000	€000	€000	€000	€000	€000	€000
Euro	18,178,073	44,901	26,688	389,498	16,052	18,655,212	(986,231)	17,668,981
US Dollar	172,018	—	488	20	75,533	248,059	(10,928)	237,131
British Pound	51,877	—	1,131,509	87	—	1,183,473	(7,982)	1,175,491
Russian Rouble	154	—	—	—	103,024	103,178	(2)	103,176
Romanian Lei	1	—	—	1,271	—	1,272	—	1,272
Swiss Franc	800,861	—	7,585	—	—	808,446	(35,110)	773,336
Other currencies	71,497	—	12,262	—	—	83,759	(2,825)	80,934
	19,274,481	44,901	1,178,532	390,876	194,609	21,083,399	(1,043,078)	20,040,321

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Currency concentration of loans and advances to customers (continued)

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2015								
Euro	19,261,905	68,525	28,423	405,998	16,099	19,780,950	(1,128,137)	18,652,813
US Dollar	250,757	—	507	22	137,204	388,490	(11,540)	376,950
British Pound	49,052	—	1,154,110	93	—	1,203,255	(10,121)	1,193,134
Russian Rouble	108	—	—	—	95,598	95,706	(1)	95,705
Romanian Lei	1	—	—	1,123	—	1,124	—	1,124
Swiss Franc	1,028,865	—	13,492	—	—	1,042,357	(51,761)	990,596
Other currencies	70,010	—	10,583	—	—	80,593	(5,850)	74,743
	20,660,698	68,525	1,207,115	407,236	248,901	22,592,475	(1,207,410)	21,385,065

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2014								
Euro	19,692,806	172,587	41,166	516,875	—	20,423,434	(1,453,728)	18,969,706
US Dollar	279,609	—	866	21	—	280,496	(12,212)	268,284
British Pound	56,206	—	854,962	95	—	911,263	(16,359)	894,904
Russian Rouble	555	—	—	—	—	555	(2)	553
Romanian Lei	1	—	—	1,204	—	1,205	—	1,205
Swiss Franc	1,078,751	1,553	12,326	—	—	1,092,630	(77,424)	1,015,206
Other currencies	92,011	—	4,794	—	—	96,805	(6,386)	90,419
	21,199,939	174,140	914,114	518,195	—	22,806,388	(1,566,111)	21,240,277

	Cyprus	Greece	United Kingdom	Romania	Russia	Ukraine	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2013									
Euro	21,367,256	166,199	49,727	652,054	41,605	67,684	22,344,525	(1,745,683)	20,598,842
US Dollar	141,862	—	1,210	21	205,319	255,028	603,440	(43,110)	560,330
British Pound	58,966	—	1,194,023	102	—	—	1,253,091	(26,010)	1,227,081
Russian Rouble	109	—	—	—	1,182,237	—	1,182,346	(4)	1,182,342
Romanian Lei	—	—	—	5,267	—	—	5,267	—	5,267
Swiss Franc	1,131,992	5,808	29,447	—	—	—	1,167,247	(80,884)	1,086,363
Ukrainian Hryvnia	—	—	—	—	—	78,503	78,503	—	78,503
Other currencies	99,558	—	9,342	—	—	—	108,900	(7,020)	101,880
	22,799,743	172,007	1,283,749	657,444	1,429,161	401,215	26,743,319	(1,902,711)	24,840,608

Currency concentration of loans and advances to customers held for sale

	Russia
	31 December 2014
	€000
Euro	98,575
US Dollar	193,991
Russian Rouble	673,158
	965,724

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit quality of loans and advances to customers

The following table presents the credit quality of the Group's loans and advances to customers:

	30 June 2016			31 December 2015			31 December 2014			31 December 2013		
	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	10,879,356	(164,827)	10,714,529	10,442,903	(173,260)	10,269,643	9,629,157	(181,393)	9,447,764	11,855,363	(226,207)	11,629,156
Past due but not impaired	2,607,222	(47,863)	2,559,359	3,048,929	(60,803)	2,988,126	4,281,050	(106,020)	4,175,030	6,732,583	(417,169)	6,315,414
Impaired	7,596,821	(830,388)	6,766,433	9,100,643	(973,347)	8,127,296	8,896,181	(1,278,698)	7,617,483	8,155,373	(1,259,335)	6,896,038
	<u>21,083,399</u>	<u>(1,043,078)</u>	<u>20,040,321</u>	<u>22,592,475</u>	<u>(1,207,410)</u>	<u>21,385,065</u>	<u>22,806,388</u>	<u>(1,566,111)</u>	<u>21,240,277</u>	<u>26,743,319</u>	<u>(1,902,711)</u>	<u>24,840,608</u>

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

During the six months ended 30 June 2016, the total non-contractual write-offs recorded by the Group amounted to €373,655 thousand (year 2015: €172,670 thousand, year 2014: nil, year 2013: nil). The remaining gross loan balance of these customers is presented in the table below:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Remaining gross loans of customers following non-contractual write-offs of which:	<u>299,848</u>	<u>280,575</u>	—	—
—Past due for more than 90 days but not impaired	<u>13,772</u>	<u>56,548</u>	—	—
—Impaired	<u>139,655</u>	<u>198,296</u>	—	—

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit quality of loans and advances to customers (continued)

The credit quality of loans and advances to customers that were neither past due nor impaired is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

	Grade 1	Grade 2	Grade 3	Total
	€000	€000	€000	€000
30 June 2016				
Cyprus	6,021,176	1,459,340	2,266,697	9,747,213
Greece	—	—	216	216
United Kingdom	1,014,793	46,171	11,569	1,072,533
Romania	16,193	32,114	11,026	59,333
Russia	—	61	—	61
	<u>7,052,162</u>	<u>1,537,686</u>	<u>2,289,508</u>	<u>10,879,356</u>
31 December 2015				
Cyprus	5,572,036	1,441,298	2,244,258	9,257,592
Greece	—	—	216	216
United Kingdom	1,009,277	63,300	20,803	1,093,380
Romania	45,962	35,141	10,551	91,654
Russia	—	61	—	61
	<u>6,627,275</u>	<u>1,539,800</u>	<u>2,275,828</u>	<u>10,442,903</u>
31 December 2014				
Cyprus	5,853,811	844,316	2,049,957	8,748,084
Greece	234	—	—	234
United Kingdom	718,105	27,449	27,608	773,162
Romania	47,467	39,179	21,031	107,677
	<u>6,619,617</u>	<u>910,944</u>	<u>2,098,596</u>	<u>9,629,157</u>
31 December 2013				
Cyprus	5,778,139	1,699,580	2,345,784	9,823,503
Greece	542	—	—	542
United Kingdom	717,551	44,832	47,214	809,597
Romania	71,847	98,070	50,670	220,587
Russia	717,522	201,890	—	919,412
Ukraine	46,226	266	35,230	81,722
	<u>7,331,827</u>	<u>2,044,638</u>	<u>2,478,898</u>	<u>11,855,363</u>

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of the year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are past due but not impaired

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Past due analysis:				
—up to 30 days	573,880	468,791	550,070	822,037
—31 to 90 days	361,309	351,450	480,961	1,063,243
—91 to 180 days	120,708	144,362	432,947	1,316,042
—181 to 365 days	175,281	258,920	908,614	2,099,424
—over one year	1,376,044	1,825,406	1,908,458	1,431,837
	<u>2,607,222</u>	<u>3,048,929</u>	<u>4,281,050</u>	<u>6,732,583</u>

The fair value of the collateral that the Group holds (to the extent that it mitigates credit risk) in respect of loans and advances to customers that are past due but not impaired as at 30 June 2016 is €2,121,823 thousand (31 December 2015: €2,466,960 thousand, 31 December 2014: €3,459,628 thousand and 31 December 2013: €5,133,851 thousand). The fair value of the collateral is capped to the gross carrying value of the loans and advances to customers.

Impaired loans and advances to customers

	30 June 2016		31 December 2015		31 December 2014		31 December 2013	
	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral
	€000	€000	€000	€000	€000	€000	€000	€000
Cyprus	6,993,704	4,318,648	8,414,868	5,596,169	8,265,182	6,045,030	6,995,066	4,064,900
Greece	44,685	17,930	68,309	17,945	173,906	19,950	171,465	—
Russia	192,850	88,979	247,319	94,417	—	—	284,869	191,672
United Kingdom . .	37,456	18,272	56,584	10,821	81,840	50,198	163,979	128,734
Romania	328,126	144,880	313,563	170,080	375,253	219,462	372,473	172,489
Ukraine	—	—	—	—	—	—	167,521	132,015
	<u>7,596,821</u>	<u>4,588,709</u>	<u>9,100,643</u>	<u>5,889,432</u>	<u>8,896,181</u>	<u>6,334,640</u>	<u>8,155,373</u>	<u>4,689,810</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.

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Impaired:				
no arrears	647,495	875,488	1,045,979	933,823
—up to 30 days	25,426	78,176	83,946	167,957
—31 to 90 days	40,567	24,353	133,984	352,269
—91 to 180 days	95,106	65,382	136,512	423,064
—181 to 365 days	122,713	310,167	671,093	1,426,392
—over one year	6,665,514	7,747,077	6,824,667	4,851,868
	<u>7,596,821</u>	<u>9,100,643</u>	<u>8,896,181</u>	<u>8,155,373</u>

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit quality of loans and advances to customers held for sale

	Russia 31 December 2014
Neither past due nor impaired	435,912
Past due but not impaired:	
—up to 30 days	12,655
—31 to 90 days	10,178
—91 to 180 days	7,166
—181 to 365 days	17,246
—over one year	84,663
	<u>131,908</u>
Impaired:	
—no arrears	106,624
—up to 30 days	65,538
—31 to 90 days	8,049
—91 to 180 days	6,463
—181 to 365 days	14,385
—over one year	196,845
	<u>397,904</u>
	<u>965,724</u>

There are no loans and advances to customers classified as held for sale as at 30 June 2016, 31 December 2015 and 31 December 2013 (Note 31). The fair value of the collateral for the impaired and for the past due but not impaired loans and advances to customers classified as held for sale at 31 December 2014 amounted to €154,543 thousand and €15,192 thousand respectively.

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale

The movement in provisions for impairment of loans and advances, including the loans and advances to customers held for sale, is as follows:

	Cyprus €000	Greece €000	Russia €000	Other countries €000	Total €000
30 June 2016					
1 January	3,731,750	33,833	195,017	232,833	4,193,433
Dissolution of subsidiaries	—	—	—	(6,154)	(6,154)
Acquisition of subsidiary	(8,577)	—	—	—	(8,577)
Foreign exchange and other adjustments	84,110	—	1,743	(3,463)	82,390
Applied in writing off impaired loans and advances	(511,826)	—	(59,663)	(5,683)	(577,172)
Interest accrued on impaired loans and advances	(76,360)	(329)	(327)	(48)	(77,064)
Collection of loans and advances previously written off	445	—	—	25	470
Charge for the period continuing operations (Note 17)	152,474	2,479	15,391	9,414	179,758
30 June	<u>3,372,016</u>	<u>35,983</u>	<u>152,161</u>	<u>226,924</u>	<u>3,787,084</u>
Individual impairment	<u>3,014,735</u>	<u>31,608</u>	<u>151,227</u>	<u>222,418</u>	<u>3,419,988</u>
Collective impairment	<u>357,281</u>	<u>4,375</u>	<u>934</u>	<u>4,506</u>	<u>367,096</u>

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)

	Cyprus €000	Greece €000	Russia €000	Other countries €000	Total €000
31 December 2015					
1 January	2,867,345	9,275	415,894	195,334	3,487,848
Disposal of Russian operations	—	—	(238,012)	—	(238,012)
Foreign exchange and other adjustments	80,372	—	(310)	1,538	81,600
Transfer between geographical areas	(63,380)	6,329	—	57,051	—
Applied in writing off impaired loans and advances	(151,812)	(16,700)	(62,313)	(63,022)	(293,847)
Interest accrued on impaired loans and advances	(197,009)	(2,134)	(146)	(1,430)	(200,719)
Collection of loans and advances previously written off	2,671	—	—	5,270	7,941
Charge for the year—continuing operations (Note 17)	1,193,563	37,063	37,239	38,092	1,305,957
Charge for the year—discontinued operations (Note 7)	—	—	42,665	—	42,665
31 December	3,731,750	33,833	195,017	232,833	4,193,433
Individual impairment	3,255,398	29,458	194,805	227,579	3,707,240
Collective impairment	476,352	4,375	212	5,254	486,193
	Cyprus €000	Greece €000	Russia €000	Other countries €000	Total €000
31 December 2014					
1 January	2,554,672	189	286,366	235,043	3,076,270
Disposal of Ukrainian operations	—	—	—	(137,645)	(137,645)
Foreign exchange and other adjustments	27,764	—	(134,406)	(10,567)	(117,209)
Applied in writing off impaired loans and advances	(46,976)	(12)	(187)	(57)	(47,232)
Interest accrued on impaired loans and advances/settlements	(162,213)	(1,071)	(301)	(7,136)	(170,721)
Collection of loans and advances previously written off	230	—	—	1,267	1,497
Charge for the year—continuing operations (Note 17)	493,868	10,169	151,294	75,901	731,232
Charge for the year—discontinued operations (Note 7)	—	—	113,128	38,528	151,656
31 December	2,867,345	9,275	415,894	195,334	3,487,848
Individual impairment	2,274,162	9,275	286,924	186,649	2,757,010
Collective impairment	593,183	—	128,970	8,685	730,838

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)

	Cyprus	Greece	Russia	Other countries	Total
	€000	€000	€000	€000	€000
31 December 2013					
1 January	1,779,343	1,528,224	238,472	130,017	3,676,056
Disposal of Greek operations	—	(1,572,512)	—	—	(1,572,512)
Foreign exchange and other adjustments	901	—	(25,452)	(2,196)	(26,747)
Applied in writing off impaired loans and advances	(1,816)	(7,781)	(4,848)	(23,231)	(37,676)
Interest accrued on impaired loans and advances/settlements	(80,565)	(6,633)	(602)	(4,834)	(92,634)
Collection of loans and advances previously written off	429	—	—	3,101	3,530
Charge for the year—continuing operations (Note 17)	856,380	(17)	4,536	84,149	945,048
Charge for the year—discontinued operations (Note 7)	—	58,908	74,260	48,037	181,205
31 December	<u>2,554,672</u>	<u>189</u>	<u>286,366</u>	<u>235,043</u>	<u>3,076,270</u>
Individual impairment	<u>1,896,987</u>	<u>189</u>	<u>142,700</u>	<u>205,393</u>	<u>2,245,269</u>
Collective impairment	<u>657,685</u>	<u>—</u>	<u>143,666</u>	<u>29,650</u>	<u>831,001</u>

There are no loans and advances to customers held for sale as at 30 June 2016, 31 December 2015 and 31 December 2013. The balance of provisions for impairment of loans and advances to customers at 31 December 2014 includes €415,894 thousand for loans and advances to customers classified as held for sale. The above table does not include the provisions for impairment on financial guarantees and commitments which are part of ‘Accruals, deferred income and other liabilities’ (Note 36).

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows, including the cash flows which may arise from guarantees and tangible collateral.

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 provisioned amount. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the agreement and satisfactory performance.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Further information is presented in Note 6.1.

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.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)

Sensitivity analysis

The Group has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus. The impact on the provisions for impairment of loans and advances is presented below:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	Increase/ (decrease) on provisions for impairment of loans and advances	Increase/ (decrease) on provisions for impairment of loans and advances	Increase/ (decrease) on provisions for impairment of loans and advances	Increase/ (decrease) on provisions for impairment of loans and advances
	€000	€000	€000	€000
<i>Change in provisions assumptions:</i>				
Increase the timing of recovery from collaterals by 1 year (to an average of 4 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	20,621	43,820	N/A	N/A
Decrease the timing of recovery from collaterals by 1 year (to an average of 2 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	(25,763)	(39,466)	N/A	N/A
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	112,459	140,344	171,473	139,127
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	227,661	284,574	334,527	296,988
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	(112,098)	(139,417)	(139,751)	(78,902)
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	(221,937)	(274,406)	(279,892)	(143,832)
<i>Change in provisions assumptions:</i>				
Extent the timing of recovery from collaterals by 1 year and decrease the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	66,274	(110,645)	N/A	N/A
Decrease the timing of recovery from collaterals by 1 year and increase the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	(70,797)	115,500	N/A	N/A

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)

Collateral and other credit enhancements obtained

The carrying value of assets obtained during the period/years by taking possession of collateral held as security, was as follows:

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Residential property	44,276	2,108	5,477	6,958
Commercial and other property	646,212	123,323	102,243	36,067
	<u>690,488</u>	<u>125,431</u>	<u>107,720</u>	<u>43,025</u>

The total carrying values 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, are presented in the table below:

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Carrying value of assets obtained over the years by taking possessions of collateral held as security for customer loans and advances of which:	<u>1,087,414</u>	<u>455,416</u>	<u>440,751</u>	<u>422,621</u>
—Commercial and other property classified as held for sale	<u>3,072</u>	<u>6,552</u>	<u>7,461</u>	<u>—</u>
—Commercial and other property for loans and advances to customers classified as held for sale	<u>—</u>	<u>—</u>	<u>17,932</u>	<u>—</u>

Included in assets acquired from Laiki Bank (Note 54.6.1) in 2013 are assets amounting to €170,423 thousand which relate to collateral obtained by Laiki Bank prior to the acquisition by the Group.

The disposals of repossessed assets during the six months ended 30 June 2016 amounted to €67,268 thousand (year 2015: €29,499 thousand, year 2014: €15,929 thousand and year 2013: €3,759 thousand).

Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

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

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.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Forbearance (continued)

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

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

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

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than five years for years 2013 and 2014 and less than two years for 2015 onwards. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed three years for years 2013 and 2014 and one year for 2015 onwards.

Restructuring tools include the following:

- *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.
- *Reduced payments:* The amount of repayment instalments are decreased over a defined short-term period in order to accommodate the borrower's new cash flow position.
- *Interest rate reduction:* The interest rate (fixed or variable) is permanently or temporarily reduced into a sustainable rate.
- *Extension of maturity:* The maturity of the loan is extended which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- *Arrears and/or interest capitalisation:* Arrears and/or accrued interest arrears are capitalised into the principal. This constitutes forbearance of the arrears and the addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled programme.
- *Interest only:* During a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- *Grace period:* An agreement allows the borrower a defined delay in fulfilling the repayment obligations, usually with regard to the principal.
- *Forbearance of penalties in loan agreements:* Penalties are waived, temporarily or permanently, for violations of covenants in the loan agreements.
- *Debt consolidation:* The combination of multiple exposures into a single loan or limited number of loans.
- *Collateral or security strengthening:* This restructuring solution may take different forms and involves improving the collateral or security underlying a loan. For example, additional security or additional liens on unencumbered assets may be sought. The additional collateral or security, among other things, compensates the Bank for higher risk exposure, reduced interest rates (if applicable) and/or to balance the advantages the borrower receives from the restructuring.
- *Accelerated consensual foreclosure:* The BOC Group and the borrower agree to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the BOC Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- *Cash sweeps:* The borrower agrees to use any excess cash flow to repay debt ahead of schedule.
- *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 BOC Group in providing new financing to a distressed borrower.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Forbearance (continued)

- *Equity-linked instruments:* A portion of the debt is converted into equity-linked instruments such as payment-in-kind, or PIK, notes or a preferred equity interest.
- *Split and freeze:* The borrower'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.
- *Debt/equity swaps:* The debt is partially set-off and an equivalent amount of equity is obtained by the BOC Group, with the remaining debt restructured with the expectation that cash flows of the borrower on the restructured debt will repay the BOC Group together with the proceeds 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 Business of Credit Institutions Law of 1997.
- *Debt write-off:* Part of or the whole amount of debt outstanding by the borrower is cancelled. The BOC 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.

Rescheduled loans and advances to customers

The below tables present the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans. Similar information is disclosed for rescheduled loans and advances to customers classified as held for sale.

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
	€000	€000	€000	€000	€000	€000	€000
30 June 2016							
1 January	8,391,624	24,865	138,376	116,232	119,185	—	8,790,282
New loans and advances rescheduled in the year	708,038	—	—	31,480	20,514	—	760,032
Assets no longer classified as rescheduled (including repayments)	(781,846)	—	(71,306)	(30,452)	(1,396)	—	(885,000)
Applied in writing off rescheduled loans and advances	(386,597)	—	—	(278)	(83)	—	(386,958)
Interest accrued on rescheduled loans and advances	170,695	22	575	346	537	—	172,175
Foreign exchange adjustments	159	—	11,634	(10,796)	(61)	—	936
30 June	<u>8,102,073</u>	<u>24,887</u>	<u>79,279</u>	<u>106,532</u>	<u>138,696</u>	<u>—</u>	<u>8,451,467</u>
31 December 2015							
1 January	7,024,847	75,778	234,659	136,421	184,585	—	7,656,290
Disposal of Russian operations	—	—	(118,313)	—	—	—	(118,313)
New loans and advances rescheduled in the year	2,189,524	—	24,097	32,695	—	—	2,246,316
Assets no longer classified as rescheduled (including repayments)	(1,125,219)	(35,927)	—	(66,606)	(32,396)	—	(1,260,148)
Applied in writing off rescheduled loans and advances	(80,896)	(16,700)	—	—	(33,888)	—	(131,484)
Interest accrued on rescheduled loans and advances	337,231	1,714	10,424	5,538	1,687	—	356,594
Foreign exchange adjustments	46,137	—	(12,491)	8,184	(803)	—	41,027
31 December	<u>8,391,624</u>	<u>24,865</u>	<u>138,376</u>	<u>116,232</u>	<u>119,185</u>	<u>—</u>	<u>8,790,282</u>

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

	Cyprus €000	Greece €000	Russia €000	United Kingdom €000	Romania €000	Ukraine €000	Total €000
31 December 2014							
1 January	7,070,764	—	187,031	107,624	127,308	62,051	7,554,778
New loans and advances rescheduled in the year	1,838,478	69,732	240,080	84,269	28,258	4,481	2,265,298
Assets no longer classified as rescheduled (including repayments)	(2,139,356)	—	(95,774)	(66,101)	(35,928)	(3,975)	(2,341,134)
Applied in writing off rescheduled loans and advances	(56)	—	—	—	—	—	(56)
Interest accrued on rescheduled loans and advances	310,271	6,046	17,459	5,673	3,040	2,460	344,949
Transfer	(58,671)	—	—	(3,385)	62,056	—	—
Disposal of Ukrainian operations .	—	—	—	—	—	(65,017)	(65,017)
Foreign exchange adjustments . . .	3,417	—	(114,137)	8,341	(149)	—	(102,528)
31 December	<u>7,024,847</u>	<u>75,778</u>	<u>234,659</u>	<u>136,421</u>	<u>184,585</u>	<u>—</u>	<u>7,656,290</u>
31 December 2013							
1 January	3,394,783	1,657,988	113,217	58,264	63,039	64,336	5,351,627
Loans from Laiki Bank rescheduled prior to acquisition	2,675,849	—	—	—	2,996	—	2,678,845
New loans and advances rescheduled in the year	2,657,226	—	106,959	61,825	76,323	26,519	2,928,852
Assets no longer classified as rescheduled (including repayments)	(1,927,630)	(355,004)	(24,411)	(16,775)	(17,381)	(29,092)	(2,370,293)
Applied in writing off rescheduled loans and advances	(11)	—	—	—	—	—	(11)
Interest accrued on rescheduled loans and advances	274,433	—	9,401	4,668	3,452	3,201	295,155
Disposal of Greek operations . . .	—	(1,302,984)	—	—	—	—	(1,302,984)
Foreign exchange adjustments . . .	(3,886)	—	(18,135)	(358)	(1,121)	(2,913)	(26,413)
31 December	<u>7,070,764</u>	<u>—</u>	<u>187,031</u>	<u>107,624</u>	<u>127,308</u>	<u>62,051</u>	<u>7,554,778</u>

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 Implementing Technical Standards (“ITS”) on supervisory reporting and non-performing exposures.

At 31 December 2014, the total rescheduled loans and advances to customers in Russia were classified as held for sale.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
	€000	€000	€000	€000	€000	€000	€000
30 June 2016							
Neither past due nor impaired	4,282,867	—	—	71,521	57,594	—	4,411,982
Past due but not impaired	1,339,503	—	774	32,114	1,417	—	1,373,808
Impaired	2,479,703	24,887	78,505	2,897	79,685	—	2,665,677
	8,102,073	24,887	79,279	106,532	138,696	—	8,451,467
31 December 2015							
Neither past due nor impaired	3,636,868	—	—	84,829	60,182	—	3,781,879
Past due but not impaired	1,591,934	—	699	29,229	297	—	1,622,159
Impaired	3,162,822	24,865	137,677	2,174	58,706	—	3,386,244
	8,391,624	24,865	138,376	116,232	119,185	—	8,790,282
31 December 2014							
Neither past due nor impaired	2,546,020	—	61,677	109,269	70,899	—	2,787,865
Past due but not impaired	1,764,528	—	16,468	21,814	3,247	—	1,806,057
Impaired	2,714,299	75,778	156,514	5,338	110,439	—	3,062,368
	7,024,847	75,778	234,659	136,421	184,585	—	7,656,290
31 December 2013							
Neither past due nor impaired	2,924,653	—	154,721	89,549	16,586	6,128	3,191,637
Past due but not impaired	2,225,753	—	18,529	10,425	24,130	22,221	2,301,058
Impaired	1,920,358	—	13,781	7,650	86,592	33,702	2,062,083
	7,070,764	—	187,031	107,624	127,308	62,051	7,554,778

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Fair value of collateral

	Cyprus	Russia	United Kingdom	Romania	Ukraine	Total
	€000	€000	€000	€000	€000	€000
30 June 2016						
Neither past due nor impaired	4,068,958	—	71,443	55,641	—	4,196,042
Past due but not impaired	1,143,879	770	11,291	1,295	—	1,157,235
Impaired	1,999,732	47,721	2,774	23,459	—	2,073,686
	<u>7,212,569</u>	<u>48,491</u>	<u>85,508</u>	<u>80,395</u>	<u>—</u>	<u>7,426,963</u>
31 December 2015						
Neither past due nor impaired	3,360,868	—	84,722	59,930	—	3,505,520
Past due but not impaired	1,407,575	696	29,182	178	—	1,437,631
Impaired	2,709,602	49,297	1,668	39,696	—	2,800,263
	<u>7,478,045</u>	<u>49,993</u>	<u>115,572</u>	<u>99,804</u>	<u>—</u>	<u>7,743,414</u>
31 December 2014						
Neither past due nor impaired	2,241,882	58,144	108,699	70,899	—	2,479,624
Past due but not impaired	1,534,072	15,764	21,579	3,150	—	1,574,565
Impaired	2,556,664	86,725	3,267	50,943	—	2,697,599
	<u>6,332,618</u>	<u>160,633</u>	<u>133,545</u>	<u>124,992</u>	<u>—</u>	<u>6,751,788</u>
31 December 2013						
Neither past due nor impaired	2,536,564	151,815	89,444	14,052	6,127	2,798,002
Past due but not impaired	1,923,626	18,206	12,236	17,996	20,699	1,992,763
Impaired	1,594,734	9,509	5,639	58,880	20,369	1,689,131
	<u>6,054,924</u>	<u>179,530</u>	<u>107,319</u>	<u>90,928</u>	<u>47,195</u>	<u>6,479,896</u>

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk. The fair value of the collateral as at 31 December 2014 includes the fair value of collateral for rescheduled loans and advances to customers classified as held for sale.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
	€000	€000	€000	€000	€000	€000
30 June 2016						
By economic activity						
Trade	691,643	—	32,514	282	2,864	727,303
Manufacturing	287,862	—	15,633	—	1,257	304,752
Hotels and catering	662,969	—	—	7,575	6,382	676,926
Construction	1,841,320	—	8,521	11,354	24,473	1,885,668
Real estate	1,132,496	—	—	61,818	102,916	1,297,230
Private individuals	2,610,577	—	—	1,411	211	2,612,199
Professional and other services	563,090	—	22,611	13,877	—	599,578
Other sectors	312,116	24,887	—	10,215	593	347,811
	8,102,073	24,887	79,279	106,532	138,696	8,451,467
By customer sector						
Corporate	3,948,256	24,887	74,245	89,540	137,015	4,273,943
SMEs	1,752,748	—	5,034	15,777	1,470	1,775,029
Retail						
—housing	1,740,408	—	—	—	—	1,740,408
—consumer, credit cards and other	578,991	—	—	1,215	211	580,417
International banking services	69,306	—	—	—	—	69,306
Wealth management	12,364	—	—	—	—	12,364
	8,102,073	24,887	79,279	106,532	138,696	8,451,467
By business line						
Corporate	582,161	24,887	74,245	89,540	136,801	907,634
SMEs	531,876	—	5,034	15,777	1,470	554,157
Retail						
—housing	1,592,895	—	—	—	—	1,592,895
—consumer, credit cards and other	467,863	—	—	1,215	211	469,289
Restructuring						
—major corporate	1,724,715	—	—	—	197	1,724,912
—corporate	1,071,431	—	—	—	—	1,071,431
—SMEs	833,754	—	—	—	—	833,754
Recoveries						
—corporate	569,949	—	—	—	17	569,966
—SMEs	387,118	—	—	—	—	387,118
—retail housing	147,513	—	—	—	—	147,513
—retail other	111,128	—	—	—	—	111,128
International banking services	69,306	—	—	—	—	69,306
Wealth management	12,364	—	—	—	—	12,364
	8,102,073	24,887	79,279	106,532	138,696	8,451,467

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

	Cyprus €000	Greece €000	Russia €000	United Kingdom €000	Romania €000	Total €000
31 December 2015						
By economic activity						
Trade	707,105	—	31,580	—	2,936	741,621
Manufacturing	282,449	—	14,207	136	1,258	298,050
Hotels and catering	743,585	—	—	7,072	6,196	756,853
Construction	2,155,778	—	8,081	14,862	2,444	2,181,165
Real estate	1,069,156	—	—	59,190	82,739	1,211,085
Private individuals	2,526,554	—	—	4,393	153	2,531,100
Professional and other services	584,836	—	84,508	19,517	22,697	711,558
Other sectors	322,161	24,865	—	11,062	762	358,850
	8,391,624	24,865	138,376	116,232	119,185	8,790,282
By customer sector						
Corporate	4,368,307	24,865	133,932	99,603	116,385	4,743,092
SMEs	1,720,453	—	4,444	12,519	2,647	1,740,063
Retail						
—housing	1,685,668	—	—	—	—	1,685,668
—consumer, credit cards and other	568,986	—	—	4,110	153	573,249
International banking services	42,481	—	—	—	—	42,481
Wealth management	5,729	—	—	—	—	5,729
	8,391,624	24,865	138,376	116,232	119,185	8,790,282
By business line						
Corporate	647,785	24,865	133,932	99,603	115,639	1,021,824
SMEs	550,664	—	4,444	12,519	2,647	570,274
Retail						
—housing	1,562,149	—	—	—	—	1,562,149
—consumer, credit cards and other	468,368	—	—	4,110	153	472,631
Restructuring						
—major corporate	1,768,782	—	—	—	626	1,769,408
—corporate	1,272,086	—	—	—	—	1,272,086
—SMEs	798,010	—	—	—	—	798,010
Recoveries						
—corporate	679,654	—	—	—	120	679,774
—SMEs	371,779	—	—	—	—	371,779
—retail housing	123,519	—	—	—	—	123,519
—retail other	100,618	—	—	—	—	100,618
International banking services	42,481	—	—	—	—	42,481
Wealth management	5,729	—	—	—	—	5,729
	8,391,624	24,865	138,376	116,232	119,185	8,790,282

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

31 December 2014	Cyprus	Greece	Russia	United Kingdom	Romania	Total
By economic activity						
Trade	530,047	—	49,794	645	2,935	583,421
Manufacturing	226,724	—	23,934	3,630	523	254,811
Hotels and catering	550,447	—	—	9,467	6,213	566,127
Construction	1,867,156	—	29,411	18,239	1,088	1,915,894
Real estate	849,667	—	—	83,656	89,933	1,023,256
Private individuals	2,121,324	—	—	2,411	63	2,123,798
Professional and other services	355,101	—	131,520	17,798	21,366	525,785
Other sectors	524,381	75,778	—	575	62,464	663,198
	<u>7,024,847</u>	<u>75,778</u>	<u>234,659</u>	<u>136,421</u>	<u>184,585</u>	<u>7,656,290</u>
By customer sector						
Corporate	3,590,159	75,778	210,689	75,085	180,885	4,132,596
SMEs	1,490,020	—	17,733	60,756	3,636	1,572,145
Retail						
—housing	1,405,686	—	1,463	62	—	1,407,211
—consumer, credit cards and other	492,791	—	4,774	518	64	498,147
International banking services	32,355	—	—	—	—	32,355
Wealth management	13,836	—	—	—	—	13,836
	<u>7,024,847</u>	<u>75,778</u>	<u>234,659</u>	<u>136,421</u>	<u>184,585</u>	<u>7,656,290</u>
By business line						
Corporate	412,853	75,778	210,689	75,085	180,069	954,474
SMEs	564,493	—	17,733	60,756	3,636	646,618
Retail						
—housing	1,316,481	—	1,463	62	—	1,318,006
—consumer, credit cards and other	409,038	—	4,774	518	64	414,394
Restructuring						
—major corporate	1,065,462	—	—	—	699	1,066,161
—corporate	1,548,443	—	—	—	—	1,548,443
—SMEs	629,956	—	—	—	—	629,956
Recoveries						
—corporate	563,401	—	—	—	117	563,518
—SMEs	295,571	—	—	—	—	295,571
—retail housing	89,205	—	—	—	—	89,205
—retail other	83,753	—	—	—	—	83,753
International banking services	32,355	—	—	—	—	32,355
Wealth management	13,836	—	—	—	—	13,836
	<u>7,024,847</u>	<u>75,778</u>	<u>234,659</u>	<u>136,421</u>	<u>184,585</u>	<u>7,656,290</u>

At 31 December 2014, the rescheduled loans and advances to customers in Russia were classified as held for sale.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

	Cyprus €000	Russia €000	United Kingdom €000	Romania €000	Ukraine €000	Total €000
31 December 2013						
By economic activity						
Trade	536,243	46,834	593	8,062	4,721	596,453
Manufacturing	216,588	4,417	1,204	1,348	994	224,551
Hotels and catering	529,583	—	11,410	6,314	6,232	553,539
Construction	1,667,869	9,773	16,124	17,512	10,738	1,722,016
Real estate	1,033,175	—	70,691	71,015	25,398	1,200,279
Private individuals	2,229,232	—	1,693	119	8,665	2,239,709
Professional and other services	475,836	126,007	5,909	21,644	4,740	634,136
Other sectors	382,238	—	—	1,294	563	384,095
	<u>7,070,764</u>	<u>187,031</u>	<u>107,624</u>	<u>127,308</u>	<u>62,051</u>	<u>7,554,778</u>
By customer sector						
Corporate	3,259,431	165,286	58,069	104,900	53,553	3,641,239
SMEs	1,682,360	18,592	49,310	22,289	5,501	1,778,052
Retail						
—housing	1,581,095	2,340	64	110	263	1,583,872
—consumer, credit cards and other	505,040	813	181	9	2,734	508,777
International banking services	35,994	—	—	—	—	35,994
Wealth management	6,844	—	—	—	—	6,844
	<u>7,070,764</u>	<u>187,031</u>	<u>107,624</u>	<u>127,308</u>	<u>62,051</u>	<u>7,554,778</u>
By business line						
Corporate	3,232,850	165,286	58,069	104,368	53,553	3,614,126
SMEs	1,665,054	18,592	49,310	22,289	5,501	1,760,746
Retail						
—housing	1,573,122	2,340	64	110	263	1,575,899
—consumer, credit cards and other	503,644	813	181	9	2,734	507,381
Recoveries						
—corporate	26,581	—	—	532	—	27,113
—SMEs	17,306	—	—	—	—	17,306
—retail housing	7,973	—	—	—	—	7,973
—retail other	1,396	—	—	—	—	1,396
International banking services	35,994	—	—	—	—	35,994
Wealth management	6,844	—	—	—	—	6,844
	<u>7,070,764</u>	<u>187,031</u>	<u>107,624</u>	<u>127,308</u>	<u>62,051</u>	<u>7,554,778</u>

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

	Cyprus	Greece	Russia	United Kingdom	Romania	Ukraine	Total
	€000	€000	€000	€000	€000	€000	€000
30 June 2016							
Individual impairment	1,052,903	24,887	59,608	2,110	56,257	—	1,195,765
Collective impairment	149,410	—	373	212	1,614	—	151,609
	1,202,313	24,887	59,981	2,322	57,871	—	1,347,374
31 December 2015							
Individual impairment	1,144,475	22,966	113,177	1,396	35,694	—	1,317,708
Collective impairment	207,106	—	49	266	1,813	—	209,234
	1,351,581	22,966	113,226	1,662	37,507	—	1,526,942
31 December 2014							
Individual impairment	732,657	15,310	103,704	1,836	60,385	—	913,892
Collective impairment	203,113	—	10,133	12	1,671	—	214,929
	935,770	15,310	113,837	1,848	62,056	—	1,128,821
31 December 2013							
Individual impairment	457,981	—	2,628	2,893	17,938	14,577	496,017
Collective impairment	185,619	—	11,465	—	3,044	—	200,128
	643,600	—	14,093	2,893	20,982	14,577	696,145

Provisions for impairment for rescheduled loans and advances to customers as at 31 December 2014 above include provisions for impairment for rescheduled loans and advances to customers which were classified as held for sale.

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 rating as follows:

	30 June	31 December		
	2016	2015	2014	2013
	€000	€000	€000	€000
Aaa–Aa3	809,245	555,594	896,788	790,806
A1–A3	329,235	643,540	768,592	509,754
Baa1–Baa3	68,464	146,428	123,309	68,735
Ba1–Ba3	79,389	36,954	23,965	9,505
B1–B3	1,070,475	957,074	483,053	10,269
Caa–C	6,750	8,750	4,510	483,035
Unrated	132,584	205,924	261,758	468,896
Other receivables from banks	38,496	28,701	39,323	33,932
	2,534,638	2,582,965	2,601,298	2,374,932

As at 30 June 2016, Band B1-B3 above includes an amount of €124,926 thousand (31 December 2015: €121,756 thousand, 31 December 2014: €479,361 thousand) which mainly relates to obligatory deposits for liquidity purposes with the Central Bank of Cyprus. The corresponding obligatory deposits at 31 December 2013 amounted to €394,255 and are included within Band Caa–C.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to customers—analysis by rating agency designation (continued)

Balances with central banks and loans and advances to banks (continued)

As at 30 June 2016, bank balances with carrying value of €95,255 thousand (31 December 2015: €134,291 thousand, 31 December 2014: €242,572 thousand and 31 December 2013: €278,164 thousand) were considered to be impaired. The cumulative impairment loss amounted to €41,755 thousand (31 December 2015: €28,605 thousand, 31 December 2014: €18,940 thousand and 31 December 2013: nil) (Note 17).

Balances with central banks and loans and advances to banks held for sale

Balances with central banks and loans and advances to banks which form part of disposal groups held for sale are analysed by Moody's rating as follows:

	31 December 2014
	€000
A1–A3	16,098
Baa1–Baa3	38,159
Ba1–Ba3	1,976
B1–B3	46
Unrated	<u>17,137</u>
	<u><u>73,416</u></u>

There are no balances with central banks and loans and advances to banks held for sale at 30 June 2016, 31 December 2015 and 31 December 2013.

Notes to the Historical Financial Information (Continued)

46. Risk management—Credit risk (continued)

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 by Moody's rating, their issuer and classification, as follows:

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	€000	€000	€000	€000
Aaa–Aa3	373,081	402,830	615,766	617,262
A1–A3	—	—	5,268	5,443
Baa1–Baa3	23,227	54,626	86,560	54,508
Ba1–Ba3	—	—	—	49,008
B1–B3	394,726	459,159	1,800,349	—
Caa–C	—	1	376	2,595,036
Unrated	1	—	—	1,490
	<u>791,035</u>	<u>916,616</u>	<u>2,508,319</u>	<u>3,322,747</u>
<i>Issued by:</i>				
—Cyprus government	394,726	459,159	1,800,349	2,589,776
—other governments	362,358	421,037	676,487	668,558
—banks and other corporations	33,951	36,420	31,483	63,901
—local authorities	—	—	—	512
	<u>791,035</u>	<u>916,616</u>	<u>2,508,319</u>	<u>3,322,747</u>
<i>Classified as:</i>				
—trading investments	321	317	1	103
—investments at fair value through profit or loss	17,187	17,430	17,151	15,549
—available-for-sale investments	400,787	461,934	707,858	733,658
—investments classified as loans and receivables	372,740	436,935	1,783,309	2,573,437
	<u>791,035</u>	<u>916,616</u>	<u>2,508,319</u>	<u>3,322,747</u>

No investments listed above are past due or impaired except as described in Note 50.

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 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.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises mainly as a result of timing differences on the repricing of assets, liabilities and off-balance sheet items.

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated separately for each currency. A rate change is applied on each item of the balance sheet for the number of days between its repricing date and the one year horizon in order to calculate the impact on net interest income.

Interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Group. There are different limits for the Euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Group capital and as a percentage of net interest income (when positive) and are allocated to the various banking

Notes to the Historical Financial Information (Continued)

47. Risk management—Market risk (continued)

Interest rate risk (continued)

units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

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:

	Euro €000	US Dollar €000	British Pound €000	Other currencies €000	Total €000
<i>Change in interest rates</i>					
30 June 2016					
+5% for Russian Rouble					
+0.75% for US Dollar					
+0.5% for all other currencies	9,530	9,988	4,061	3,168	26,747
–5% for Russian Rouble					
–0.25% for Japanese Yen					
–0.5% for Euro Euribor ECB					
–1% for Euro Bank Basic Rate					
–0.5% for all other currencies	(19,790)	(6,886)	(2,854)	(3,232)	(32,762)
31 December 2015					
+5% for Russian Rouble					
+0.75% for US Dollar					
+0.5% for all other currencies	14,244	10,281	4,524	(570)	28,479
–5% for Russian Rouble					
–0.25% for Japanese Yen					
–0.5% for Euro Euribor ECB					
–1% for Euro Bank Basic Rate					
–0.5% for all other currencies	(24,120)	(7,275)	(3,454)	532	(34,317)
31 December 2014					
+5% for Russian Rouble					
+0.5% for all other currencies	19,799	5,015	3,835	(5,857)	22,792
–7% for Russian Rouble					
–0.25% for British Pound, Swiss Franc and US Dollar					
–0.1% for Japanese Yen and Euro					
–0.5% for all other currencies	(3,879)	(2,508)	(1,917)	8,019	(285)
31 December 2013					
+0.5% for other currencies	8,531	2,862	594	71	12,058
–0.25% for Euro, US Dollar and Japanese Yen					
–0% for Swiss Franc					
–0.5% for all other currencies	(4,265)	(1,431)	(594)	(516)	(6,806)

In addition to the above fluctuations in net interest income, the Group results are also affected by changes in interest rates which 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 as available-for-sale (unless impaired) as well as from changes in the fair value of derivative financial instruments including investments which are hedging instruments in effective cash flow hedge relationships.

Notes to the Historical Financial Information (Continued)

47. Risk management—Market risk (continued)

Interest rate risk (continued)

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.

	Impact on profit/(loss) before tax	Impact on equity
	€000	€000
<i>Change in interest rates</i>		
30 June 2016		
+5% for Russian Rouble		
+0.75% for US Dollar		
+0.5% for all other currencies	472	(22)
–5% for Russian Rouble		
–0.25% for Japanese Yen		
–0.5% for all other currencies	(472)	22
31 December 2015		
+5% for Russian Rouble		
+0.75% for US Dollar		
+0.5% for all other currencies	572	(97)
–5% for Russian Rouble		
–0.25% for Japanese Yen		
–0.5% for all other currencies	(572)	97
31 December 2014		
+5% for Russian Rouble		
+0.5% for all other currencies	2,258	(337)
–7% for Russian Rouble		
–0.25% for British Pound, Swiss Franc and US Dollar		
–0.1% for Japanese Yen and Euro		
–0.5% for all other currencies	(466)	71
31 December 2013		
+0.5% for other currencies	3,549	(1,392)
–0.25% for Euro, US Dollar and Japanese Yen		
0% for Swiss Franc		
–0.5% for all other currencies	(1,776)	705

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 Group ALCO has approved open position limits for the total foreign exchange position. There are larger limits for intra-day positions and lower limits for overnight positions. The foreign exchange position limits are lower than those prescribed by the Central Bank of Cyprus. These limits are managed by Treasury and monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Market Risk daily.

The Group does not maintain a currency trading book.

The table below indicates 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.

Notes to the Historical Financial Information (Continued)

47. Risk management—Market risk (continued)

Currency risk (continued)

	Change in foreign exchange rate	Impact on profit/(loss) after tax	Impact on equity
	%	€000	€000
30 June 2016			
US Dollar	+10	2,065	—
Russian Rouble	+40	5,455	74,805
Romanian Lei	+10	—	4,578
Swiss Franc	+15	5,470	—
British Pound	+15	709	(26,484)
Japanese Yen	+15	526	—
Other currencies	+10	128	—
US Dollar	−10	(1,690)	—
Russian Rouble	−40	(2,338)	(32,059)
Romanian Lei	−10	—	(3,746)
Swiss Franc	−15	(4,043)	—
British Pound	−15	(524)	19,575
Japanese Yen	−15	(389)	—
Other currencies	−10	(105)	—
31 December 2015			
US Dollar	+10	1,753	—
Russian Rouble	+40	5,819	78,573
Romanian Lei	+10	1	3,634
Swiss Franc	+20	9,344	—
British Pound	+10	515	(18,304)
Japanese Yen	+10	490	—
Other currencies	+10	111	—
US Dollar	−10	(1,434)	—
Russian Rouble	−40	(2,494)	(33,674)
Romanian Lei	−10	(1)	(2,974)
Swiss Franc	−20	(6,229)	—
British Pound	−10	(422)	14,976
Japanese Yen	−10	(401)	—
Other currencies	−10	(91)	—
31 December 2014			
US Dollar	+10	9,717	(11,664)
Russian Rouble	+40	(1,065)	(11,952)
Romanian Lei	+10	(2)	4,165
Swiss Franc	+20	6,506	—
British Pound	+10	1,904	(16,110)
Japanese Yen	+10	854	—
Other currencies	+10	65	—
US Dollar	−10	(7,950)	9,543
Russian Rouble	−40	456	5,122
Romanian Lei	−10	2	(3,408)
Swiss Franc	−20	(4,337)	—
British Pound	−10	(1,558)	13,181
Japanese Yen	−10	(699)	—
Other currencies	−10	(53)	—

Notes to the Historical Financial Information (Continued)

47. Risk management—Market risk (continued)

Currency risk (continued)

	Change in foreign exchange rate	Impact on profit/(loss) after tax	Impact on equity
	%	€000	€000
31 December 2013			
US Dollar	+8	465	—
Russian Rouble	+8	456	(12,335)
Romanian Lei	+8	(1,912)	752
Ukrainian Hryvnia	+8	462	(4,877)
Swiss Franc	+8	3,342	—
British Pound	+8	1,823	(11,180)
Japanese Yen	+15	768	—
Other currencies	+8	1,389	—
US Dollar	-8	(396)	—
Russian Rouble	-20	(875)	23,642
Romanian Lei	-8	1,629	(640)
Ukrainian Hryvnia	-30	(1,225)	12,942
Swiss Franc	-8	(2,847)	—
British Pound	-8	(1,553)	9,524
Japanese Yen	-15	(568)	—
Other currencies	-8	(1,183)	—

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.

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.

Up to 2013, in order to control the risk of loss from changes in the price of equities, there were maximum limits for the amounts that could be invested in equity securities in the trading book and other restrictions, such as maximum amount invested in a specific issuer, specific industry, etc.

Thereafter, 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.

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 available-for-sale affect the equity of the Group (if not impaired).

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.

Notes to the Historical Financial Information (Continued)

47. Risk management—Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

	Change in index %	Impact on loss before tax €000	Impact on equity €000
30 June 2016			
Cyprus Stock Exchange	+30	1,934	1,582
Athens Exchange	+50	—	120
Other Stock Exchanges and non listed	+20	802	1,942
Cyprus Stock Exchange	−30	(2,114)	(1,401)
Athens Exchange	−50	(72)	(48)
Other Stock Exchanges and non listed	−20	(802)	(1,942)
31 December 2015			
Cyprus Stock Exchange	+30	2,164	1,509
Athens Exchange	+50	—	83
Other Stock Exchanges and non listed	+20	1,721	1,916
Cyprus Stock Exchange	−30	(2,298)	(1,376)
Athens Exchange	−50	(58)	(25)
Other Stock Exchanges and non listed	−20	(1,768)	(1,869)
31 December 2014			
Cyprus Stock Exchange	+30	1,075	3,406
Athens Exchange	+35	—	100
Moscow Exchange	+35	—	258
Other Stock Exchanges and non listed	+20	1,887	384
Cyprus Stock Exchange	−30	(1,609)	(2,872)
Athens Exchange	−35	(14)	(86)
Moscow Exchange	−35	(75)	(182)
Other Stock Exchanges and non listed	−20	(1,887)	(384)
31 December 2013			
Cyprus Stock Exchange	+30	716	3,789
Athens Exchange	+25	—	115
Moscow Exchange	+20	—	194
Bucharest Stock Exchange	+20	—	16,226
Cyprus Stock Exchange	−30	(2,629)	(1,875)
Athens Exchange	−25	(77)	(38)
Moscow Exchange	−20	(72)	(122)
Bucharest Stock Exchange	−20	(16,226)	—

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 and banks. The average Moody's rating of the debt securities portfolio of the Group as at 30 June 2016 was Baa1 (31 December 2015: Baa2, 31 December 2014: Ba2, 31 December 2013: B3).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired).

Notes to the Historical Financial Information (Continued)

47. Risk management—Market risk (continued)

Price risk (continued)

Debt securities price risk (continued)

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

	Impact on profit/ (loss) before tax	Impact on equity
	€000	€000
<i>Change in market prices</i>		
30 June 2016		
+5.2%	2,679	20,598
−5.2%	(2,679)	(20,598)
31 December 2015		
+5.5%	2,002	25,188
−5.5%	(2,002)	(25,188)
31 December 2014		
+4.5%	1,779	31,530
−4.5%	(1,779)	(31,530)
31 December 2013		
+7%	1,050	50,610
−7%	(1,050)	(50,610)

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. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Management and structure

The Board 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. Information on inflows/outflows is also provided.

The local ALCO of each banking unit is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies. The Group ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. Given the current liquidity position of the Company, the Group ALCO considers the monitoring of liquid assets and the cash inflows/outflows of the Company in Cyprus, to be of utmost importance.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Management and structure (continued)

Local Treasury departments at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each country banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs Group ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

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

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 and limits.
- (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 market 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) Contingency Funding Plan: maintenance of a Contingency Funding Plan (“CFP”) which is designed to provide a framework where a liquidity stress could be effectively managed. The CFP provides a communication plan and includes management actions to respond to liquidity stresses.
- (vi) Recovery Plan: the Group has developed a Recovery Plan. The key objectives are to provide the Group with a range of options to ensure its viability in a stress, to set consistent Early Warning Indicators and to enable the Group to be adequately prepared to respond to stressed conditions.

Temporary restrictions on withdrawal of deposits from March 2013 to April 2015

Following the bail-in, in March 2013, various restrictive measures and capital controls were imposed by the Ministry of Finance that prohibited customers from withdrawing their deposits, even if placed in instant access accounts. There were limits on the maximum cash that could be withdrawn per day. There were also limits on the maximum amount that could be transferred to banks abroad and to other local banks. These limits applied per month and were different for physical and legal persons. Moreover, on the maturity of a fixed deposit, there were limits as to the amount that could be transferred to an instant access account until 24 February 2014 when this measure was abolished.

As a result of stabilisation of the financial sector, all restricting measures within Cyprus were abolished by May 2014. The capital controls with regards to the transferring of funds outside Cyprus were fully abolished in April 2015.

Monitoring process

Daily

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market Risk prepares a report for submission to the CBC and ECB/SSM, indicating the cash inflows and outflows observed in customer balances and other

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Monitoring process (continued)

Daily (continued)

balances, as well as the opening and closing balances of cash. Also, Group Treasury monitors daily and intraday the customer inflows and outflows in the currencies used by the Group.

Since May 2016, Market Risk also prepares stress testing for bank-specific, market wide and combined scenarios on a daily basis. Prior to May 2016, the stress testing was prepared on a quarterly basis. The requirement is to have sufficient buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

The liquidity buffer is made up of: bank notes, CBC balances (excluding the Minimum Reserve Requirements (“MRR”)), nostro current accounts, money market placements up to the stress horizon and market value net of haircut of eligible unencumbered/available 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 Group 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.

Weekly

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

Monthly

Market Risk prepares reports indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the Group 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. The fixed deposit renewal rates and deposits by tenor are also presented to the Group ALCO.

As from 2015, Group Treasury prepares the liquidity report. The report is submitted to the Group ALCO and the Executive Committee and prepared on a monthly basis. Prior to 2015 this report was prepared weekly and submitted to the Board and Executive Committee. The liquidity report shows the liquidity position of the Bank, data on customer flows, as well as other important developments related to liquidity. Moreover, as from August 2014, Group Treasury prepares the projected cash flow position report on a monthly basis. The report shows the projected cash flow position under a base and an adverse scenario, and covers one and two month periods. The projected cash flow position report is sent to ECB/SSM, to CBC and to the Ministry of Finance. Prior to August 2014 the report was reported weekly.

As at 2015, Market Risk reports the Liquidity Coverage Ratio (“LCR”) to the CBC and the ECB monthly.

Quarterly

Moreover, Market Risk reports the Net Stable Funding Ratio (“NSFR”), and the Leverage Ratio to the CBC and the ECB quarterly and 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”). The report for the year 2015 was approved by the Board and was submitted to the CBC and the ECB within the deadline of 30 April 2016.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Monitoring process (continued)

Annually (continued)

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group Contingency Funding Plan for handling liquidity difficulties. The plan details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the Group ALCO. The plan sets out the members of this Committee and a series of the possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, is reviewed by Group ALCO at least annually, during the ILAAP review. The latter submits the updated policy with its recommendations to the Board through the Board Risk Committee for approval. The approved policy is notified to the CBC and as from 4 November 2014, reports are also sent to the ECB/SSM due to the assumption of its role as supervisor of the Group.

Liquidity ratios

The ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by Market Risk and monitored by Group ALCO. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit/liabilities due to be paid in the next twelve months.

The Group's liquidity ratio was as follows:

	30 June 2016	31 December		
	%	2015 %	2014 %	2013 %
30 June/31 December	16.82	18.25	20.97	12.28
Average ratio	16.42	18.31	15.27	11.16
Highest ratio	17.22	21.62	20.97	14.42
Lowest ratio	14.48	15.64	12.11	8.69

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

During 2013, 2014 and 2015 and the six months ended 30 June 2016 the liquidity ratio remained at low levels, due to the continued economic crisis in Cyprus. The Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus and therefore dependent on continuing regulatory forbearance (Note 5.2.5).

As at 30 June 2016, 31 December 2015 and 31 December 2014 the other banking units (except the branch of the Company in Romania) of the Group were in compliance with their liquidity regulatory ratios. It is noted that Romania's regulatory requirements in this respect were abolished since November 2015. As at 31 December 2014 the branch in Romania had a marginal regulatory breach.

The ratio of loans and advances to customer deposits is presented below:

	30 June 2016	31 December		
	%	2015 %	2014 %	2013 %
30 June/ 31 December	109.92	120.92	141.48	145.38
Average ratio	116.52	133.57	146.85	128.84
Highest ratio	120.92	141.48	150.96	145.95
Lowest ratio	109.92	120.92	141.71	85.70

Sources of funding

Currently, the Group's main sources of liquidity are its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through ELA.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Sources of funding (continued)

As a result of further deterioration in the economic conditions at the beginning of 2013 and increased customer deposit outflows, the Group obtained funding from the CBC in February 2013.

The acquisition of certain operations of Laiki Bank by the Group as a result of the agreement between Cyprus and the Eurogroup of 25 March 2013 resulted in an amount of approximately €9.1 billion ELA funding as at the date of acquisition to be assumed by the Group. The Group had limited access to interbank and wholesale markets which, combined with a reduction in deposits in Cyprus in 2013, the deposit bail-in and the acquisition of certain operations of Laiki Bank in March 2013, had resulted in increased reliance on central bank funding. It is noted that up to 30 June 2016 ELA funding was reduced by €9.0 billion from its peak of €11.4 billion in April 2013. As at 30 June 2016, the funding from ELA amounted to €2,400,667 thousand (31 December 2015: €3,802,058 thousand, 31 December 2014: €7,403,741 thousand and 31 December 2013: €9,556,035 thousand) (Note 32).

The liquidity received from central banks is subject to the relevant regulations and requires qualifying assets as collateral.

The funding provided to the Group through ELA is short term (typically provided for a period of 2-3 weeks), covering the period until the next scheduled meeting of the ECB Governing Council. The funding via Eurosystem monetary policy operations ranges from short term to long term. In 2014, the Group participated in the targeted long term refinancing operations (“**TLTRO**”) of the ECB for an amount of €500 million (Note 32). On 29 June 2016, the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount through the MRO. At 30 June 2016, the Group borrowed short-term through one-week liquidity operations (MRO).

In May 2016, the Company raised €200 million of funding from ECB’s MRO using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims Framework as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

Additionally, in May 2016 the Company has also concluded a repurchase transaction which is its first wholesale funding transaction since 2013.

Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for the final repayment. The Group subsidiaries Bank of Cyprus UK Ltd and Bank of Cyprus (Channel Islands) Ltd, cannot place funds with the Group in excess of maximum limits set by their local regulator.

Any new funding to subsidiaries requires approval from the CBC and the ECB.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, 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.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Collateral requirements

The carrying values of the Group's encumbered assets as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013 are summarised below:

	30 June 2016	31 December		
	€000	2015 €000	2014 €000	2013 €000
Cash and other liquid assets	165,534	154,896	191,968	367,080
Investments	597,934	892,728	2,435,766	3,289,810
Loans and advances	11,530,650	12,882,139	13,531,026	15,136,002
Non-current assets and disposal groups classified as held for sale	—	—	54,536	—
Property	92,814	93,500	99,468	90,181
	<u>12,386,932</u>	<u>14,023,263</u>	<u>16,312,764</u>	<u>18,883,073</u>

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions, (ii) trade finance transactions and guarantees issued and (iii) the covered bond.

Investments are mainly used as collateral for repurchase transactions with the ECB and other commercial banks as well as supplementary assets for the covered bond, while loans are mainly used as collateral for funding from the CBC, the ECB and for the covered bond.

Loans and advances indicated as encumbered as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013 are mainly used as collateral for funding from the CBC, the covered bond and ECB.

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

As at 30 June 2016, the Company maintained the rights and obligations as issuer of two bonds guaranteed by the Republic of Cyprus of €500 million each. The bonds bear an annual fixed interest rate at 5%. The bonds are guaranteed by the Republic of Cyprus and are issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds is presented in debt securities in issue in the consolidated balance sheet as all the bonds are held by the Company. The bonds are listed on the Cyprus Stock Exchange. As at 30 June 2016 one of the bonds was pledged as collateral for obtaining funding from central banks. The other bond has been released in June 2016 from the ELA pool of collateralised assets. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC.

Under the Programme, the Company issued in December 2011 covered bonds of €1,000 million. The covered bonds issued had a maturity of 3 years with a potential extension of their repayment by one year, bore interest at the three month Euribor plus 1.25% on a quarterly basis and were traded on the Luxemburg Bourse. All the bonds issued are held by the Company.

The terms of the €1,000 million covered bond secured by residential mortgage loans originated in Cyprus were amended in June 2014 and the maturity date changed to 12 June 2017 with a potential extension of one year and the interest rate to three month Euribor plus 3.25% on a quarterly basis.

On 29 September 2015, the terms of the Covered Bond Programme and the outstanding €1,000 million covered bond were amended to a Conditional Pass-Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650,000 thousand with a new maturity

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Collateral requirements (continued)

date of 12 December 2018. The credit rating of the covered bond 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 the covered bond has been placed as collateral for accessing funding from the ECB. Through this transaction, the Company has raised €550,000 thousand of ECB funding. Prior to the rating upgrade, the covered bond was used as collateral for ELA.

The assets used as collateral for the covered bond are already included in the table above.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

In August 2016, the CBC has released loans and advances with contractual value of €2 billion held as collateral for ELA. An additional release of loans and advances with contractual value of €2.5 billion took place in October 2016.

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 the balance sheet date is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from the balance sheet date 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 the balance sheet date, 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).

Investments in debt securities and other financial assets which were considered by the CBC to be eligible as collateral (for the purposes of open market operations for monetary policy) and highly liquid assets that can be accepted as collateral by other banks for the purposes of providing financing, were classified in the first maturity time band at their fair value less haircut (as determined by the CBC) when unencumbered. When encumbered, they were placed in the time band according to when the encumbrance was expected to be terminated. The amounts deducted as haircut were presented in the time band of the maturity of the related asset. All other investments were placed in the relevant time bands according to the number of days remaining from the balance sheet date until their contractual maturity date. Other investments are classified in the relevant time band according to their contractual maturity.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Financial assets (continued)

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.’

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 the balance sheet date, 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. It should be noted that following the March 2013 events, various restrictions were imposed on depositors through the various decrees (Note 2.3). Consequently, the ability of depositors to withdraw deposits, even on the maturity date, was restricted by the provisions of the decrees, until the full abolition of restrictive measures in May 2014 and capital controls in April 2015.

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.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

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.

	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
30 June 2016						
Financial assets						
Cash and balances with central banks	1,464,383	16,386	29,214	8,680	—	1,518,663
Loans and advances to banks	934,030	4,236	39,736	132,216	63,905	1,174,123
Investments at fair value through profit or loss . . .	31,277	—	13,677	4,389	802	50,145
Loans and advances to customers	6,884,219	273,527	922,376	3,284,484	4,888,631	16,253,237
Fair value of net settled derivative assets	10,404	992	2,619	288	—	14,303
Non-trading investments . .	73,717	20,178	78,629	458,937	158,137	789,598
Other assets	42,034	15,648	19,297	77,070	6,820	160,869
Total financial assets	<u>9,440,064</u>	<u>330,967</u>	<u>1,105,548</u>	<u>3,966,064</u>	<u>5,118,295</u>	<u>19,960,938</u>
Financial liabilities						
Deposits by banks	231,993	40,146	17,250	8,725	52,084	350,198
Funding from central banks	3,101,833	—	—	—	—	3,101,833
Repurchase agreements . . .	—	9,593	45,070	378,317	9,031	442,011
Customer deposits	7,915,647	1,991,186	4,117,467	816,629	3,090	14,844,019
Fair value of net settled derivative liabilities	11,070	476	1,689	37,121	8,879	59,235
Other liabilities	92,172	31,126	43,503	7,092	3,416	177,309
Total undiscounted financial liabilities	<u>11,352,715</u>	<u>2,072,527</u>	<u>4,224,979</u>	<u>1,247,884</u>	<u>76,500</u>	<u>18,974,605</u>

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (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
	€000	€000	€000	€000	€000	€000
31 December 2015						
Financial assets						
Cash and balances with central banks	1,373,351	20,898	27,943	410	—	1,422,602
Loans and advances to banks	1,045,275	13,865	45,027	191,869	18,344	1,314,380
Investments at fair value through profit or loss . . .	28,378	—	6,719	14,769	919	50,785
Loans and advances to customers	6,990,238	229,696	1,043,964	3,529,475	5,398,259	17,191,632
Fair value of net settled derivative assets	12,615	733	593	39	43	14,023
Non-trading investments . .	57,136	51,367	203,219	485,305	161,475	958,502
Other assets	31,459	8,192	9,348	123,787	6,875	179,661
Total financial assets	<u>9,538,452</u>	<u>324,751</u>	<u>1,336,813</u>	<u>4,345,654</u>	<u>5,585,915</u>	<u>21,131,585</u>
Financial liabilities						
Deposits by banks	181,358	—	16,946	8,505	38,395	245,204
Funding from central banks	3,953,955	—	—	502,846	—	4,456,801
Repurchase agreements . . .	—	29,826	82,217	288,676	9,679	410,398
Customer deposits	7,675,374	2,273,718	3,767,389	561,323	2,658	14,280,462
Debt securities in issue . . .	—	—	712	—	—	712
Fair value of net settled derivative liabilities	6,865	3,658	5,266	33,826	4,544	54,159
Other liabilities	84,527	18,475	31,366	6,278	2,338	142,984
Total undiscounted financial liabilities	<u>11,902,079</u>	<u>2,325,677</u>	<u>3,903,896</u>	<u>1,401,454</u>	<u>57,614</u>	<u>19,590,720</u>

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

The analysis below includes the assets and liabilities held for sale.

	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	Total €000
31 December 2014						
Financial assets						
Cash and balances with central banks	1,040,222	78,860	98,729	7,606	—	1,225,417
Loans and advances to banks	1,258,382	25,821	28,687	284,468	85,522	1,682,880
Investments at fair value through profit or loss . . .	11,940	—	168	21,359	880	34,347
Loans and advances to customers	5,804,731	465,695	2,434,111	3,886,131	6,127,485	18,718,153
Fair value of net settled derivative assets	—	7	11,437	616	13	12,073
Non-trading investments . .	68,383	182,774	1,299,473	424,208	532,085	2,506,923
Other assets	11,208	4,007	133,980	48,519	6	197,720
Total financial assets	<u>8,194,866</u>	<u>757,164</u>	<u>4,006,585</u>	<u>4,672,907</u>	<u>6,745,991</u>	<u>24,377,513</u>
Financial liabilities						
Deposits by banks	112,263	851	28,357	37,834	26,028	205,333
Funding from central banks	7,783,773	—	—	500,000	—	8,283,773
Repurchase agreements . . .	—	13,920	220,554	175,529	188,035	598,038
Customer deposits	7,542,467	2,272,674	3,101,767	512,280	2,208	13,431,396
Debt securities in issue . . .	1,535	492	242	693	—	2,962
Fair value of net settled derivative liabilities	143	108	3,531	17,818	35,320	56,920
Subordinated loan stock . .	—	—	2,358	—	—	2,358
Other liabilities	60,772	10,250	26,193	6,395	33,445	137,055
Total undiscounted financial liabilities	<u>15,500,953</u>	<u>2,298,295</u>	<u>3,383,002</u>	<u>1,250,549</u>	<u>285,036</u>	<u>22,717,835</u>

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

The analysis of financial assets and liabilities based on the remaining contractual maturity relating to the disposal groups held for sale at 31 December 2014 is presented below:

	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	Total €000
31 December 2014						
Financial assets						
Cash and balances with central banks	85,952	—	—	—	—	85,952
Loans and advances to banks	29,435	—	79	1,081	5,399	35,994
Loans and advances to customers	91,214	41,255	152,539	231,537	33,285	549,830
Non-trading investments	209	—	—	—	139	348
Other assets	48	933	—	—	—	981
Total financial assets	<u>206,858</u>	<u>42,188</u>	<u>152,618</u>	<u>232,618</u>	<u>38,823</u>	<u>673,105</u>
Financial liabilities						
Deposits by banks	1,967	311	25,543	4,220	—	32,041
Customer deposits	137,823	126,487	459,472	29,070	61	752,913
Debt securities in issue	1,535	—	242	—	—	1,777
Fair value of net settled derivative liabilities	575	—	—	—	—	575
Subordinated loan stock	—	—	2,358	—	—	2,358
Other liabilities	82	1,048	—	—	—	1,130
Total undiscounted financial liabilities	<u>141,982</u>	<u>127,846</u>	<u>487,615</u>	<u>33,290</u>	<u>61</u>	<u>790,794</u>

There were no disposal groups classified as held for sale at 30 June 2016, 31 December 2015 and 31 December 2013.

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (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
	€000	€000	€000	€000	€000	€000
31 December 2013						
Financial assets						
Cash and balances with central banks	1,008,366	85,324	108,759	37,594	—	1,240,043
Loans and advances to banks	697,352	24,391	17,782	446,226	104,351	1,290,102
Investments at fair value through profit or loss	18,895	136	2	5,447	680	25,160
Loans and advances to customers	7,225,421	1,025,327	2,661,803	4,522,387	6,329,400	21,764,338
Fair value of net settled derivative assets	534	6	1,778	3,019	19,591	24,928
Non-trading investments	622,903	1,200,239	707,866	442,982	459,156	3,433,146
Other assets	9,602	7,068	157,040	43,711	—	217,421
Total financial assets	9,583,073	2,342,491	3,655,030	5,501,366	6,913,178	27,995,138
Financial liabilities						
Deposits by banks	117,454	5,174	6,237	92,045	—	220,910
Funding from central banks	9,956,041	1,000,236	—	—	—	10,956,277
Repurchase agreements	13,928	—	—	330,482	249,594	594,004
Customer deposits	6,728,526	3,140,210	4,389,362	805,170	1,034	15,064,302
Debt securities in issue	15	492	359	674	—	1,540
Fair value of net settled derivative liabilities	7,098	24	1,721	22,124	29,256	60,223
Subordinated loan stock	—	—	2,598	2,078	—	4,676
Other liabilities	106,113	9,452	11,669	2,062	1,031	130,327
Total undiscounted financial liabilities	16,929,175	4,155,588	4,411,946	1,254,635	280,915	27,032,259
30 June 2016						
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	912,469	91,387	165,801	—	—	1,169,657
Contractual amounts payable	(902,618)	(90,179)	(162,466)	—	—	(1,155,263)
	9,851	1,208	3,335	—	—	14,394
<i>Financial liabilities</i>						
Contractual amounts receivable	645,477	89,798	19,045	—	—	754,320
Contractual amounts payable	(656,848)	(90,403)	(19,164)	—	—	(766,415)
	(11,371)	(605)	(119)	—	—	(12,095)

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (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
	€000	€000	€000	€000	€000	€000
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	2,741	3,453	2,006	—	—	8,200
Guarantees	71,273	135,443	218,937	235,123	120,644	781,420
<i>Commitments</i>						
Documentary credits	2,465	5,634	8,107	120	1,470	17,796
Undrawn formal standby facilities, credit lines and other commitments to lend .	1,949,106	17,642	—	—	—	1,966,748
	<u>2,025,585</u>	<u>162,172</u>	<u>229,050</u>	<u>235,243</u>	<u>122,114</u>	<u>2,774,164</u>
31 December 2015						
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	931,730	57,648	1,196	—	—	990,574
Contractual amounts payable	(920,083)	(56,874)	(1,175)	—	—	(978,132)
	<u>11,647</u>	<u>774</u>	<u>21</u>	<u>—</u>	<u>—</u>	<u>12,442</u>
<i>Financial liabilities</i>						
Contractual amounts receivable	408,995	160,095	167,212	—	—	736,302
Contractual amounts payable	(414,868)	(161,442)	(169,407)	—	—	(745,717)
	<u>(5,873)</u>	<u>(1,347)</u>	<u>(2,195)</u>	<u>—</u>	<u>—</u>	<u>(9,415)</u>
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	3,587	2,750	2,048	—	—	8,385
Guarantees	66,251	140,400	245,352	254,419	86,689	793,111
<i>Commitments</i>						
Documentary credits	2,259	8,028	4,116	2,643	1,395	18,441
Undrawn formal standby facilities, credit lines and other commitments to lend .	2,069,129	19,490	—	—	—	2,088,619
	<u>2,141,226</u>	<u>170,668</u>	<u>251,516</u>	<u>257,062</u>	<u>88,084</u>	<u>2,908,556</u>

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (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
	€000	€000	€000	€000	€000	€000
31 December 2014						
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable	1,085,899	54,330	17,718	—	90,782	1,248,729
Contractual amounts payable	(1,071,311)	(52,892)	(17,186)	—	(68,534)	(1,209,923)
	<u>14,588</u>	<u>1,438</u>	<u>532</u>	<u>—</u>	<u>22,248</u>	<u>38,806</u>
<i>Financial liabilities</i>						
Contractual amounts receivable	71,922	39,377	557	—	42,813	154,669
Contractual amounts payable	(75,618)	(39,799)	(833)	—	(43,203)	(159,453)
	<u>(3,696)</u>	<u>(422)</u>	<u>(276)</u>	<u>—</u>	<u>(390)</u>	<u>(4,784)</u>
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements	2,763	3,781	1,788	—	895	9,227
Guarantees	66,915	41,517	166,413	454,084	243,744	972,673
<i>Commitments</i>						
Documentary credits	2,208	4,380	8,140	94	1,395	16,217
Undrawn formal standby facilities, credit lines and other commitments to lend	2,256,587	16,846	—	—	—	2,273,433
	<u>2,328,473</u>	<u>66,524</u>	<u>176,341</u>	<u>454,178</u>	<u>246,034</u>	<u>3,271,550</u>
<i>Contingent liabilities and commitments of disposal groups held for sale</i>						
Guarantees	—	64	8,483	—	—	8,547
Undrawn formal standby facilities, credit lines and other commitments to lend	2,420	3,661	28,367	32,640	4,291	71,379
	<u>2,420</u>	<u>3,725</u>	<u>36,850</u>	<u>32,640</u>	<u>4,291</u>	<u>79,926</u>

Notes to the Historical Financial Information (Continued)

48. Risk management—Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (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
	€000	€000	€000	€000	€000	€000
31 December 2013						
Gross settled derivatives						
<i>Financial assets</i>						
Contractual amounts receivable . . .	294,082	1,027	291	2,179	—	297,579
Contractual amounts payable	(295,360)	(1,020)	(291)	(2,116)	—	(298,787)
	<u>(1,278)</u>	<u>7</u>	<u>—</u>	<u>63</u>	<u>—</u>	<u>(1,208)</u>
<i>Financial liabilities</i>						
Contractual amounts receivable . . .	1,523,551	49,866	20,470	152,866	—	1,746,753
Contractual amounts payable	(1,516,711)	(48,760)	(20,033)	(176,668)	—	(1,762,172)
	<u>6,840</u>	<u>1,106</u>	<u>437</u>	<u>(23,802)</u>	<u>—</u>	<u>(15,419)</u>
Contingent liabilities and commitments						
<i>Contingent liabilities</i>						
Acceptances and endorsements . . .	15,564	4,086	817	—	—	20,467
Guarantees	148,978	68,305	220,796	647,612	121,810	1,207,501
<i>Commitments</i>						
Documentary credits	1,645	2,638	6,580	56	—	10,919
Undrawn formal standby facilities, credit lines and other commitments to lend	2,662,564	21,551	44,135	101,209	74,255	2,903,714
	<u>2,828,751</u>	<u>96,580</u>	<u>272,328</u>	<u>748,877</u>	<u>196,065</u>	<u>4,142,601</u>

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.

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.

Notes to the Historical Financial Information (Continued)

49. Risk management—Insurance risk (continued)

Life insurance contracts (continued)

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.

	30 June 2016	31 December 2015	31 December 2014	31 December 2013
	%	€000	€000	%
Change in embedded value				
Change in interest rates +0.25%	86	93	101	531
Change in expenses +10%	(2,660)	(2,639)	(2,930)	(3,201)
Change in lapsation rates +10%	(1,077)	(953)	(997)	(1,075)
Change in mortality rates +10%	(6,649)	(6,711)	(6,703)	(11,681)

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.

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

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

Notes to the Historical Financial Information (Continued)

49. Risk management—Insurance risk (continued)

General insurance contracts (continued)

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. Sovereign exposure

The Group's sovereign exposure and non-sovereign exposure in countries which have entered or have applied to the European Support Mechanism or whose Moody's credit rating is below Aar and the total Group exposure exceeds €100,000 thousand, is presented in the table below. During the six months ended 30 June 2016 and during 2015, these countries were Cyprus, Greece, Russia, Romania, Belgium and France. During 2014, these countries were: Cyprus, Greece, Russia, Romania, and Belgium and during 2013, these were: Cyprus, Greece, Ireland, Italy, Russia, Romania, Ukraine, Portugal and Spain. The exposure in Italy and Ukraine as at 31 December 2015 and 2014 is not disclosed since it does not exceed €100,000 thousand. In addition, no information is disclosed for Ireland as at 31 December 2013 since Ireland exited the ESM during 2013.

The Group's sovereign exposure includes government bonds and other assets including loans and advances to customers, receivable by governmental, semi-governmental, local authorities and other organisations in which the state holds more than 50%.

The Group had no exposure to Greek government bonds as at 31 December 2013. The sovereign exposure to the above countries, was not considered to be impaired as at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013, despite the financial difficulties of these countries, as the situation is not severe enough to impact the future cash flows of these countries' sovereign securities, except in relation to exchanged Cyprus government bonds which were impaired in 2013, as described below.

Cyprus Government Bonds ("CyGBs")

In June 2013, the Republic of Cyprus offered to exchange a number of existing government bonds with a total nominal value of €1 billion, which matured during the economic adjustment programme period (March 2013-March 2016), with five new bonds with corresponding equal coupon rates (on a series-by-series basis) and 6-10 year maturities. The Group accepted the above offer and participated in the exchange with bonds of total nominal value of €180,000 thousand. The exchange constituted a modification of terms, rather than resulting in the derecognition of the CyGBs being exchanged.

For the CyGBs offered for exchange, there was objective evidence of impairment, as in addition to other indicators (i.e. financial difficulties of the issuer, downgrades and decline in the fair value), there was a decrease in the estimated future cash flows due to the maturity extension using current market yields, instead of the original effective interest rate. As a result, during the year 2013, the Group recognised impairment losses of €6,927 thousand relating to the exchanged bonds. All CyGBs owned by the Group, other than those which were subject to the exchange offer, are not impaired.

Notes to the Historical Financial Information (Continued)

50. Sovereign exposure (continued)

Credit risk

The Group's exposure to sovereign debt securities and other non-sovereign financial assets in the countries listed above is analysed below:

	Cyprus	Greece	Russia	Romania	Belgium	France
	€000	€000	€000	€000	€000	€000
30 June 2016						
Deposits with central banks	1,066,932	—	—	1,160	—	—
Loans and advances to banks	53,217	5,357	79,556	55,080	103,778	—
Investments in sovereign debt securities						
—available-for-sale	4,479	—	—	—	—	293,500
—loans and receivables	372,740	—	—	—	—	—
—fair value through profit or loss	17,507	—	—	—	—	—
Investments in debt securities of banks and other corporations						
—fair value through profit or loss	1	—	—	—	—	—
Derivative financial assets	140	—	—	—	2,426	—
Loans and advances to customers (before provisions)	18,272,587	44,901	194,609	357,412	—	—
Total on-balance sheet	19,787,603	50,258	274,165	413,652	106,204	293,500
Contingent liabilities	670,062	118,058	—	11	—	—
Commitments	1,966,037	569	—	296	—	—
Total off-balance sheet	2,636,099	118,627	—	307	—	—
Total exposure to credit risk	22,423,702	168,885	274,165	413,959	106,204	293,500

Notes to the Historical Financial Information (Continued)

50. Sovereign exposure (continued)

Credit risk (continued)

	<u>Cyprus</u>	<u>Greece</u>	<u>Russia</u>	<u>Romania</u>	<u>Belgium</u>	<u>France</u>
	€000	€000	€000	€000	€000	€000
31 December 2015						
Deposits with central banks	957,176	—	—	591	—	—
Loans and advances to banks	43,304	2,439	36,454	82,562	124,228	123,938
Investments in sovereign debt securities						
—available-for-sale	4,478	—	—	—	30,580	290,205
—loans and receivables	436,935	—	—	—	—	—
—fair value through profit or loss	17,746	—	—	—	—	—
Investments in debt securities of banks and other corporations						
—available-for-sale	—	—	12,308	—	—	—
—fair value through profit or loss	1	—	—	—	—	—
Derivative financial assets	—	—	—	—	2,034	481
Loans and advances to customers (before provisions)	19,570,252	45,942	248,901	372,664	—	—
Total on-balance sheet	21,029,892	48,381	297,663	455,817	156,842	414,624
Contingent liabilities	668,741	131,172	—	11	—	—
Commitments	2,067,273	—	20,000	296	—	—
Total off-balance sheet	2,736,014	131,172	20,000	307	—	—
Total exposure to credit risk	23,765,906	179,553	317,663	456,124	156,842	414,624

Notes to the Historical Financial Information (Continued)

50. Sovereign exposure (continued)

Credit risk (continued)

	<u>Cyprus</u>	<u>Greece</u>	<u>Russia</u>	<u>Romania</u>	<u>Belgium</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
31 December 2014					
Deposits with central banks	483,039	—	37,422	972	—
Loans and advances to banks	60,975	12,509	22,127	191,320	140,494
Investments in sovereign debt securities					
—available-for-sale	204	—	—	—	41,556
—loans and receivables	1,782,998	—	—	—	—
—fair value through profit or loss	17,147	—	—	—	—
Investments in debt securities of banks and other corporations					
—available-for-sale	59	—	—	—	—
—loans and receivables	311	—	—	—	—
—fair value through profit or loss	1	—	—	—	—
Derivative financial assets	—	—	—	—	3,078
Loans and advances to customers (before provisions)	19,754,621	99,257	965,724	482,941	96
Total on-balance sheet	<u>22,099,355</u>	<u>111,766</u>	<u>1,025,273</u>	<u>675,233</u>	<u>185,224</u>
Contingent liabilities	795,229	185,271	8,547	21	—
Commitments	2,272,508	—	71,379	296	—
Total off-balance sheet	<u>3,067,737</u>	<u>185,271</u>	<u>79,926</u>	<u>317</u>	<u>—</u>
Total exposure to credit risk	<u>25,167,092</u>	<u>297,037</u>	<u>1,105,199</u>	<u>675,550</u>	<u>185,224</u>

Notes to the Historical Financial Information (Continued)

50. Sovereign exposure (continued)

Credit risk (continued)

	Cyprus €000	Greece €000	Italy €000	Russia €000	Romania €000	Ukraine €000
31 December 2013						
Deposits with central banks	456,069	—	—	51,593	5,695	9,969
Loans and advances with banks	51,374	19,799	428	103,976	222,417	9,458
Investments in sovereign debt securities						
—available-for-sale	1,423	—	52,211	2,051	—	—
—loans and receivables	2,572,940	—	—	—	—	—
—fair value through profit or loss	15,413	—	—	—	—	—
Investments in debt securities of banks and other corporations						
—available-for-sale	6,148	290	—	—	—	1
—loans and receivables	497	—	—	—	—	—
—fair value through profit or loss	103	—	—	—	—	—
Loans and advances to customers (before provisions)	21,173,769	97,124	—	1,429,161	483,541	395,051
Total on-balance sheet	24,277,736	117,213	52,639	1,586,781	711,653	414,479
Contingent liabilities	880,984	335,073	—	7,206	100	50
Commitments	2,748,596	—	—	147,695	3,366	536
Total off-balance sheet	3,629,580	335,073	—	154,901	3,466	586
Total exposure to credit risk	27,907,316	452,286	52,639	1,741,682	715,119	415,065

Loans and advances to customers are presented net of the fair value adjustment on loans and advances acquired from Laiki Bank.

On 30 June 2016, the revaluation reserve of available-for-sale investments includes losses amounting to €3,760 thousand (31 December 2015: €3,342 thousand, 31 December 2014: €5,282 thousand and 31 December 2013: €5,851 thousand) relating to the above sovereign debt securities and losses amounting to nil thousand (31 December 2015: nil thousand, 31 December 2014: €5 thousand and 31 December 2013: €142 thousand) relating to debt securities of banks and other corporations.

Notes to the Historical Financial Information (Continued)

50. Sovereign exposure (continued)

Credit risk (continued)

The analysis of loans and advances to customers for the above countries above is set out in Note 46.

As at 30 June 2016, loans and advances to customers in Cyprus include loans to local authorities, semi-governmental organisations and government-controlled businesses of €129,212 thousand (31 December 2015: €129,388 thousand, 31 December 2014: €139,148 thousand and 31 December 2013: €139,733 thousand). In addition, contingent liabilities and commitments include an amount of €45,477 thousand (31 December 2015: €44,981 thousand, 31 December 2014: €16,743 and 31 December 2013: €56,389 thousand) thousand for these entities.

Liquidity risk

The table below presents the Group's sovereign debt securities exposure to countries which as at 30 June 2016 were or still are in EU-IMF Economic Adjustments Programmes based on the remaining contractual maturity of the financial assets.

	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
30 June 2016						
Cyprus						
—available-for-sale	—	—	—	41	4,438	4,479
—loans and receivables	66,251	9,993	32,874	143,734	119,888	372,740
—at fair value through profit or loss .	3,510	—	13,677	320	—	17,507
	<u>69,761</u>	<u>9,993</u>	<u>46,551</u>	<u>144,095</u>	<u>124,326</u>	<u>394,726</u>
31 December 2015						
Cyprus						
—available-for-sale	—	—	—	41	4,437	4,478
—loans and receivables	21,451	20,787	115,631	162,748	116,318	436,935
—at fair value through profit or loss .	—	—	6,719	10,711	316	17,746
	<u>21,451</u>	<u>20,787</u>	<u>122,350</u>	<u>173,500</u>	<u>121,071</u>	<u>459,159</u>
31 December 2014						
Cyprus						
—available-for-sale	—	—	170	—	34	204
—loans and receivables	59,966	153,062	1,070,386	204,996	294,588	1,782,998
—at fair value through profit or loss .	—	—	168	16,979	—	17,147
	<u>59,966</u>	<u>153,062</u>	<u>1,070,724</u>	<u>221,975</u>	<u>294,622</u>	<u>1,800,349</u>
31 December 2013						
Cyprus						
—available-for-sale	—	—	—	1,423	—	1,423
—loans and receivables	—	199,003	1,749,757	327,267	296,913	2,572,940
—at fair value through profit or loss .	—	—	—	15,413	—	15,413
	<u>—</u>	<u>199,003</u>	<u>1,749,757</u>	<u>344,103</u>	<u>296,913</u>	<u>2,589,776</u>

The Cyprus government bond of carrying value €1,987 million was due on 1 July 2014 and the government had a unilateral annual roll-over option up to July 2017. On 1 July 2014, the Cyprus government repaid €950 million of this bond and rolled over the remaining amount for one year.

As at 30 June 2016, 31 December 2015, 31 December 2014 and 31 December 2013, the Group had no sovereign debt security exposure to Spain, Portugal or Greece.

Notes to the Historical Financial Information (Continued)

51. 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 shareholder value.

The Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework on 1 January 2014. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It has direct effect on all EU member states. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019 and some other transitional provisions provide for phase in until 2024. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, and allows national regulators to impose additional capital buffer requirements. In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law. The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions.

Since June 2016, the CET 1 minimum capital requirement applicable to the Group is 4.5% of RWA. The total capital requirement is 8.0% on a transitional basis, comprising the CET 1 minimum of 4.5% combined with up to 1.5% of Additional Tier 1 (AT1) capital and up to 2.0% of Tier 2 capital.

The capital conservation buffer is 2.5% of RWA over the minimum CET1 ratio and was fully phased in since 2015.

In addition to the above minimum capital requirements, the following capital buffer requirements are effective and are gradually being phasing-in and will become fully effective on 1 January 2022.

The level of the Countercyclical Capital buffer (CCyB) is set on a quarterly basis by the CBC in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015 in accordance with the methodology set out in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for the first three quarters of 2016.

Since 2015, the Group has been designated as an Other Systemically Important Institution (O-SII). The CBC set the O-SII buffer for the Group at 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%) on 1 January 2022.

The Group is also subject to additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons). However, the Group's Pillar II add-on capital requirement is a point-in-time assessment and therefore is subject to change over time. Following the completion of the supervisory review and evaluation process (SREP) for year 2015, the ECB notified the Group of the minimum required CET1 ratio. The Pillar II minimum CET1 capital requirement was determined by the ECB at 11.75% and it also includes the capital conservation buffer. The Group's capital position as at 30 June 2016 exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group.

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency II ratio which is effective from 1 January 2016. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

Notes to the Historical Financial Information (Continued)

52. Related party transactions

	30 June 2016	31 December			30 June 2016	31 December			
		2015	2014	2013		2015	2014	2013	
		Number of directors			€000	€000	€000	€000	
Loans and advances to members of the Board of Directors and connected persons:									
—less than 1% of the Group's net assets per director	<u>10</u>	<u>9</u>	<u>10</u>	<u>15</u>	335	369	382	302	
Loans and advances to other key management personnel and connected persons					3,032	3,871	4,317	3,448	
Total loans and advances					3,367	4,240	4,699	3,750	
Loans and advances:									
—members of the Board of Directors and other key management personnel					2,928	3,354	3,615	3,224	
—connected persons					439	886	1,084	526	
					3,367	4,240	4,699	3,750	
Deposits:									
—members of the Board of Directors and other key management personnel					2,960	3,366	18,368	1,881	
—connected persons					2,926	3,147	11,206	36,536	
					5,886	6,513	29,574	38,417	
						6 months ended			
						30 June		Year	
					2016	2015	2015	2014	2013
						€000			
					€000	(unaudited)	€000	€000	€000
Interest income					55	69	138	205	929
Interest expenses on deposits					38	139	187	398	1,115

The above table does not include balances for members of the Board of Directors and their connected persons who resigned during the periods presented.

Interest income and expense from members of the Board of Directors and connected persons and other key management personnel and connected persons from loans and advances and deposits is disclosed from the date of their appointment.

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 €48 thousand (31 December 2015: €135 thousand, 31 December 2014: €175 thousand and 31 December 2013: €231 thousand). As at 30 June 2016, 31 December 2015, 2014 and 2013, none of the directors or their connected persons had total loans and advances which exceeded 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €358 thousand (31 December 2015: €856 thousand, 31 December 2014: €689 thousand and 31 December 2013: €743 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 30 June 2016 amounted to €684 thousand (31 December 2015: €1,094 thousand, 31 December 2014: €1,586 thousand and 31 December 2013: €1,439 thousand).

At 30 June 2016, the Group has an investment in Invesco Euro Short Term Bond Fund, in which Mr. Wilbur L. Ross Jr. is an executive Director. The fair value of the investment at 30 June 2016 amounts to €4,010 thousand.

Notes to the Historical Financial Information (Continued)

52. Related party transactions (continued)

During the six months ended 30 June 2016 and the year 2015, there were no transactions with connected persons of the current members of the Board of Directors or with any members who resigned during the period/year.

During 2014, there were no transactions with connected persons of the members of the Board of Directors who were on the Board with the exception of Mr Xanthos Vrachas (who resigned during 2014). He is the Chief Financial Officer of Universal Insurance Agency Ltd to which the Group paid €137 thousand in 2014 relating to insurance transactions (2013: €119 thousand).

Additionally, during 2013, the Group had the following transactions with directors and connected persons: reinsurance premiums amounting to €56 thousand paid to companies of the Commercial General Insurance Group in which Mr Andreas Artemis held an indirect interest; purchases of equipment and services amounting to €1 thousand from Pylones SA Hellas and Unicars Ltd in which Mrs. Anna Diogenous held an indirect interest; purchases of equipment amounting to €89 thousand from Mellon Cyprus Ltd which was significantly influenced by a person connected to Mrs. Anna Diogenous; insurance commissions amounting to €29 thousand to D. Severis and Sons Ltd which was owned by Mr Costas Z. Severis and rents amounting to €71 thousand paid by Tseriotis Group in which Mrs. Anna Diogenous holds an indirect interest. The total amount of professional fees paid to the law office Andreas Neocleous and Co LLC, in which the director Mr Elias Neocleous is a partner, amounted to €14 thousand.

In addition, the Group had the following transactions with connected persons in their capacity as members of the interim board: legal fees amounting to €10 thousand paid to A. Poetis & Sons in which Mr Andreas Poetis is a partner and actuarial fees amounting to €48 thousand paid to AON Hewitt Cyprus Ltd in which Mr Philippos Mannaris is a partner.

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.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

Notes to the Historical Financial Information (Continued)

52. Related party transactions (continued)

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

	6 months ended 30 June		Year		
	2016	2015	2015	2014	2013
	€000	(unaudited) €000	€000	€000	€000
Director emoluments					
<i>Executives</i>					
Salaries and other short term benefits	934	488	1,061	859	452
Termination benefits	—	—	—	—	84
Employer's contributions	46	30	66	51	27
Retirement benefit plan costs	84	64	128	113	31
	<u>1,064</u>	<u>582</u>	<u>1,255</u>	<u>1,023</u>	<u>594</u>
<i>Non-executives</i>					
Fees	410	132	822	424	352
Emoluments of a non-executive director who is also an employee of the Company	—	—	—	—	100
Total directors' emoluments	<u>1,474</u>	<u>714</u>	<u>2,077</u>	<u>1,447</u>	<u>1,046</u>
Other key management personnel emoluments					
Salaries and other short term benefits	1,524	1,891	3,328	2,231	943
Termination benefits	397	—	—	250	667
Employer's contributions	97	77	164	166	84
Retirement benefit plan costs	82	93	178	210	117
Total other key management personnel emoluments	<u>2,100</u>	<u>2,061</u>	<u>3,670</u>	<u>2,857</u>	<u>1,811</u>
Total	<u>3,574</u>	<u>2,775</u>	<u>5,747</u>	<u>4,304</u>	<u>2,857</u>

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The termination benefits relate to compensation paid to members of the Executive Committee who left the Group under the voluntary exit plan.

Executive Directors

The salaries and other short term benefits of the Executive Directors are analysed as follows:

	6 months ended 30 June		Year		
	2016	2015	2015	2014	2013
	€000	(unaudited) €000	€000	€000	€000
John Patrick Hourican (Chief Executive Officer—appointed on 1 November 2013)	836	422	910	844	141
Christodoulos Patsalides (Deputy CEO and Chief Operating Officer—appointed on 20 November 2014)	98	66	151	15	—
Yiannis Pehlivanidis (resigned on 29 March 2013)	—	—	—	—	104
Yiannis Kypri (resigned on 29 March 2013)	—	—	—	—	127
Dinos Christofides (Special Administrator—25 March 2013 to 21 June 2013)	—	—	—	—	20
Christos Sorotos (Interim Chief Executive Officer—29 May 2013 to 10 September 2013)	—	—	—	—	60
	<u>934</u>	<u>488</u>	<u>1,061</u>	<u>859</u>	<u>452</u>

Notes to the Historical Financial Information (Continued)

52. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Executive Directors (continued)

The termination benefits of the executive directors in 2013 relate to payment to an executive director who left the Group on 29 March 2013. The termination benefits included notice period paid in accordance with his employment contract.

The retirement benefit plan costs are analysed as follows and presented for the period during which they served as directors.

	6 months ended 30 June		Year		
	2016	2015 (unaudited)	2015	2014	2013
	€000	€000	€000	€000	€000
John Patrick Hourican (appointed on 1 November 2013)	73	55	110	111	18
Christodoulos Patsalides—(appointed on 20 November 2014)	11	9	18	2	—
Yiannis Kypri (resigned on 29 March 2013)	—	—	—	—	13
	84	64	128	113	31

Notes to the Historical Financial Information (Continued)

52. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel
(continued)

Non-executive Directors

	6 months ended 30 June		Year		
	2016 €000	2015 (unaudited) €000	2015 €000	2014 €000	2013 €000
Josef Ackermann	75	34	150	8	—
Wilbur L. Ross Jr.	60	25	120	6	—
Vladimir Strzhalkovskiy	—	21	21	50	16
Arne Berggren	58	10	107	2	—
Maksim Goldman	60	12	116	2	—
Michalis Spanos	50	8	100	2	—
Ioannis Zographakis	57	11	115	30	7
Christis Hassapis	—	—	—	60	21
Marios Kalochoritis	45	11	93	25	6
Andreas Yiasemides	—	—	—	32	7
Adonis Papaconstantinou	—	—	—	31	6
Anjelica Anshakova	—	—	—	24	6
Eriskhan Kurazov	—	—	—	12	4
Anton Smetanin	—	—	—	12	4
Dmitry Chichikashvili	—	—	—	20	5
Kirill Parinov	—	—	—	5	—
Konstantinos Katsaros	—	—	—	35	7
Marinos Gialeli	—	—	—	33	6
Xanthos Vrachas	—	—	—	28	6
Marios Yiannas	—	—	—	7	6
Andreas Artemis	—	—	—	—	20
Evdokimos Xenophontos	—	—	—	—	15
Vassilis G. Rologis	—	—	—	—	8
Costas Z. Severis	—	—	—	—	10
Chistakis G. Christofides	—	—	—	—	5
Anna Diogenous	—	—	—	—	5
George M. Georgiades	—	—	—	—	2
Costas Hadjipapas	—	—	—	—	12
Nikolas P. Tsakos	—	—	—	—	1
Stavros J. Constantinides	—	—	—	—	2
Irene Karamanou	—	—	—	—	6
Elias Neocleous	—	—	—	—	4
Symeon Matsis	—	—	—	—	4
Sophocles Michaelides	—	—	—	—	25
Erol Riza	—	—	—	—	19
Constantinos Damtsas	—	—	—	—	9
Takis Taousianis	—	—	—	—	11
Lenia Georgiadou	—	—	—	—	11
Philippos Mannaris	—	—	—	—	9
Lambros Papadopoulos	—	—	—	—	8
Andreas Persianis	—	—	—	—	6
Andreas Poetis	—	—	—	—	8
Panikos Poulos	—	—	—	—	15
Savvakis Savvides	—	—	—	—	8
Georgios Theocharides	—	—	—	—	9
Michalis Zannetides	—	—	—	—	7
Takis Arapoglou	—	—	—	—	6
Michael Heger	5	—	—	—	—
	<u>410</u>	<u>132</u>	<u>822</u>	<u>424</u>	<u>352</u>

Notes to the Historical Financial Information (Continued)

52. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Non-executive Directors (continued)

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 at committees of the Board of Directors.

Mr Costas Hadjipapas, who is an employee of the Company and was also a non-executive director up until 23 October 2013, had emoluments for 2013 up to the date of resignation, amounting to €81 thousand. Employer's contributions amounted to €8 thousand and retirement benefit plan costs amounted to €11 thousand.

Other key management personnel

The other key management personnel emoluments for 2013 include the emoluments of the Senior Group Executive Management up to 29 March 2013 and the remuneration of the members of the Executive Committee of the Group for the period that each employee served as member of the Executive Committee.

The other key management personnel emoluments for years 2014 and 2015 and for the six months ended 30 June 2015 and 30 June 2016 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 CEO.

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

The termination benefits in 2013 relate to payments to four key management personnel who left during 2013. The termination benefits include notice period paid in accordance with their employment contracts and voluntary retirement compensation.

Notes to the Historical Financial Information (Continued)

53. Group companies

The main subsidiary companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities, and the percentage held by the Company (directly or indirectly) as at 30 June 2016 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Limited (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Cytrusteas Investment Public Company Ltd	Cyprus	Closed-end investment company	53
Finerose Properties Ltd	Cyprus	Financing services	100
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial Services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	N/A
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	N/A
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	N/A
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100
Bank of Cyprus (Channel Islands) Ltd ¹	Channel Islands	Commercial bank	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100

In addition to the above companies, at 30 June 2016 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligsimo Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon 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, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmom Properties Ltd, Petrassimo 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, Gilfront Properties Ltd, Canemia Properties Ltd, Pariza Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Renalandia Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Browneye Properties Ltd, Syniga

¹ On 30 August 2016, as part of the BOC Group's strategy focusing on its core businesses and markets, the BOC Group decided to close the operations of BOC CI.

Notes to the Historical Financial Information (Continued)

53. Group companies (continued)

Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Valiro Properties Ltd, Avolo Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Vidalaco Properties Ltd, Jemina Properties Ltd, Hovita Properties Ltd, Flitous Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Glodas Properties Ltd, Belzeco Properties Ltd, Bothwick Properties Ltd, Fireford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcanello Properties Ltd, Sylvesta Properties Ltd, Camela Properties Ltd, Nerofarm Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introsolve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Landeed Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Nabela Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Cavadino Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Singleserve Properties Ltd and Consentio Properties Ltd.

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

Further, at 30 June 2016 the Company had 100% shareholding in Iperi Properties Ltd, Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd whose main activities are the holding of shares and other investments and they are registered in Cyprus.

At 30 June 2016 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Warmbaths Properties Ltd, Tavoni Properties Ltd, Tezia Properties Ltd, Carnota Properties Ltd, Demoro Properties Ltd, Venicous Properties Ltd, Primaco Properties Ltd, Amary Properties Ltd, Mostero Properties Ltd, Hamura Properties Ltd, Gileco Properties Ltd, Meriaco Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Caruzoco Properties Ltd, Consoly Properties Ltd, Venetolio Properties Ltd, Bonsova Properties Ltd, Flymoon Properties Ltd, Givolo Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozzy Properties Ltd, Orasmo Properties Ltd, Senadaco Properties Ltd, Helal Properties Ltd, Lasmene Properties Ltd, Lorman Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd and Desogus Properties Ltd.

Romania: Mirodi Properties SRL, Nallora Properties SRL and Selilar Properties SRL.

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

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantara Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Mirodi Properties Ltd, Nallora Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Hydrobius Ltd, Landanfield Properties Ltd.

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

Cyprus: Laiki Bank (Nominees) Ltd, Laiki EDAK Ltd, Fairford Properties Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management

Notes to the Historical Financial Information (Continued)

53. Group companies (continued)

Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Palmco Properties Ltd, Intelamon Properties Ltd, Weinar Properties Ltd, Holstone Properties Ltd, Balasec Properties Ltd, Eracor Properties Ltd, Thermano Properties Ltd, Crolandia Properties Ltd, Nouralia Properties Ltd, Mazima Properties Ltd, Alomnia Properties Ltd, Diafor Properties Ltd, Prosilia Properties Ltd, Rulemon Properties Ltd, Benely Properties Ltd, Arcozil Properties Ltd, Denmor Properties Ltd, Coramono Properties Ltd, Galozy Properties Ltd, Primantela Properties Ltd, Varony Properties Ltd, Calomland Properties Ltd and Lameland Properties Ltd.

Greece: Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method.

Change in the control holding of MC Investment Assets Management LLC

In the context of the disposal of the majority of the Russian operations in September 2015, the Group increased its controlling interest in MC Investment Assets Management LLC to 100% from 80%. This transaction has been reflected as an equity transaction from non-controlling interests to the owners of the Company.

Control over CLR Investment Fund Public Ltd (CLR) without substantial shareholding

The Group considers that it exercises control over CLR 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 30 June 2016, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, Kyprou Securities SA, BOC Ventures Ltd, Tefkros Investments Ltd, Salecom Ltd, Longtail Properties Ltd, Turnmill Properties Ltd, Limestone Holdings Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC and Unknownplan Properties SRL.

Tefkros Investments (CI) Ltd and Bank of Cyprus Mutual Funds Ltd were dissolved during the six months ended 30 June 2016. Mainport Properties Ltd, Besadoco Properties Ltd and Odaina Properties Ltd were disposed of during the six months ended 30 June 2016 as part of the Company's disposal process of properties repossessed.

As part of the Group's strategy of focusing on its core businesses and markets, the Group decided on the closure of the operations of Bank of Cyprus (Channel Islands) Ltd and to relocate its business to other group locations.

54. Acquisitions and disposals

The acquisitions and disposals during the six months ended 30 June 2016 and the years 2015, 2014 and 2013 are disclosed below.

54.1 Acquisition during 2016

54.1.1 Acquisition of S.Z. Eliades Leisure Ltd

In the context of its loan restructuring activities the Group acquired, on 15 June 2016, a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of borrowings due from it of a total gross amount of €52,335 thousand. S.Z. Eliades Leisure Ltd operates in land development and the operation of a golf resort in Cyprus. The fair value of the consideration for the acquisition of the 70% share in S.Z. Eliades Leisure Ltd amounts to €43,758 thousand. The acquisition did not include any cash consideration. The Group considers that it controls S.Z. Eliades Leisure Ltd.

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.1 Acquisition during 2016 (continued)

54.1.1 Acquisition of S.Z. Eliades Leisure Ltd (continued)

The fair value of assets and liabilities of S.Z. Eliades Leisure Ltd at the date of acquisition are presented below:

	€000
Assets	
Property and equipment	20,308
Stock of property	48,632
Prepayments, accrued income and other assets	580
	69,520
Liabilities	
Deferred tax liability	3,807
Accruals, deferred income and other liabilities	3,202
	7,009
Net identifiable assets acquired	62,511
Less non-controlling interest	(18,753)
Net assets acquired	43,758

No cash and cash equivalents were acquired.

54.2 Disposal during 2016

54.2.1 Disposal of Kermia Hotels Ltd and adjacent land

In June 2016, the Group completed the sale of 100% of its subsidiary Kermia Hotels Ltd and adjacent land which were classified as a disposal group held for sale as at 31 December 2015.

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

	€000
Assets	
Property and equipment	27,130
Prepayments, accrued income and other assets	678
Cash and cash equivalent	1,132
	28,940
Liabilities	
Deferred tax liability	3,677
Accruals, deferred income and other liabilities	1,308
	4,985
Total net assets sold	23,955

The cash consideration received amounts to €26,500 thousand and the disposal resulted in a gain of €2,545 thousand (Note 14).

54.3 Acquisitions during the year 2015

54.3.1 Acquisition of shares of Laiki Financial Services Ltd (LFS)

On 29 January 2015, the Extraordinary General Meeting of the shareholders of LFS approved the disposal of the shares of LFS to the Company for a consideration of €3 million. Previously, LFS was 100% owned by LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd), a subsidiary of the

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.3 Acquisitions during the year 2015 (continued)

54.3.1 Acquisition of shares of Laiki Financial Services Ltd (LFS) (continued)

Company. As a result, the increase of the Company's holding from 67% to 100% in LFS is accounted for as an equity transaction.

In November 2015, CISCO, a subsidiary of the Company, issued 1,000 thousand shares of a nominal value €1.71 each, at a total premium of €534 thousand, for the transfer of the Company's investment in LFS to CISCO. Following the transfer of shares, LFS was dissolved without liquidation, under the Cyprus Companies Law and its net assets were transferred to CISCO in accordance with a court order.

54.4 Disposals during the year 2015

54.4.1 Disposal of the majority of the Group's Russian operations

In September 2015, the Group completed the sale of the majority of its Russian operations, comprising (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, its 80% holding in its Russian banking subsidiary, CB Uniastrium Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrium Leasing LLC and (ii) certain other Russian loan exposures.

The transaction resulted in a loss on disposal of €23,032 thousand, comprising a loss of €28,237 thousand representing the recycling of the foreign currency translation reserve from other comprehensive income to the consolidated income statement and a profit of €5,205 thousand against the net book value of the assets as at the disposal date. As part of the sales agreement, the parties agreed an asset swap arrangement which involved the exchange of certain assets between them that resulted in a €41,849 thousand receivable for the Group on the date of the transaction.

Following the disposal of the Group's Russian operations, the remaining net exposure as at 31 December 2015 (on and off-balance sheet) in Russia is €113,738 thousand, comprising primarily of customer loans and the deferred component of the asset swap arrangement with a carrying value of €38,940 thousand.

The results of the Group's Russian operations from 1 January 2015 until the date of their disposal are presented in Note 7 and are classified as discontinued operations.

The assets and liabilities of the Group's Russian operations disposed as at the date of their disposal are presented below:

	€000
Assets	
Cash and balances with central banks	64,291
Loans and advances to banks	26,269
Investments	12,726
Loans and advances to customers	343,909
Prepayments, accrued income and other assets	41,950
	489,145
Liabilities	
Deposits by banks	24,422
Customer deposits	494,274
Debt securities in issue	139
Subordinated loan stock	2,673
Accruals, deferred income and other liabilities	4,976
	526,484
Net liabilities	(37,339)

The sale consideration is analysed below:

	€000
Net cash consideration received, of which:	2,896
—Outflow of cash and cash equivalents	(3,945)

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.4 Disposals during the year 2015 (continued)

54.4.1 Disposal of the majority of the Group's Russian operations (continued)

The net cash flows of the Russian operations are presented in Note 31.

54.4.2 Disposal of Aphrodite group

In September 2015, the Group completed the sale of shares representing a 65% shareholding in the Aphrodite Hills Resort Ltd and Aphrodite Hills (Lakkos tou Frangou) Ltd. For additional information refer to Note 31.

54.4.3 Disposal of Kyprou Leasing SA

Following the disposal of the Group's leasing operations in Greece to Piraeus Bank SA through a Decree issued on 26 March 2013, the Group completed the transfer of the legal ownership of its subsidiary, Kyprou Leasing SA to Piraeus Bank SA during the first quarter of 2015.

54.5 Disposals during the year 2014

54.5.1 Disposal of the Group's Ukrainian operations

In April 2014, the Group completed the disposal of its Ukrainian operations, comprising (i) its holding of 99.77% in its subsidiary bank in Ukraine, PJSC Bank of Cyprus, (ii) the funding provided by the Company to PJSC Bank of Cyprus, and (iii) its loans with Ukrainian exposures, to Alfa Group. The sale consideration was €198,860 thousand, comprising €98,860 thousand received and €100,000 thousand deferred up to 30 June 2015. In 2015, the settlement terms of the deferred consideration and the related interest rate were amended. The deferred consideration is due to be paid to the Group under a repayment programme which extends until 1 June 2019.

The accounting loss from the sale was €114,228 thousand (Note 7) and represented the difference of the consideration and the carrying value of the assets and liabilities disposed, as well as the unwinding of the related foreign currency reserve of €55,796 thousand as at the disposal date.

The results of the Group's Ukrainian operations from 1 January 2014 until the date of its disposal are classified as discontinued operations (Notes 7 and 3.1).

The assets and liabilities of the Group's Ukrainian operations as at the date of their disposal are presented below:

	<u>€000</u>
Cash and balances with central banks	10,181
Loans and advances to banks	15,924
Loans and advances to customers	250,076
Investment properties	34,395
Prepayments, accrued income and other assets	1,168
Customer deposits	(47,235)

The net cash flows of the Group's Ukrainian business are presented below:

	<u>€000</u>
Net cash flow used in operating activities and net decrease in cash and cash equivalents	(999)

54.5.2 Sale of a UK loan portfolio

On 31 October 2014, the Company completed the sale of a UK loan portfolio owned by the Group and largely comprised of residential and commercial real estate-backed facilities.

This loan portfolio was acquired by the Group through the acquisition of certain operations of Laiki Bank in March 2013.

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.5 Disposals during the year 2014 (continued)

54.5.3 Sale of assets in Romania

On 11 September 2014, as part of its strategy of focusing on its core business, the Group completed the sale of its assets related to Grand Hotel Enterprises Society Ltd (GHES), a limited liability company incorporated in Romania and owner of the JW Marriott Bucharest Grand Hotel to STRABAG SE, an Austrian stock company. The assets comprised (i) a facility agreement between GHES, as borrower, and Bank of Cyprus Romania (branch of the Company), as lender, (ii) 1,474,482 shares issued by GHES to an affiliate of the Company, representing 35.292% of the issued share capital of GHES, and (iii) a subordinated loan agreement between GHES, as the borrower, and an associate of the Company, as the lender.

The sale consideration was €95 million and the accounting loss from the transaction was €1,424 thousand.

54.6 Acquisitions during the year 2013

54.6.1 Acquisition of certain operations of Laiki Bank

In March 2013 as part of the agreement with the Eurogroup, the Company acquired all of the insured deposits, ELA funding and the majority of the loans and assets of Laiki Bank. All employees of Laiki Bank in Cyprus were transferred to the Company. This was effected through the 'Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd' Decree issued on 29 March 2013 and subsequent decrees which provided for the acquisition of assets and liabilities, mainly insured deposits and ELA funding of Laiki Bank by the Company. These assets included all assets of Laiki Bank in Cyprus, the loans and selected assets of Laiki Bank in the UK and selected assets of Laiki Bank in Greece. The results of Laiki Bank are fully consolidated from the date of acquisition.

As prescribed by the Decree issued on 29 March 2013, the Resolution Authority was required to perform a valuation of the assets and liabilities transferred from Laiki Bank to the Company and to determine a fair compensation for Laiki Bank with no right of further compensation. The Resolution Authority appointed an independent international firm to carry out a valuation of assets and liabilities acquired from Laiki Bank. The consideration transferred for this transaction (being shares of the Company) was determined and enforced by the Resolution Authority pursuant to the Decree for the 'Issue of Bank of Cyprus Share Capital to compensate Laiki Bank' issued on 30 July 2013. In accordance with the above Decree, this was set at 18.1% of the total share capital of the Company with no further right for additional compensation. Accordingly, 858,709 thousand shares were issued to Laiki Bank with a nominal value of €1.00 each. Following the reduction in the nominal value of ordinary shares to €0.10 per share and following the capital raising of €1 billion during 2014 (Note 37), the holding of Laiki Bank stood at 9.6% of the ordinary shares in issue of the Company at 31 December 2014.

In accordance with the Company's accounting policy, business combinations are accounted for using the acquisition method.

Consideration transferred

In accordance with IFRS 3 'Business Combinations', the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Due to the specific conditions under which this transaction took place, i.e. the shares of the Company had been suspended from trading since 15 March 2013, the significant uncertainties present on and around the date of acquisition, the ongoing discussions and negotiations with the Troika and the non-availability of up to date financial information as at the date of acquisition due to the continuing developments and uncertainties, the Company was not able to establish a reliable measure of the fair value of the shares issued at the date of this transaction.

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.6 Acquisitions during the year 2013 (continued)

54.6.1 Acquisition of certain operations of Laiki Bank (continued)

Accounting for the business combination

The net assets acquired were recognised in the 2013 financial statements and were based on a provisional assessment of their fair values. In March 2014, the accounting for the business combination was completed and the Company recognised final adjustments on the acquisition date fair values, amounting to €7,082 thousand.

In addition, an investment provisionally classified as available-for-sale in 2013, was reclassified to investment in associates and joint ventures in 2014 (Note 55), following information obtained for this investment about facts and circumstances that existed on the acquisition date.

Fair values of the identifiable assets and liabilities acquired

The table below sets out the final fair values of the identifiable assets and liabilities acquired from Laiki Bank and its subsidiaries that were incorporated as at the date of the acquisition in the Republic of Cyprus and had been transferred to the Company through the Decree issued on 29 March 2013.

Fair values recognised on acquisition	€000
Assets	
Cash and balances with central banks	406,685
Placements with banks	1,294,458
Amounts receivable from the Company	1,153,000
Investments	2,430,044
Loans and advances to customers	8,659,000
Property, plant and equipment and intangible assets	129,779
Deferred tax asset	417,002
Investments in associates and joint ventures	236,977
Other assets	374,083
Total assets	15,101,028
Liabilities	
Amounts due to banks	1,233,564
Funding from central banks	9,102,528
Customer deposits	4,177,445
Other liabilities	127,149
Deferred tax liability	5,131
Total liabilities	14,645,817
Non-controlling interests	5,324
Total identifiable net assets at fair value	449,887
Fair value of consideration transferred (comprising 858,709 thousand shares of a nominal value of €0.10 each following the reduction in the nominal value of shares, Note 37) . . .	449,887
Analysis of cash flows on acquisition	
Total cash flows acquired, of which:	2,854,143
Cash and cash equivalents	1,126,302
Consideration paid in cash	—

The fair value of loans and advances to customers on acquisition amounted to €8,659,000 thousand. The gross amount of loans and advances to customers before fair value adjustment on initial recognition was €10,688,905 thousand. Of the total gross amount, €3,902,593 thousand were considered to be impaired as

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.6 Acquisitions during the year 2013 (continued)

54.6.1 Acquisition of certain operations of Laiki Bank (continued)

at the acquisition date. As at the date of acquisition, the fair value of these impaired loans amounted to €2,420,228 thousand.

The contribution to losses for the year ended 31 December 2013 by the acquired operations of Laiki Bank in the consolidated income statement and in the consolidated statement of comprehensive income amounted to losses of €49,290 thousand and losses of €6,030 thousand respectively.

54.6.2 Acquisition of certain assets and liabilities of Laiki Bank (UK Branch) by Bank of Cyprus UK Ltd

On 1 April 2013, in accordance with a Decree issued by the Resolution Authority, the customer deposits of the Laiki UK Branch amounting to €325,209 thousand and certain liquid assets were acquired by Bank of Cyprus UK Ltd, a wholly-owned subsidiary of the Group in the UK.

54.6.3 Step acquisition of JCC Payment Systems Ltd

Following the acquisition of certain operations of Laiki Bank, the Company's holding in JCC Payment Systems Ltd (JCC), which provides cards processing transaction services, increased from 45% to 75%. As a result, the Company fully consolidates JCC from 29 March 2013. Up to the date of becoming a subsidiary, the Company used proportional consolidation to account for JCC.

54.7 Disposal during 2013

54.7.1 Disposal of Greek operations

As per the MoU for the financial sector and through a Decree issued on 26 March 2013, the banking and leasing operations of the Group in Greece were sold to Piraeus Bank S.A., which was selected for this transaction by the Hellenic Financial Stability Fund.

The results from the Greek operations disposed until the date of the disposal are presented as discontinued operations (Note 7). The loss on disposal of the Greek operations is presented in the table below.

	<u>€000</u>
Assets	
Property and equipment	97,231
Loans and advances	7,769,075
	<u>7,866,306</u>
Liabilities	
Customer deposits	7,653,682
Net assets disposed	212,624
Cash paid	1,153,000
Loss on disposal	<u><u>1,365,624</u></u>

54.8 Disposal of certain assets and liabilities of Bank of Cyprus Romania

On 25 April 2013, in accordance with a decree issued by the Resolution Authority, the Company's Romanian Branch disposed to Marfin Bank (Romania) SA assets amounting to €82,000 thousand on which include certain customer loans and related collateral, cash and other liquid assets and customer deposits amounting to €77,000 thousand. The loss on disposal amounted to €4,482 thousand and is included in net losses on financial instrument transactions, in the consolidated income statement.

Notes to the Historical Financial Information (Continued)

54. Acquisitions and disposals (continued)

54.9 Disposal of subsidiary

On 11 October, 2013 the Company sold 100% of its subsidiary Kyprou Asset Management AEDAK. The company's net asset value totalled €2,100 thousand and the sale consideration amounted to €1,900 thousand.

55. Investments in associates and joint ventures

Share of profit/(loss) from associates and joint ventures

	6 months ended 30 June		Year		
	2016	2015	2015	2014	2013
	€000	€000	€000	€000	€000
CNP Cyprus Insurance Holdings Ltd	1,780	4,082	6,709	9,412	1,993
Interfund Investments Plc	(174)	(644)	(786)	(13)	(6,587)
Marfin Diversified Strategy Fund Plc	—	—	—	(4,547)	83
Rosequeens Properties SRL	—	—	—	—	(191)
	<u>1,606</u>	<u>3,438</u>	<u>5,923</u>	<u>4,852</u>	<u>(4,702)</u>

Carrying value of the investments in associates and joint ventures

	30 June	31 December		
	2016	2015	2014	2013
	€000	€000	€000	€000
CNP Cyprus Insurance Holdings Ltd	107,982	105,540	108,467	98,324
Interfund Investments Plc	2,027	2,201	2,987	3,000
Byron Capital Partners Ltd	—	—	5,322	5,322
Marfin Diversified Strategy Fund Plc	—	—	—	94,407
Aris Capital Management LLC	—	—	—	2,078
Rosequeens Properties Limited	—	—	—	—
Rosequeens Properties SRL	—	—	—	—
Tsiros (Agios Tychon) Ltd	—	12	—	—
M.S. (Skyra) Vassas Ltd	—	—	—	—
D.J. Karapatakis & Sons Ltd	—	—	—	—
Rodhagate Entertainment Ltd	—	—	—	—
Fairways Automative Holdings Ltd	—	—	—	—
	<u>110,009</u>	<u>107,753</u>	<u>116,776</u>	<u>203,131</u>

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 Group.

The main financial highlights of the associate is presented as follows:

	30 June	31 December		
	2016	2015	2014	2013
	€000	€000	€000	€000
Total assets	697,833	676,915	696,415	704,387
Liabilities	(481,439)	(465,416)	(479,046)	(507,345)
Net assets, including value of in-force business	<u>216,394</u>	<u>211,499</u>	<u>217,369</u>	<u>197,042</u>

Notes to the Historical Financial Information (Continued)

55. Investments in associates and joint ventures (continued)

Investments in associates (continued)

CNP Cyprus Insurance Holdings Ltd (continued)

CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €15,107 thousand at 30 June 2016 (31 December 2015: €15,255 thousand, 31 December 2014: €9,147 thousand and 31 December 2013: €42,040 thousand). The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	6 months ended 30 June		Year		
	2016	2015	2015	2014	2013
	€000	€000	€000	€000	€000
Dividend income	—	—	7,580	—	—
Interest expense paid by the Group	108	44	239	303	1,589
Other expenses paid by the Group	46	144	239	293	1,207
Other income received by the Group	—	8	2	247	312

Interfund Investments Plc

The Group has a 23.12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the Cyprus Stock Exchange.

The main financial highlights of the associate are presented as follows:

	30 June	31 December		
	2016	2015	2014	2013
	€000	€000	€000	€000
Total assets	8,961	9,691	13,110	13,196
Liabilities	(194)	(166)	(190)	(221)
Net assets	8,767	9,525	12,920	12,975
Market value of the investment on the Cyprus Stock Exchange	1,176	1,372	1,477	1,516

There were no material transactions between the Group and the associate throughout the years 2013, 2014, 2015 and the 6 months ended 30 June 2016 and 30 June 2015.

Rosequeens Properties Limited and Rosequeens Properties SRL

The Group effectively owns 33% 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 the Company 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 30 June 2016, 31 December 2015, 2014 and 2013 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% was transferred to the Group following the acquisition of certain operations of Laiki Bank. During 2014, the Group has recognised an impairment loss of €2,078 thousand (Note 18). During the six month periods 30 June 2016 and 30 June 2015 and the years 31 December 2015, 2014 and 2013 (since the date of acquisition), there were no material balances or transactions between the Group and the associate.

Grand Hotel Enterprises Society Ltd

As a result of the acquisition of S.C. ONT Carpati S.A. on 1 April 2010, the Group acquired 35.20% of the share capital of the company Grand Hotel Enterprises Society Ltd (GHES), which is incorporated in

Notes to the Historical Financial Information (Continued)

55. Investments in associates and joint ventures (continued)

Investments in associates (continued)

Grand Hotel Enterprises Society Ltd (continued)

Romania and owns a hotel in Romania. The Group's share of the associate at 31 December 2013 had nil accounting value as the net assets of the associate had a negative balance.

S.C. ONT Carpati S.A. was liquidated during 2013 and Unknownplan Properties Ltd acquired from S.C. ONT Carpati S.A. for a value of €13.9 million, the subordinated receivable from GHES and the 35.20% shareholding in GHES previously owned by S.C. ONT Carpati S.A.

The Group had granted a loan to GHES of €97,734 thousand, which was secured by a mortgage on the hotel owned by GHES. In addition, GHES owed an amount of €2,021 thousand to the Group. The Group's income statement for 2013 includes interest income of €5,284 thousand from GHES.

In September 2014, the Group sold its holding of 35.292% in its associate Grand Hotel Enterprises Society Ltd, which had a zero carrying value as at the date of the disposal.

M.S. (Skyra) Vassas Ltd

During the six months 30 June 2016, in the context of its loan restructuring activities, the Group acquired 15% interest in the share capital of M.S. Skyra Vassas Ltd. M.S. (Skyra) Vassas 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 Ltd and Rodhagate Entertainment Ltd

During the six months period 30 June 2016, in the context of its loan restructuring activities, the Group acquired a 7.5% interest in the share capital of D.J. Karapatakis & Sons Ltd and Rodhagate Entertainment Ltd, operating in the 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

During the six months period 30 June 2016, in the context of its loan restructuring activities, the Group acquired a 45% 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.

Investments in joint ventures

MDSF and BCP

The Group's investment in joint ventures comprised of BCP and MDSF acquired by the Group as part of the acquisition of certain operations of Laiki Bank in 2013. BCP managed 100% of the shares of MDSF. The Group was a party to a shareholder agreement with the other shareholder of BCP and this agreement stipulated a number of matters which required consent by both shareholders. The Group considered that it jointly controlled BCP (shareholding of 70%) and through BCP it also had joint control over MDSF.

The investment in MDSF was classified as held for sale since 31 December 2014 and was sold in April 2015 (Note 31). Further, during 2015, BCP bought back all its shares held by the Group.

Notes to the Historical Financial Information (Continued)

55. Investments in associates and joint ventures (continued)

Investments in joint ventures (continued)

MDSF and BCP (continued)

Since the date of acquisition and up to the date of disposal, there were no transactions between the Group and the joint ventures.

Tsiros (Agios Tychon) Ltd

The Group holds a 50% 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.

There were no transactions between the Group and the joint venture.

56. Events after the reporting date

56.1 Apply for a listing on the London Stock Exchange and the Cyprus Stock Exchange using a Holding Company structure

The Board of Directors decided to proceed with an application for a standard listing on the London Stock Exchange (LSE). The Company intends to maintain a listing on the Cyprus Stock Exchange and will no longer be listed on the Athens Exchange.

The London listing is in line with the Company's long-term strategic commitment to list on a major European stock exchange. The Company continues to work towards a premium listing on the LSE, and intends to apply for a step up to the premium segment of the LSE at a future date, with the intention of becoming eligible for inclusion in the FTSE UK Index series. Work is ongoing and the standard listing is an intermediate step on this long-term path.

In order to be considered eligible for future inclusion in the FTSE UK index series following a step up to a premium listing, the Company has decided to incorporate a new holding company in Ireland, which is a FTSE eligible jurisdiction. The newly set up company, Bank of Cyprus Holdings plc (BOC Holdings), was incorporated in Ireland earlier this year for this purpose.

It is intended that BOC Holdings will beneficially own all of the shares of the Company, and existing shareholders of the Company will receive shares in BOC Holdings in proportion to their current shareholding in the Company.

The Group's headquarters, management and operations will all remain in Cyprus and the new holding company will be, and the Company will remain, tax residents in Cyprus. The Group will continue to be regulated by the ECB and the CBC.

The change in the Group's structure will be implemented by means of a Cypriot law scheme of arrangement (Scheme) and is therefore subject, amongst other things, to the approval/sanctioning of the Scheme by (i) the shareholders at an extraordinary general meeting, (ii) the Company's regulators (including the ECB and the CBC) and (iii) the Courts of Cyprus following a hearing upon the fairness of the Scheme terms. A shareholder circular setting out full details of the Scheme has been published and is convening an Extraordinary General Meeting as part of the process of applying for a listing on the LSE, on 13 December 2016. At the EGM, resolutions will be proposed to approve the Scheme and the related reduction of capital of the Company. Under the Scheme, the share capital of the Company will be reduced by the cancellation of all the existing shares. The cancellation of the existing shares will result in a reserve arising in the books of accounts of the Company. This reserve will be used by the Company to issue fully paid-up shares in the Company to BOC Holdings. As a result, the Company will become a wholly-owned subsidiary of BOC Holdings.

Notes to the Historical Financial Information (Continued)

56. Events after the reporting date (continued)

56.2 Termination of the leasing activities of Cyprus Leasing Romania IFN SA

On 26 September 2016, the shareholders of Cyprus Leasing Romania IFN SA decided to:

- deregister the company from the Registry of non-banking financial institutions held by the National Bank of Romania,
- terminate the leasing and crediting activity of the company, and
- change the name of the company to Cyprus Leasing SA.

As a consequence of the above, the main activity of the company will be the collection of the existing portfolio of receivables, including third party collections.

The matter is pending approval by the National Bank of Romania.

56.3 Other events after the reporting date

Other information in respect of material events which occurred after the reporting date are disclosed as follows:

- Developments on liquidity and supervisory reviews—Note 5
- Developments on pending litigation and claims—Note 41
- Developments in collateral requirements and funding—Note 48
- Decision for the closure of operations of the Bank of Cyprus (Channel Islands) Ltd—Note 53

SELECTED STATISTICAL AND OTHER INFORMATION

Information included in this section, except where otherwise stated, relates to the BOC Group. The statistical data presented below has been derived from data included in the Historical Financial Information and from statistical data reported in the forms prescribed by the CBC. Such data are compiled in the normal operation of the Group's financial reporting and management information systems.

Assets, Liabilities and Shareholders' Equity; Interest Earnings

Consolidated Balance Sheet

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
Cash and balances with central banks	1,518,663	1,422,602	1,139,465	1,240,043
Loans and advances to banks	1,174,123	1,314,380	1,646,886	1,290,102
Derivative financial assets	14,303	14,023	62,598	28,765
Investments	316,357	588,255	1,871,136	2,759,855
Investments pledged as collateral	523,386	421,032	669,786	672,809
Loans and advances to customers	16,253,237	17,191,632	18,168,323	21,764,338
Life insurance business assets attributable to policyholders	481,409	475,403	472,992	443,579
Prepayments, accrued income and other assets	238,118	281,780	322,832	413,005
Stock of property	1,128,793	515,858	12,662	14,110
Investment properties	37,505	34,628	488,598	495,658
Property and equipment	282,640	264,333	290,420	414,404
Intangible assets	138,537	133,788	127,402	130,580
Investments in associates and joint ventures	110,009	107,753	116,776	203,131
Deferred tax assets	451,126	456,531	456,871	479,060
Non-current assets and disposal groups held for sale	11,460	48,503	942,655	—
Total assets	22,679,666	23,270,501	26,789,402	30,349,439
Deposits by banks	342,762	242,137	162,388	196,914
Funding from central banks	3,100,667	4,452,850	8,283,773	10,956,277
Repurchase agreements	398,408	368,151	579,682	594,004
Derivative financial liabilities	59,037	54,399	71,967	83,894
Customer deposits	14,746,473	14,180,681	12,623,558	14,971,167
Insurance liabilities	569,681	566,925	576,701	551,829
Accruals, deferred income and other liabilities	321,435	282,831	350,431	202,042
Debt securities in issue	—	712	693	1,023
Subordinated loan stock	—	—	—	4,676
Deferred tax liabilities	45,211	40,807	44,741	49,937
Non-current liabilities and disposal groups held for sale	—	3,677	614,421	—
Total liabilities	19,583,674	20,193,170	23,308,355	27,611,763
Share capital	892,294	892,294	892,238	4,683,985
Share premium	552,618	552,618	552,539	—
Capital reduction reserve	1,952,486	1,952,486	1,952,486	—
Shares subject to interim orders	—	—	441	58,922
Revaluation and other reserves	240,004	258,709	146,809	72,251
Accumulated losses	(583,710)	(601,152)	(79,021)	(2,151,835)
Non-controlling interests	42,300	22,376	15,555	74,353
Total equity	3,095,992	3,077,331	3,481,047	2,737,676
Total liabilities and equity	22,679,666	23,270,501	26,789,402	30,349,439

Net Interest Earnings

Interest-bearing assets and interest-bearing-liabilities

	30 June 2016	31 December		
		2015	2014	2013
(€'000)				
Interest-bearing assets	19,593,213	20,705,236	23,340,538	27,490,782
Loans and advances to customers	16,253,237	17,191,632	18,168,323	21,764,338
Loans and advances to banks and cash and balances with central banks	2,534,638	2,582,965	2,601,298	2,374,932
Investments available for sale	400,787	461,934	707,858	733,658
Investments classified as loans and receivables	372,740	436,935	1,783,309	2,573,437
Trading investments	321	317	1	103
Derivative financial instruments	14,303	14,023	62,598	28,765
Other investments at fair value through profit or loss	17,187	17,430	17,151	15,549
Interest-bearing liabilities	18,647,347	19,298,218	21,721,368	26,806,932
Customer deposits	14,746,473	14,180,681	12,623,558	14,971,167
Funding from central banks and deposits by banks	3,443,429	4,694,987	8,446,161	11,153,191
Repurchase agreements	398,408	368,151	579,682	594,004
Subordinated loan stock	—	—	—	4,676
Derivative financial instruments	59,037	54,399	71,967	83,894

Interest income and expense

	Six months ended 30 June 2016	Year		
		2015	2014	2013
(€'000)				
Interest Income	467,658	1,122,105	1,343,014	1,421,505
Loans and advances to customers	447,326	1,009,766	1,115,120	1,171,497
Loans and advances to banks and central banks	4,499	4,534	23,084	28,702
Investments available for sale	5,237	13,664	16,387	33,742
Investments classified as loans and receivables	7,842	88,456	177,228	173,521
Trading investments	—	148	74	111
Derivative financial instruments	2,386	4,798	10,382	13,193
Other investments at fair value through profit or loss	368	739	739	739
Interest expense	107,196	279,665	373,345	536,310
Customer deposits	68,337	154,796	192,494	326,991
Funding from central banks and deposits by banks	28,474	95,633	142,045	159,548
Repurchase agreements	2,197	7,583	11,910	10,130
Subordinated loan stock	—	—	—	(4,442)
Derivative financial instruments	8,188	21,653	26,896	44,083

Net interest margin

	Six months ended 30 June 2016	Year		
		2015	2014	2013
(%) unaudited				
Net interest margin ⁽¹⁾	3.58	3.83	3.90	3.24

(1) Net interest margin is calculated as the difference between the cost of lending and the interest income generated relative to the amount of interest-earning assets. Interest bearing assets include: cash and balances with central banks, plus placements with banks, plus repos, plus net customer loans and advances, plus investments (excluding equities and mutual funds) and derivatives.

Changes in interest income or expense

	Six months ended 30 June 2016		Year			
	(€'000)	(%)	2015		2014	
			(€'000) unaudited	(%)	(€'000)	(%)
Change in interest income	(123,457)	(20.9)	(220,909)	(16.4)	(78,491)	(5.5)
Loans and advances to customers	(77,218)	(14.7)	(105,354)	(9.4)	(56,377)	(4.8)
Loans and advances to banks and central banks	10,182	(179.2)	(18,550)	(80.4)	(5,618)	(19.6)
Investments available for sale	(2,626)	(33.4)	(2,723)	(16.6)	(17,355)	(51.4)
Investments classified as loans and receivables	(52,989)	(87.1)	(88,772)	(50.1)	3,707	2.1
Trading investments	(71)	(100.0)	74	100.0	(37)	(33.3)
Derivative financial instruments	(735)	(23.6)	(5,584)	(53.8)	(2,811)	(21.3)
Other investments at fair value through profit or loss	—	—	—	—	—	—
Change in interest expense	(45,333)	(29.7)	(93,680)	(25.1)	(162,965)	(30.4)
Customer deposits	(13,811)	(16.8)	(37,698)	(19.6)	(134,497)	(41.1)
Funding from central banks and deposits by banks	(23,405)	(45.1)	(46,412)	(32.7)	(17,503)	(11.0)
Repurchase agreements	(3,524)	(61.6)	(4,327)	(36.3)	1,780	17.6
Subordinated loan stock	—	—	—	—	4,442	100.0
Derivative financial instruments	(4,593)	(35.9)	(5,243)	(19.5)	(17,187)	(39.0)

For the year ended 2015

Volume ⁽¹⁾	Rate ⁽²⁾	Net Change
(€'000) unaudited		

Change in interest income due to:			
Loans and advances to customers	(130,582)	25,228	(105,354)
Loans and advances to banks and central banks	182	(18,732)	(18,550)
Investments available for sale	(3,174)	451	(2,723)
Investments classified as loans and receivables	(85,120)	(3,652)	(88,772)
Change in interest expense due to:			
Customer deposits	(4,565)	(33,133)	(37,698)
Funding from central banks and deposits by banks	(46,995)	583	(46,412)
Repurchase agreements	(1,807)	(2,520)	(4,327)

For the year ended 2014

Volume	Rate	Net Change
(€'000) unaudited		

Change in interest income due to:			
Loans and advances to customers	(156,401)	100,024	(56,377)
Loans and advances to banks and central banks	(1,053)	(4,565)	(5,618)
Investments available for sale	(777)	(16,578)	(17,355)
Investments classified as loans and receivables	(25,539)	29,246	3,707
Change in interest expense due to:			
Customer deposits	(30,320)	(104,177)	(134,497)
Funding from central banks and deposits by banks	(21,916)	4,413	(17,503)
Repurchase agreements	(408)	2,188	1,780

Investment Portfolio

Carrying Value of Investments in Governmental Obligations

	30 June 2016	31 December		
		2015	2014	2013
		(€'000) unaudited		
Cyprus Government Securities	394,726	459,159	1,800,349	2,589,776
Other Government Securities	362,358	421,037	676,487	668,558
Total Government Securities	757,084	880,196	2,476,836	3,258,334

Maturity of Investments in Government Obligations

	As at 31 December 2015, due in over five years			
	one year or less	between one and five years	after five years	Total
		(€'000) unaudited		
Cyprus Government Securities	164,588	173,500	121,071	459,159
Other Government Securities	118,029	290,205	12,803	421,037
Total Government Securities	282,617	463,705	133,874	880,196

- (1) The volume effect is calculated as the result of the average effective interest rate of the period multiplied by the difference between the average balance of the two relevant periods.
- (2) The rate effect is calculated as a result of the average balance of the period multiplied by the difference between the average effective interest rates of the two relevant periods.

Investments Available-for-Sale

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
Debt securities	400,787	461,934	707,858	733,658
Equity securities	15,802	59,292	14,081	98,606
Mutual funds	269	341	1,327	1,803
	416,858	521,567	723,266	834,067
Debt securities				
Cyprus government	4,479	4,478	204	1,423
French government	293,500	290,205	489,606	476,819
Other governments	68,858	130,832	186,881	191,739
Banks and other corporations	33,950	36,419	31,167	63,362
Local authorities	—	—	—	315
	400,787	461,934	707,858	733,658
Listed on the Cyprus Stock Exchange	4,479	4,478	263	7,256
Listed on other stock exchanges	396,308	457,456	707,595	726,086
Unlisted certificates of deposit, bank and local authority bonds	—	—	—	316
Total	400,787	461,934	707,858	733,658
Geographic dispersion by country of issuer				
Cyprus	4,479	4,478	263	7,571
France	293,500	290,205	489,606	476,818
Germany	45,631	45,686	59,011	58,258
Italy	23,227	23,234	53,572	52,211
United Kingdom	—	—	6,191	6,365
Other European countries	—	61,912	74,297	106,175
European Financial Stability Facility and European Investment Fund	12,212	11,928	14,640	14,617
Ukraine	—	—	1	1
Supranational organisations	9,675	10,890	10,277	9,590
Other countries	12,063	13,601	—	2,052
Total	400,787	461,934	707,858	733,658
Equity securities				
Listed on the Cyprus Stock Exchange	5,869	5,427	12,025	8,725
Listed on other stock exchanges	345	271	1,471	87,318
Unlisted	9,588	53,594	585	2,563
Total	15,802	59,292	14,081	98,606

Available-for-sale mutual funds are unlisted and issued in other countries.

Loan Portfolio

Gross loans and advances to Customers*

	30 June 2016	31 December		
		2015	2014	2013
(€'000)				
Cyprus				
Trade	2,146,294	2,267,092	2,280,096	2,466,479
Manufacturing	763,446	801,536	819,309	828,210
Hotels and catering	1,343,628	1,463,129	1,411,823	1,610,289
Construction	3,324,401	3,976,254	3,839,921	4,072,249
Real estate	2,123,416	2,130,028	2,030,507	2,812,382
Private individuals	7,138,901	7,282,322	7,447,640	8,025,126
Professional and other services	1,379,379	1,595,010	1,503,453	1,673,236
Other sectors	1,055,016	1,145,327	1,867,190	1,311,772
Total	19,274,481	20,660,698	21,199,939	22,799,743
Other Countries				
United Kingdom and Channel Islands	1,178,532	1,207,115	914,114	1,283,749
Greece	44,901	68,525	174,140	172,007
Russia	194,609	248,901	965,724	1,429,161
Ukraine	—	—	—	401,215
Romania	390,876	407,236	518,195	657,444
Total	1,808,918	1,931,777	2,572,173	3,943,576

Gross loans and advances to Customers—United Kingdom and Channel Islands*

	30 June 2016	31 December		
		2015	2014	2013
(€'000)				
Trade	14,889	23,138	22,058	48,816
Manufacturing	7,869	9,214	10,079	33,608
Hotels and catering	95,391	98,871	87,487	165,499
Construction	19,247	27,119	46,487	44,746
Real estate	939,977	927,423	645,641	802,346
Private individuals	31,795	44,627	37,733	43,476
Professional and other services	57,310	64,398	51,446	56,638
Other sectors	12,054	12,325	13,183	88,620
Total	1,178,532	1,207,115	914,114	1,283,749

Gross loans and advances to Customers—Greece*

	30 June 2016	31 December		
		2015	2014	2013
(€'000)				
Trade	—	—	—	—
Manufacturing	—	—	—	—
Hotels and catering	—	—	—	—
Construction	—	—	—	—
Real estate	19,798	43,443	44,274	—
Private individuals	216	216	234	542
Professional and other services	—	—	—	—
Other sectors	24,887	24,866	129,632	171,465
Total	44,901	68,525	174,140	172,007

Gross loans and advances to Customers—Russia*

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
Trade	60,610	57,704	160,632	261,518
Manufacturing	16,852	15,066	59,466	99,790
Hotels and catering	—	—	—	—
Construction	11,208	10,457	43,932	64,096
Real estate	6,561	69,132	131,943	172,732
Private individuals	—	—	294,733	399,116
Professional and other services	99,378	96,542	275,018	404,403
Other sectors	—	—	—	27,506
Total	194,609	248,901	965,724	1,429,161

Gross loans and advances to Customers—Ukraine*

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
Trade	—	—	—	34,571
Manufacturing	—	—	—	13,631
Hotels and catering	—	—	—	6,610
Construction	—	—	—	12,028
Real estate	—	—	—	162,905
Private individuals	—	—	—	61,585
Professional and other services	—	—	—	99,628
Other sectors	—	—	—	10,257
Total	—	—	—	401,215

Gross loans and advances to Customers—Romania*

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
Trade	12,328	12,360	12,904	21,728
Manufacturing	7,785	7,604	7,620	23,818
Hotels and catering	6,395	6,209	6,379	105,434
Construction	78,395	56,830	47,164	55,531
Real estate	241,135	250,956	279,266	250,816
Private individuals	3,382	5,684	8,767	9,270
Professional and other services	13,017	38,834	39,342	72,858
Other sectors	28,439	28,759	116,753	117,989
Total	390,876	407,236	518,195	657,444

* Gross loans and advances to customers are presented gross of fair value adjustment on initial recognition and provisions for impairment.

Maturities and Sensitivities of Loans to Changes in Interest Rates

Maturities of Loans

	As at 31 December 2015, due in			
	one year or less	between one and five years	After five years	Total
		(€'000) unaudited		
Cyprus	7,894,572	2,855,264	5,038,666	15,788,502
Other Countries	369,326	674,211	359,593	1,403,130
Total	8,263,898	3,529,475	5,398,259	17,191,632

Credit Quality of Loans and Advances to Customers¹

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
Neither past due nor impaired	10,879,356	10,442,903	9,629,157	11,855,363
Past due but not impaired	2,607,222	3,048,929	4,281,050	6,732,583
Impaired	7,596,821	9,100,643	8,896,181	8,155,373
Total	21,083,399	22,592,475	22,806,388	26,743,319

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

¹ The table presents the fair value of gross loans after fair value adjustment on initial recognition.

Loans and advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

	<u>Grade 1</u>	<u>Grade 2</u>	<u>Grade 3</u>	<u>Total</u>
	(€'000)			
30 June 2016				
Cyprus	6,021,176	1,459,340	2,266,697	9,747,213
Greece	—	—	216	216
United Kingdom	1,014,793	46,171	11,569	1,072,533
Romania	16,193	32,114	11,026	59,333
Russia	—	61	—	61
	<u>7,052,162</u>	<u>1,537,686</u>	<u>2,289,508</u>	<u>10,879,356</u>
31 December 2015				
Cyprus	5,572,036	1,441,298	2,244,258	9,257,592
Greece	—	—	216	216
United Kingdom	1,009,277	63,300	20,803	1,093,380
Romania	45,962	35,141	10,551	91,654
Russia	—	61	—	61
	<u>6,627,275</u>	<u>1,539,800</u>	<u>2,275,828</u>	<u>10,442,903</u>
31 December 2014				
Cyprus	5,853,811	844,316	2,049,957	8,748,084
Greece	234	—	—	234
United Kingdom	718,105	27,449	27,608	773,162
Romania	47,467	39,179	21,031	107,677
	<u>6,619,617</u>	<u>910,944</u>	<u>2,098,596</u>	<u>9,629,157</u>
31 December 2013				
Cyprus	5,778,139	1,699,580	2,345,784	9,823,503
Greece	542	—	—	542
United Kingdom	717,551	44,832	47,214	809,597
Romania	71,847	98,070	50,670	220,587
Russia	717,522	201,890	—	919,412
Ukraine	46,226	266	35,230	81,722
	<u>7,331,827</u>	<u>2,044,638</u>	<u>2,478,898</u>	<u>11,855,363</u>

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of the year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Loans and advances to customers that are past due but not impaired

	30 June 2016	31 December		
		2015	2014	2013
Past due analysis:		(€'000)		
up to 30 days	573,880	468,791	550,070	822,037
31 to 90 days	361,309	351,450	480,961	1,063,243
91 to 180 days	120,708	144,362	432,947	1,316,042
181 to 365 days	175,281	258,920	908,614	2,099,424
over one year	1,376,044	1,825,406	1,908,458	1,431,837
Total	2,607,222	3,048,929	4,281,050	6,732,583

Impaired loans⁷ and advances to customers

	30 June 2016		31 December					
			2015		2014		2013	
	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral
	(€'000)							
Cyprus	6,993,704	4,318,648	8,414,868	5,596,169	8,265,182	6,045,030	6,995,066	4,064,900
Greece	44,685	17,930	68,309	17,945	173,906	19,950	171,465	—
Russia	192,850	88,979	247,319	94,417	—	—	284,869	191,672
United Kingdom	37,456	18,272	56,584	10,821	81,840	50,198	163,979	128,734
Romania	328,126	144,880	313,563	170,080	375,253	219,462	372,473	172,489
Ukraine	—	—	—	—	—	—	167,521	132,015
Total	7,596,821	4,588,709	9,100,643	5,889,432	8,896,181	6,334,640	8,155,373	4,689,810

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.

	30 June 2016	31 December		
		2015	2014	2013
Impaired		(€'000)		
no arrears	647,495	875,488	1,045,979	933,823
up to 30 days	25,426	78,176	83,946	167,957
31 to 90 days	40,567	24,353	133,984	352,269
91 to 180 days	95,106	65,382	136,512	423,064
181 to 365 days	122,713	310,167	671,093	1,426,392
over one year	6,665,514	7,747,077	6,824,667	4,851,868
Total	7,596,821	9,100,643	8,896,181	8,155,373

⁷ Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery.

Summary of loan loss experience

Provision for impairment of loans and advances to Customers

	Cyprus	Greece	Russia	Other countries	Total
	(€'000 , except %)				
30 June 2016					
1 January	3,731,750	33,833	195,017	232,833	4,193,433
Dissolution of subsidiaries	—	—	—	(6,154)	(6,154)
Acquisition of subsidiary	(8,577)	—	—	—	(8,577)
Foreign exchange and other adjustments	84,110	—	1,743	(3,463)	82,390
Applied in writing off impaired loans and advances	(511,826)	—	(59,663)	(5,683)	(577,172)
Interest accrued on impaired loans and advances	(76,360)	(329)	(327)	(48)	(77,064)
Collection of loans and advances previously written off	445	—	—	25	470
Charge for the period	152,474	2,479	15,391	9,414	179,758
30 June	3,372,016	35,983	152,161	226,924	3,787,084
Individual impairment	3,014,735	31,608	151,227	222,418	3,419,988
Collective impairment	357,281	4,375	934	4,506	367,096
Percent of impairment (unaudited)	89.0%	1.0%	4.0%	6.0%	100.0%
31 December 2015					
1 January	2,867,345	9,275	415,894	195,334	3,487,848
Disposal of Russian operations	—	—	(238,012)	—	(238,012)
Foreign exchange and other adjustments	80,372	—	(310)	1,538	81,600
Transfer between geographical areas	(63,380)	6,329	—	57,051	—
Applied in writing off impaired loans and advances	(151,812)	(16,700)	(62,313)	(63,022)	(293,847)
Interest accrued on impaired loans and advances	(197,009)	(2,134)	(146)	(1,430)	(200,719)
Collection of loans and advances previously written off	2,671	—	—	5,270	7,941
Charge for the year—continuing operations	1,193,563	37,063	37,239	38,092	1,305,957
Charge for the year—discontinued operations	—	—	42,665	—	42,665
31 December	3,731,750	33,833	195,017	232,833	4,193,433
Individual impairment	3,255,398	29,458	194,805	227,579	3,707,240
Collective impairment	476,352	4,375	212	5,254	486,193
Percent of impairment (unaudited)	89.0%	0.8%	4.7%	5.5%	100.0%
31 December 2014					
1 January	2,554,672	189	286,366	235,043	3,076,270
Disposal of Ukrainian operations	—	—	—	(137,645)	(137,645)
Foreign exchange and other adjustments	27,764	—	(134,406)	(10,567)	(117,209)
Applied in writing off impaired loans and advances	(46,976)	(12)	(187)	(57)	(47,232)
Interest accrued on impaired loans and advances/settlements	(162,213)	(1,071)	(301)	(7,136)	(170,721)
Collection of loans and advances previously written off	230	—	—	1,267	1,497
Charge for the year—continuing operations	493,868	10,169	151,294	75,901	731,232
Charge for the year—discontinued operations	—	—	113,128	38,528	151,656
31 December	2,867,345	9,275	415,894	195,334	3,487,848
Individual impairment	2,274,162	9,275	286,924	186,649	2,757,010
Collective impairment	593,183	—	128,970	8,685	730,838
Percent of impairment (unaudited)	82.2%	0.3%	11.9%	5.6%	100.0%
31 December 2013					
1 January	1,779,343	1,528,224	238,472	130,017	3,676,056
Disposal of Greek operations	—	(1,572,512)	—	—	(1,572,512)
Foreign exchange and other adjustments	901	—	(25,452)	(2,196)	(26,747)
Applied in writing off impaired loans and advances	(1,816)	(7,781)	(4,848)	(23,231)	(37,676)
Interest accrued on impaired loans and advances/settlements	(80,565)	(6,633)	(602)	(4,834)	(92,634)
Collection of loans and advances previously written off	429	—	—	3,101	3,530
Charge for the year—continuing operations	856,380	(17)	4,536	84,149	945,048
Charge for the year—discontinued operations	—	58,908	74,260	48,037	181,205
31 December	2,554,672	189	286,366	235,043	3,076,270
Individual impairment	1,896,987	189	142,700	205,393	2,245,269
Collective impairment	657,685	—	143,666	29,650	831,001
Percent of impairment (unaudited)	83.1%	—	9.3%	7.6%	100.0%

Deposits

Customer deposits

	30 June 2016	31 December		
		2015	2014	2013
		(€'000)		
By type of deposit				
Demand	5,397,006	4,987,078	4,237,590	3,492,789
Savings	1,036,340	1,033,991	955,556	925,549
Time or notice	8,313,127	8,159,612	7,430,412	10,552,829
	14,746,473	14,180,681	12,623,558	14,971,167
By geographical area				
Cyprus	13,311,262	12,691,090	11,314,137	12,705,254
Russia	—	—	—	918,491
United Kingdom	1,429,578	1,486,551	1,304,844	1,244,186
Romania	5,633	3,040	4,577	30,055
Ukraine	—	—	—	73,181
	14,746,473	14,180,681	12,623,558	14,971,167

Time deposits greater than €100,000

	Time deposits, maturing in				Total
	less than three months	between three months and six months	between six months and twelve months	after twelve months	
	(€'000) unaudited				
30 June 2016					
Cyprus	1,378,160	708,959	594,363	198,498	2,879,980
UK and Channel Islands	125,110	54,610	85,900	55,170	320,790
31 December 2015					
Cyprus	1,503,050	548,774	644,450	66,868	2,763,142
UK and Channel Islands	224,551	102,335	138,909	80,575	546,370

Return on Equity and Assets

	30 June ⁽¹⁾ 2016	31 December		
		2015	2014	2013
		(%) unaudited		
Return on average assets ⁽¹⁾	0.5	(1.8)	(0.9)	—
Return on average equity ⁽²⁾	3.7	(13.5)	(8.5)	—
Dividend payout ratio ⁽³⁾	—	—	—	—
Ratio of average equity to average assets ⁽⁴⁾	13.3	13.0	10.7	—

(1) 30 June 2016 figures presented on an annualized basis.

(2) Return on average assets is calculated as the profit after tax attributable to the owners of the Bank divided by the average of total assets for the relevant period.

(3) Return on average equity is calculated as the profit after tax attributable to the owners of the Bank divided by the average equity attributable to the owners of the Bank for the relevant period.

(4) Divided payout ratio is calculated as dividend paid divided by profit after tax attributable to the owner of the Bank.

(5) Ratio of average equity to average assets is calculated as average total equity for the relevant period divided by the average of total assets for the relevant period.

Short-Term Borrowings

	30 June 2016	31 December		
		2015	2014	2013
		(€000, except %)		
Amount outstanding				
Funding from central banks ⁽¹⁾	3,100,667	4,452,850	8,283,773	10,956,277
Repurchase agreements	398,408	368,151	579,682	594,004
Weighted average interest rate of repurchase agreements (<i>unaudited</i>)	0.6% ⁽²⁾	1.6%	2.0%	1.7%

(1) Includes Targeted Long Term Refinancing Operations (TLTRO)

(2) Based on semi-annual figures.

THE MACROECONOMIC ENVIRONMENT IN CYPRUS

Current Economic Conditions in Cyprus

Following a period of recession from the second half of 2011 to the end of 2014 that followed the global financial crisis (see “—*Economic Assistance and the Global Financial Crisis*” below), economic conditions in Cyprus have improved in recent years, most notably demonstrated by a return to GDP growth in 2015 of 1.6% over 2014 and Cyprus’s exit from the EAP in March 2016. In the first half of 2016, Cyprus’ year-on-year real GDP growth rate was 2.7% (seasonally adjusted), compared to 0.6% over the same period in 2015. Cyprus’ recovery was also demonstrated by its return to the international capital markets through the issuance of a sovereign bond in 2014 followed by two further issuances in 2015 and one further issuance in July 2016. While many of the recent economic indicators show signs of recovery, Cyprus’ economic outlook remains challenging, mainly as a result of the high levels of NPEs and relatively high unemployment rates compared to other EU countries.

The improved recent performance of the Cypriot economy reflected a number of underlying factors. Certain sectors, particularly, ‘professional, scientific and technical activities’, ‘information and communications’, ‘education’ and ‘human health and social work activities’, showed resilience during the recession and have shown continued positive growth on a three year moving average basis. In particular, the professional, scientific and technical activities sector had a net positive contribution to real gross value added (“GVA”) in the period from 2012 to 2015, increasing by 0.6% in real terms. In 2015, all sectors of economic activity, other than ‘construction’, ‘public administration and defence’ and ‘activities of households as employers’ recorded positive growth rates. In relation to expenditure, private consumption increased by 1.9% and fixed investment increased by 14.0%, both having a significant positive impact on the Cypriot economy. Particularly notable was the increase in fixed investment after having more than halved between 2008 and 2014, mainly as a result of residential and non-residential construction including in the tourist sector. In the external sector, however, imports of goods and services increased by 4.0% in real terms in 2015 while exports of goods and services increased by only 1.9%, resulting in net exports having a negative contribution to real GDP growth.

Improving economic conditions in Cyprus and the better than expected performance of the economy are also due in part to the flexibility of Cypriot product and labour markets. According to the EC’s European Economic Forecast Spring 2016 (Statistical Annex), compensation per employee in the total economy in nominal terms declined by 7.6% cumulatively between 2012 and 2015. Further, real compensation per employee declined by 7% cumulatively between 2009 and 2014 before rising by 0.4% in 2015. Real unit labour costs declined by 8.0% cumulatively between 2009 and 2015 and continued to decline in 2015 by 0.2%. In the product markets, the consumer price index declined by 0.4% in 2013, by 1.4% in 2014 and by 2.1% in 2015. Consumer prices continued to decline in 2016 falling by 1.9% in the period from 1 January 2016 to 30 June 2016, compared to the same period in 2015. This followed a period of average increases in the consumer price index of 2.6% annually between 2007 and 2012. The declines in consumer prices from 2013 were primarily the result of declining oil and commodity prices, a drop in wage costs and shrinking domestic demand resulting from the recession. Therefore, the economic adjustment in the period from 2013 to 2015 included both price and quantity adjustments which demonstrates the flexibility of real unit labour costs and overall cost competitiveness of the Cypriot economy.

According to Eurostat data, unemployment in Cyprus is also declining. The average unemployment rate decreased to 15.0% in 2015 from 16.1% in 2014. On a quarterly seasonally adjusted basis, the unemployment rate dropped to 13.6% in the fourth quarter of 2015, 13.2% in the first quarter of 2016 and 12.4% in the second quarter of 2016. Average youth unemployment (persons aged less than 25 years) decreased from 36.0% in 2014 to 32.8% in 2015. On a quarterly seasonally adjusted basis, the youth unemployment rate dropped to 30.7% in the fourth quarter of 2015, to 29.2% in the first quarter of 2016 and 26.7% in the second quarter of 2016.

The Government has also made notable progress in reducing the national budget deficit and in consolidating public finances. Between 2009 and 2012, the budget deficit of the Government had, on average, been 5.4% of GDP annually. The budget deficit dropped to 4.9% of GDP in 2013 from 5.8% the prior year. In 2014, the budget deficit increased to 8.8% of GDP, mainly as a result of the recapitalisation of the cooperative banking sector; excluding the recapitalisation, the budget would have been in surplus 0.2% of GDP. The budget deficit in 2015 was 1.1% of GDP, including the cost of additional recapitalisation of the cooperative banking sector. Excluding that recapitalisation, the budget was balanced. The improvement in the public finances of the general government from 2013 to 2015 was the result of a

combination of tax increases and spending cuts. Spending cuts were both structural, affecting the wage bill, pensions and social transfers as well as discretionary.

Overview of the Cypriot Economy

The economy of Cyprus can generally be characterised as small, service-driven, open and dynamic. There is significant reliance on international trade with imports and exports of goods and services amounting to 123.3% of GDP in real terms in 2015.

With respect to sector output in real terms, the tertiary sector (service sector) is the biggest contributor sector, accounting for 86.8% of GVA in 2015 (being the total value of all output before import duties and value-added tax).

The share of the primary sector, including agriculture, forestry, fishing and mining, in real GVA declined from 3.7% in 2000 to 2.1% in 2015. The share of the secondary sector, including manufacturing, basic utilities and construction, in real GVA also declined from 19.8% in 2000 to 11.0% in 2015. The share of the secondary sector, excluding construction, declined from 10.9% in 2000 to 7.9% in 2015. The share of the construction sector declined from 8.9% in 2000 to 3.1% in 2015 reflecting the deep recession in the sector. In 2011, the construction sector had accounted for 7.1% of real GVA. Tourist arrivals increased by 8.9% in 2015 and by 21.2% year-on-year during the period from 1 January to 30 June 2016.

In contrast, the tertiary, or service, sector's share of real GVA increased from 76.5% in 2000 to 86.8% in 2015. In 2015, shares of GVA in the tertiary sector included real estate activities (11.4%), wholesale and retail trade, including repair of motor vehicles (15.7%), public administration and defence (10.7%), financial and insurance activities (7.5%), accommodation and food services activities (7.2%), transport and storage (6.4%), education (6.5%), professional, scientific and technical activities (7.7%), information and communication (4.6%), and human health and social work (4.1%).

Professional, Scientific and Technical Activities Sector

The 'professional, scientific and technical activities' sector, which is dominated by the legal and accounting professions, has been the fastest growing sector in real terms, over a ten year period from 2006 to 2015. Annual growth in that period averaged 4.2%, compared with a corresponding average annual growth of 0.2% in real GVA and 1.7% of tertiary sector GVA. As a result the share of the sector share in real GVA increased from 5.3% in 2006 to 7.7% in 2015. Growth in the sector is underpinned by the island's strategic location and position as a regional centre for business services.

Financial and Insurance Activities (including Banking) Sector

Although the financial and insurance activities sector was adversely affected by, and significantly restructured during, the Cypriot recession (see "*Economic Assistance and the Global Financial Crisis*" below), the financial and insurance activities sector remains a significant contributor to the Cypriot economy and contributed 7.5% of real GVA in 2015. For a discussion on this sector, see "*The Banking Sector in Cyprus*".

Accommodation and Food Services (Tourism) Sector

As a result of its Mediterranean location, its membership in the EU and its developed infrastructure, Cyprus is a popular tourist destination for tourists from both within and outside the EU. Tourist arrivals to Cyprus increased by 8.9% in 2015 and by 21.1% year-on-year during the period from January to July 2016. The majority of arrivals in 2015 from the United Kingdom (39.2%) and Russia (19.7%). Tourist arrivals from Russia declined by 17.6% in 2015 as a result of economic recession in Russia and the steep devaluation of the rouble. However, these declines were offset and exceeded by increased arrivals from other countries, particularly the United Kingdom which increased by 19.5% in the same period. In 2015, the accommodation and food services sector (which is considered and indicator of tourism related revenue), contributed 7.2% of real GVA.

Construction Sector

The construction sector in Cyprus was significantly and adversely impacted by the global financial crisis and Cypriot economic recession during second half of 2011 to 2014. Having accounted for 7.1% of real GVA in 2011, the construction sector was a significant contributor to the Cypriot economy and its contribution declined to 3.1% of real GVA in 2015. However, there were signs of recovery in this sector in

the second half of 2015 which have continued into the first half of 2016. In 2015, the construction sector had a negative contribution to real GVA growth in the first half of 2015 followed by a positive contribution in the second half of 2015. The recovery of the construction sector in Cyprus is critical to the BOC Group's ability to reduce its high levels of NPEs and dispose of its significant portfolio of Cypriot real estate assets resulting from the enforcement of loan collateral (see "*Risk Factors—Risks Relating to Asset Quality, Provisions and Capital—The BOC Group's financial condition and prospects are materially affected by its ability to reduce the high level of NPEs in its existing portfolio and the price at which it is able to dispose of these NPEs.*" and "*Risk Factors—Risks Relating to Asset Quality, Provisions and Capital—As a significant proportion of the BOC Group's loan portfolio is secured primarily by Cypriot real estate and the BOC Group has a significant portfolio of real estate in Cyprus, mainly as a result of the enforcement of loan collateral, the BOC Group's business, financial condition, results of operations and prospects are materially affected by changes in the demand for, and prices of, Cypriot real estate.*").

Main Economic Indicators

The following table summarises the main economic indicators for the period 2011–2015:

	2015	2014	2013	2012	2011
GDP at current market prices (€billion)	17.4	17.4	18.1	19.5	19.5
GDP per capita (€thousand)					
(Source: Eurostat)	20.6	20.4	21.0	22.5	23.0
GDP in constant prices (% change)	1.6	-2.5	-5.9	-2.5	0.4
Employment (% change)	-1.3	-0.6	-5.2	-3.3	0.8
Unemployment rate (%)	15.0	16.1	15.9	11.9	7.9
Harmonised index of consumer prices (% change)					
(Source: Eurostat)	-1.5	-0.3	0.4	3.1	3.4
Consumer price index (% change)	-2.1	-1.4	-0.4	2.4	3.3
Fiscal balance (€billion)*	-0.01	-0.04	-0.9	-1.1	-1.1
Fiscal balance (in % of GDP)*	0.0	-0.2	-4.9	-5.8	-5.7
Public debt (€billion)	19.0	18.8	18.5	15.4	12.9
Public debt (% of GDP)	108.9	108.2	102.5	79.3	65.8
Exports of goods and services (% change)	1.9	-0.5	1.8	-1.1	4.1
Imports of goods and services (% change)	4.0	2.0	-3.0	-4.4	-3.1
Trade balance (€billion)					
(Source: CBC)	-3.2	-2.8	-2.9	-3.5	-4.0
Trade balance (% of GDP)					
(Source: CBC)	-18.2	-16.2	-16.3	-18.0	-20.3
Current account balance (€billion)					
(Source: CBC)	-0.6	-0.8	-0.8	-1.1	-0.8
Current account balance (% of GDP)					
(Source: CBC)	-3.6	-4.6	-4.5	-5.6	-4.0

Source: Unless otherwise indicated in the table CYPSTAT

Economic Assistance and the Global Financial Crisis

Before the emergence of the global economic recession, Cyprus had enjoyed a track record of satisfactory economic growth, low unemployment and relatively stable macroeconomic conditions. In the eight years between 2000 and 2007 real GDP rose at an average annual rate of 4.2% as a result of increasing investment and growth of private consumption and exports. Following the on-set of the global financial crisis, the average annual growth of real GDP in the period from 2008 to 2011 was 0.8%, including a 2.0% contraction in 2009. Unemployment (as a percentage of the economically active population) rose from 3.7% in 2008 to 7.9% in 2011 (source: Eurostat). The global financial crisis affected Cyprus indirectly mainly through lower external demand in tourism, whilst investment was also affected by lower external demand for housing by foreigners. However, the crisis also highlighted large existing imbalances in the economy stemming from the banking sector's large exposure to Greece, its overall size relative to the economy and domestic overexpansion in the property market. At the same time persistent "twin deficits" in the fiscal and current accounts elevated the Cypriot economy's vulnerability.

Following a series of adverse economic developments in the Eurozone, including the restructuring of Greek government debt and the downgrading of Cyprus' credit rating by several credit rating agencies, the ability of the Government to borrow from international markets was significantly impaired. As a result, in June 2012, the Government filed an application to the Eurozone member states for financial assistance through the ESM. The ESM is the crisis resolution mechanism for the Eurozone which issues debt instruments in order to finance loans and other forms of financial assistance to Eurozone members. The Government at the same time also invited the IMF to participate in the external financial assistance to contain the risks to the Cypriot economy. These applications led to negotiations with the Troika, consisting of the EC, the ECB and the IMF, for a comprehensive programme of financial assistance.

The Troika agreed an EAP with the Government on 2 April 2013. The EAP was agreed by the Eurozone Member States on 24 April 2013 and approved by the IMF Board on 15 May 2013. The EAP covered the period from 2013 to 2016 and incorporated a financial assistance package for Cyprus of up to €10 billion.

The EAP's key objectives were: (i) to restore the soundness of the Cypriot banking sector by restructuring and downsizing financial institutions, strengthening supervision and addressing expected capital shortfalls; (ii) to continue the on-going process of fiscal consolidation; and (iii) to implement structural reforms to support competitiveness and sustainable and balanced growth.

As a result of the above factors, Cyprus experienced an economic recession from the second half of 2011 until the end of 2014, with a decline of 2.4%, 5.9% and 2.5% in real GDP growth in 2012, 2013 and 2014, respectively. In the labour market, the unemployment rate increased from 12.8% at 30 December 2012 to 16.0% at 30 December of both 2013 and 2014. However, the economy showed signs of recovery in 2015 with real GDP growth of 1.6% and a small decrease in the unemployment rate to 15.0% at 30 December 2015. As a result of this better than expected recovery from the recession, Cyprus exited the EAP at the end of March 2016 without a successor arrangement. The Eurogroup, at its meeting held on 7 March 2016, commended the Cypriot authorities for the overall successful implementation of the programme and highlighted the need for further reform to strengthen the resilience of the Cypriot economy. Following this development, the IMF programme, which was due to formally end on 14 May 2016, was cancelled by Cyprus. The Government utilised a total of €6.3 billion from the ESM and nearly €1.0 billion from the IMF. Total disbursements from the ESM and the IMF amounted to €7.2 billion, which, was approximately 75% of the available programme financing.

Cyprus will remain under post-programme surveillance until at least 75% of the financial assistance received has been paid. Under the post-programme surveillance, the EC in liaison with the ECB will have regular review missions to analyse fiscal and financial developments and report semi-annual assessments which may recommend further measures when necessary.

Ratings

As at 31 October 2016, Cyprus' has been rated by Moody's, S&P, Fitch and DBRS. On 13 November 2015, Moody's upgraded Cyprus government bond rating from 'B3' to 'B1' with stable outlook, to reflect faster than expected economic recovery and the expectation of continued, more broad-based economic growth, as well as consistent outperformance of fiscal targets, leading to a trend reversal of the public debt ratio. On 16 September 2016, S&P raised Cyprus' long-term sovereign credit rating to BB from BB- to reflect Cyprus' stronger-than-expected economic growth and its further debt reduction, as well as steady improvement in the banking sector's asset quality.

On 21 October 2016, Fitch upgraded its Cyprus long-term issuer default rating from B+ to BB- with positive outlook. The rating upgrade reflects Cyprus' continued strong progress in its adjustment following the 2013 banking crisis, its exit from the EAP in March 2016, outperformance of fiscal and economic programme targets, success at lifting capital controls, and steps taken to restructure the banking sector.

THE BANKING SECTOR IN CYPRUS

Background and Overview

The Cypriot banking sector is comprised of domestic banks, cooperative banks and international banks with subsidiaries or branches in Cyprus and it has undergone significant changes in the past decade. The banking sector experienced a period of growth from 2005 to 2011 driven by increasing demand for financial and business services as a result of expanding transit trade, shipping and the activities of international companies in Cyprus as well as an increase in real estate development and construction to cater to a growing tourism sector and foreign investor demand. However, the global financial crisis and a series of adverse economic developments in the Eurozone precipitated a financial crisis and recession in Cyprus which led to the Government's agreement to leave the EAP in April 2013 and the restructuring and consolidation of the Cypriot banking sector.

During 2013, The Bank and Laiki Bank, as the two largest domestic banks at that time, were fundamentally restructured with the bail-in of the shareholders, uninsured depositors and other creditors of the Bank, the transfer to the Bank of certain assets and liabilities of Laiki Bank and the resolution of Laiki Bank (see *"History of the BOC Group, the Restructuring, the Recapitalisation and Disposals"*). In March 2014, 18 domestic cooperative credit institutions were consolidated under the Cooperative Central Bank Limited (the "CCB") and recapitalised with funds from the EAP by the Government in return for 99% of the CCB's shares. The Government and ECB also implemented a series of legal reforms in order to enhance the financial stability of the Cypriot banking sector, including the enactment of laws and directives aimed at improving the standards and processes for loan origination and reducing the historical reliance on loan collateral and cross-collateralisation as well as improving the management of NPEs and the ability of banks to repossess or foreclose on real estate securing these loans in a timely manner. For more detail on these laws and directives, see *"Financial Services Regulation and Supervision"*.

The gradual recovery of the Cypriot economy after the end of 2014, in conjunction with these structural and legal reforms, contributed to the stabilisation of the Cypriot banking sector in 2015. Emerging from the Cypriot recession, the Cypriot banking sector is leaner and subject to more substantial prudential regulation and capital requirements. The CBC supervises all banks and cooperative credit institutions incorporated in Cyprus. As from November 2014, the ECB is the primary regulator for systematically important banks in Cyprus including the Bank, CCB, Hellenic Bank Public Company Limited ("**Hellenic Bank**") and RCB Bank Ltd ("**RCB**"). As at 30 June 2016, there were 55 banks in Cyprus, (comprised of seven domestic banks (including Laiki Bank which is subject to resolution), 19 cooperative banks (including the CCB) and 29 international banks with subsidiaries or branches in Cyprus, of which 12 were from EU Member States. There were also two representative offices. Collectively, the CCB and the two largest domestic banks (the Bank and Hellenic Bank comprised approximately €43.9 billion or 66.4% of total banking assets in Cyprus as at 30 June 2016 (based on CBC data and the published financial statements of the Bank and Hellenic Bank.

While the Cypriot banking sector continued to show signs of recovery in the first half of 2016, particularly from the capital adequacy, funding and deleveraging perspective, the level of NPEs remains high. In a statement issued in January 2016, the IMF stated that the accelerated workout of NPLs is critical to reviving lending and improving growth prospects.

Capital Adequacy

From 2012 to 2015, Cypriot banks had significantly improved their levels of capital and, as at 30 June 2016, the Bank, Hellenic Bank and CCB maintain CET1 ratios above their EU bank peers. All of these banks took measures to strengthen their capital position. In March 2014, the Government recapitalised the CCB with €1.5 billion in funds from the EAP. In September 2014, the Bank successfully raised €1.0 billion in new capital from international institutional investors, including the EBRD. Hellenic Bank raised €204.0 million in January 2015 and attracted a €20.0 million investment by the EBRD in September 2015. When the ECB required these banks to increase their loan provisioning levels, their strong capital position allowed them to do so without a need to raise additional capital.

Funding

The funding needs (total loans minus total deposits) of the Cypriot banking sector increased significantly from €2.3 billion as at 31 December 2012 to €16.8 billion as at 31 December 2015. This was mainly the result of a 34.5% reduction in deposits from 31 December 2012 to 31 December 2015, reflecting the loss of

confidence in the Cypriot banking sector culminating in the bail-in of the Bank's uninsured depositors in March 2013, at which point in time the Government implemented restrictive measures and capital controls to limit the outflow of deposits from banks in Cyprus. During this period, with limited or no access to interbank and wholesale markets, the primary source of funding for banks in Cyprus was central bank funding (comprising direct ECB funding from monetary operations and ELA through the CBC).

The funding needs of the Cypriot banking sector decreased from €16.8 billion as at 31 December 2015 to €7.6 billion as at 30 June 2016, mainly as a result of a 1.8% increase in total deposits as well as a reduction of 13.3% in total bank loans over this period. This reflected the increasing stabilisation of the Cypriot economy from the beginning of 2015 and returning confidence in the banking sector. In particular, deposits from Cypriot residents began to stabilise in October 2014 (despite the lifting of all capital controls in April 2015) and have increased gradually from 31 December 2015 to 30 June 2016. With the improvement in funding conditions, the reliance of Cypriot banks on central bank funding has decreased from €11.2 billion as at 31 December 2013 to €3.8 billion as at 31 December 2015.

Total Assets

(Source:European Central Bank)

The Cypriot banking sector comprises a significant portion of Cyprus' economy and reached a peak in 2009 when the ratio of total bank assets to nominal GDP reached 739%. This ratio declined to 522.5% as at 31 December 2015 and to 474.9% as at 30 June 2016 (based on nominal GDP estimate for 2016 from the Ministry of Finance). This reflects a decrease in total assets from €131.6 billion at 31 December 2011 to €83.9 billion at 30 June 2016. These significant decreases reflected the sale of the Greek operations of the Bank, Laiki Bank and Hellenic Bank and the resolution of Laiki Bank which were mandated by CBC decree as well as the continuing deleveraging in the banking system. Nonetheless, the total bank assets to nominal GDP ratio remains higher than Eurozone averages which, at 31 December 2015, was approximately 296%. Further deleveraging and/or accelerated growth of nominal GDP is required to bring it in line with the EU average.

Non-Performing Exposures

The following table outlines the gross loans in the Cypriot banking system by borrower and the percentage thereof that are NPEs as at 30 June 2016 and 31 December 2015. Reducing the level of NPEs remains the main challenge for the Cypriot banking sector. As at 30 June 2016, the ratio of NPEs to total loans remains just below 50% for Cyprus and is higher than 60% for NPEs in the SME sector. In particular, NPEs attributable to the construction sector remains high at 72.5% as at 30 June 2016.

While a focus of reform for the CBC and Government, the level of NPEs has remained persistently high, due in part to delays in the implementation of the Insolvency Framework Laws and the New Foreclosure Laws aimed at assisting Cypriot banks to address NPEs. However, the final implementation of these laws in 2015 and increased efforts by Cypriot banks to restructure NPEs during the same period have resulted in a decline in total NPEs from €28.4 billion as at 31 December 2014 to €27.3 billion and to €25.3 billion as at 31 December 2015 and 30 June 2016, respectively.

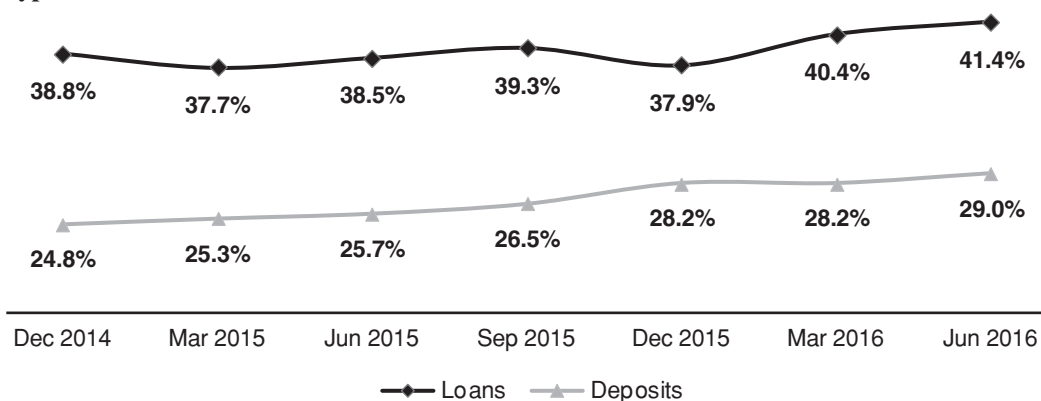
	30 June 2016		31 December 2015	
	Gross Loans (€billion)	Non-Performing Exposures (% of gross loans)	Gross Loans (€billion)	Non-Performing Exposures (% of gross loans)
Loans and advances	51.9	48.7	60.2	45.4
General governments	0.9	6.2	0.9	5.5
Households	22.4	55.2	23.1	55.0
Other financial corporations	6.8	5.9	11.2	6.3
Non-financial corporations	21.8	57.2	25.0	55.2
Of which: Small and Medium-sized Enterprises	14.3	60.7	14.5	63.3
By NACE code				
Agriculture, forestry and fishing	0.3	63.2	0.3	62.9
Mining and quarrying	0.2	46.0	2.0	4.9
Manufacturing	1.6	52.4	1.6	52.5
Electricity, gas, steam and air conditioning supply	0.1	27.1	0.1	23.9
Water supply	0.2	9.5	0.2	9.1
Construction	5.9	72.5	6.5	76.0
Wholesale and retail trade	4.3	48.1	4.6	49.6
Transport and storage	0.7	36.6	0.7	39.0
Accommodation and food service activities	2.1	53.3	2.2	59.0
Information and communication	0.4	38.6	0.4	37.1
Real estate activities	4.1	54.7	4.3	55.3
Professional, scientific and technical activities	0.8	66.3	0.9	69.0
Administrative and support service activities	0.3	61.2	0.4	66.4
Education	0.1	36.0	0.1	39.9
Human health services and social work activities	0.2	23.2	0.2	25.4
Arts, entertainment and recreation	0.1	72.0	0.1	72.0
Other services	0.3	72.3	0.3	74.3

The Bank's Market Position

Following the absorption of Laiki Bank's loan portfolio in Cyprus, the Bank is the single-largest provider of credit in Cyprus with a market share of 41.4% of loans in Cyprus as at 30 June 2016 (based on CBC data). The Bank's market share of deposits in Cyprus was 29.0% as at 30 June 2016 (based on CBC data). Given its position as a leader in the market with respect to lending and deposits, as described above, the lending and funding activities of the Bank have a material impact on the trends in the Cypriot banking sector.

The following chart illustrates, quarter-on-quarter over the period from 31 December 2014 to 30 June 2016, the Bank's market share of loans and deposits in Cyprus (based on Ministry of Finance data):

Cyprus market share evolution



FINANCIAL SERVICES REGULATION AND SUPERVISION

The Regulatory Framework

The Bank and certain other subsidiaries within the BOC Group hold an authorisation or licence for the provision of regulated financial services including banking services, investment services, insurance, payment services and asset management, and, therefore, are subject to various laws, regulations, administrative measures and policies pertaining to such regulated services in their respective jurisdictions of incorporation. A list of the regulated entities within the BOC Group are set out in section below headed “—Regulated and Supervised BOC Group Entities”.

The framework for the supervision and regulation of the regulated entities within the BOC Group has been, and continues to be influenced by EU legislation. The supervisory framework for the BOC Group, together with the key EU financial services directives and/or regulations applicable to the Bank and/or one or more of the other regulated entities within the BOC Group are also summarised below.

The Supervisory Framework

The Single Supervisory Mechanism

As part of the initiative for a European banking union, the SSM Regulation, which entered into force on 3 November 2013, has established a single supervisory mechanism (“SSM”) whereby the ECB is granted key prudential supervisory tasks for credit institutions in the Eurozone and other EU Member States that participate in the SSM (together with the Member States of the Eurozone, “**participating SSM Member States**”), with other supervisory functions being assigned to national competent authorities (“NCAs”) of participating SSM Member States.

The ECB fully assumed its supervisory role under the SSM on 4 November 2014 and its responsibilities relate primarily to prudential supervision and include:

- with respect to all credit institutions established in a participating SSM Member State:
 - to grant and revoke authorisations; and
 - to assess notifications regarding the acquisition and disposal of qualifying holdings in such credit institutions;
- with respect to significant credit institutions in a participating SSM Member State (‘significance’ in this context is assessed in accordance with specified criteria):
 - for such credit institution that wishes to establish a branch or provide cross-border services in non-participating EU Member States, to carry out the tasks of the NCA of the participating SSM Member State;
 - to ensure compliance with requirements on securitisation, large exposure limits, liquidity, leverage, as well as on the reporting and public disclosure of information on those matters;
 - to ensure compliance with respect to corporate governance, including requirements on risk management processes, internal control mechanisms, remuneration policies and practices and effective internal capital adequacy assessment processes (including internal ratings based models);
 - to carry out supervisory reviews, including, where appropriate and in coordination with the EBA, stress tests and supervisory reviews to impose specific additional own funds requirements, specific publication requirements, specific liquidity requirements and other measures;
 - to supervise the credit institutions on a consolidated group basis, extending supervision over parent entities established in one of the participating SSM Member States; and
 - to carry out supervisory tasks in relation to recovery plans, provide early intervention where a credit institution or group does not meet or is likely to breach the applicable prudential requirements and, only in the cases explicitly permitted under law, implement structural changes to prevent financial stress or failure, excluding any resolution powers.

The ECB exercises its prudential supervisory responsibilities under the SSM Regulation in cooperation with the NCAs in the participating SSM Member States. Further, the NCAs continue to be responsible for

supervisory matters not conferred on the ECB, such as conduct of business, consumer protection, money laundering, payment services, and the regulation of branches of third country banks.

Supervision of the BOC Group

Supervision of the Bank

By virtue of Cyprus being in the Eurozone and the Bank being a significant credit institution for the purposes of the SSM Regulation, the Bank is subject to joint supervision by the ECB and CBC for the purposes of its prudential requirements. The Bank is further regulated and supervised by the CBC with respect to matters not within the ECB's supervisory remit under the SSM Regulation.

The Bank is also regulated by CySEC in its capacity as the supervisory authority for the operation of the CSE and control of issuers of securities listed on the CSE. Further, some of the Bank's subsidiaries are regulated by CySEC in its capacity as the supervisory authority for the operation of MiFID investment services/activities. For further information see "*—Regulated and Supervised BOC Group Entities*".

Consolidated Prudential Supervision of BOC Group

In respect of the prudential supervision of the Bank, the ECB is responsible for the consolidated supervision of the BOC Group (both before and after the Scheme becomes Effective). The Bank's consolidated subsidiaries are identified in the section below headed "*Regulated and Supervised BOC Group Entities*". Further, in the case of BOC UK, decisions regarding its capital and liquidity requirements are taken jointly by the ECB and the PRA as the competent authority responsible for BOC UK's supervision pursuant to Article 113(1) of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.

Commencing in the first quarter of 2016, the ECB, as part of its supervisory role under SSM Regulation, has been conducting the SREP and onsite inspections of the BOC Group. SREP is a holistic assessment of, amongst other things: the BOC Group's business model, strategy, 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 to cover these risks. The objective of SREP is for the ECB to form an up-to-date supervisory view of the BOC Group's risks, viability and sustainability, which in turn forms the basis for supervisory measures and dialogue with the BOC Group.

For further details on SREP, see "*Operating and Financial Review—Capital Management—Regulatory capital—SREP*".

Other Regulators of BOC Group Entities

For regulatory matters unrelated to the BOC Group capital requirements, each of the Bank's regulated branches and subsidiaries are supervised by regulators in their respective jurisdictions and subject to local laws, directions, regulations and guidelines in respect of their regulated activities.

Regulated and Supervised BOC Group Entities

The following table sets out the regulated entities of the BOC Group and their respective regulators.

<u>Name of Entity</u>	<u>Jurisdiction</u>	<u>Main Business</u>	<u>Regulator(s)</u>	<u>Key Financial Services Laws</u>	<u>Prudential Consolidation</u>
Banking Services					
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	ECB CBC CySEC	See summary of the main banking and financial services regulatory requirements detailed below.	Fully consolidated
Bank of Cyprus (Channel Islands) Ltd	Guernsey	Commercial bank	Guernsey Financial Services Commission	The Banking Supervision (Bailiwick of Guernsey) Law 1994 (as amended), The Protection of Investors (Bailiwick of Guernsey) Law 1987	Fully consolidated
Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	ECB CBC National Bank of Romania	See summary of the main banking and financial services regulatory requirements detailed below.	Branch
Bank of Cyprus UK Limited	UK	Commercial bank	ECB PRA and Financial Conduct Authority (UK)	See summary of the main banking and financial services regulatory requirements detailed below and specifically the section headed “ <i>UK Regulatory Requirements Applicable to BOC UK</i> ” below.	Fully consolidated
Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	ECB CBC Bank of Greece	See summary of the main banking and financial services regulatory requirements detailed below.	Branch

<u>Name of Entity</u>	<u>Jurisdiction</u>	<u>Main Business</u>	<u>Regulator(s)</u>	<u>Key Financial Services Laws</u>	<u>Prudential Consolidation</u>
Insurance					
EuroLife Ltd	Cyprus	Life insurance	Insurance Companies Control Service in Cyprus	Solvency II, Money Laundering Directive, Data Protection Directive	Deducted from capital base
Kyprou Zois (branch of EuroLife Ltd) .	Greece	Life insurance			
General Insurance of Cyprus Ltd . . .	Cyprus	General insurance			
Kyprou Asfaltiki (branch of General Insurance of Cyprus Ltd) . .	Greece	General insurance			
Investment Services & Asset Management					
The Cyprus Investment and Securities Corporation Limited	Cyprus	Investment banking, asset management and brokerage	CySEC	CRD IV/CRR, MiFID, Money Laundering Directive, Data Protection Directive	Fully consolidated
BOC Asset Management Ltd .	Cyprus	Management services of UCITS and portfolio asset management	CySEC	UCITS (following activation)	Fully consolidated
Investment Company/Fund					
Cytrustees Investment Public Company Ltd . . .	Cyprus	Closed-ended investment company	CySEC Cyprus Stock Exchange	Laws and Regulations of CSE and CySEC and MiFID	Deducted from capital base
CLR Investment Fund Public Ltd .	Cyprus	Investments in listed securities, strategic investments and investments in private companies.	CySEC Cyprus Stock Exchange	Laws and Regulations of CSE and CySEC including: the Transparency Law, the Prospectus Law, the Takeover Law and the Short Selling Law.	Deducted from capital base
Payment Services and Other					
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	CySEC Cyprus Stock Exchange	Laws and Regulations of CSE and CySEC including: the Transparency Law, the Prospectus Law, the Takeover Law and the Short Selling Law.	Fully consolidated
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	CBC	PSD, Money Laundering Directive, Data Protection Directive	Fully consolidated

<u>Name of Entity</u>	<u>Jurisdiction</u>	<u>Main Business</u>	<u>Regulator(s)</u>	<u>Key Financial Services Laws</u>	<u>Prudential Consolidation</u>
Cyprus Leasing Romania IFN SA	Romania	Leasing	CBC National Bank of Romania	The Fiscal Code Law 571, 2003 (as amended), NBR Norm 3/2005 on the functioning of the interbank forex market (as amended) and Law 190/1999 on mortgage (as amended).	Fully consolidated

Main Banking/Financial Services Regulatory Requirements

Regulatory Capital Requirements

EU Capital Requirements Directive/Regulation

In December 2010, the Basel Committee issued two prudential framework documents (“Basel III: A global regulatory framework for more resilient credit institutions and banking systems” and “Basel III: International framework for liquidity risk measurement, standards and monitoring”) which comprise the Basel III capital and liquidity reform package (“**Basel III**”). The Basel III documents were revised in June 2011.

The Basel III framework has been transposed into EU law by Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (“**CRD IV**”) and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the “**CRR**”, and together with CRD IV, “**CRD IV/CRR**”).

The CRR was directly applicable in all EU Member States from 1 January 2014, with the exception of certain of its provisions related to the application of the liquidity requirements on an individual basis and the disclosure of leverage ratios (which applied from 1 January 2015) and stable funding (which applied from 1 January 2016).

CRD IV was required to be transposed into the national law of EU Member States by 31 December 2013, though certain provisions (including provisions relating to the requirements to maintain a capital conservation buffer and an institution-specific countercyclical capital buffer, the global and other systematically important institutions, the recognition of a systemic risk buffer rate, the setting of countercyclical buffer rates, the recognition of countercyclical buffer rates in excess of 2.5%, the decision by designated authorities on third country countercyclical buffer rates, the calculation of institution-specific countercyclical capital buffer rates and restrictions on distributions) entered into force from 1 January 2016; some particular elements remain to be phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for the phase-in until 2024) but it is possible that in practice implementation under national laws may be delayed until after such date.

Some important points of CRD IV/CRR framework include:

- *Quality and Quantity of Capital.* CRD IV/CRR revises the definition of regulatory capital and its components for credit institutions and investment firms (together “**CRD IV Firms**”). It also sets a minimum CET 1 capital ratio of 4.5% and Tier I capital ratio of 6.0% and introduces a requirement for additional Tier I and Tier II capital instruments to have a mechanism that requires them to be written-off on the occurrence of certain triggering events (e.g., a bail-in of the CRD IV Firm);
- *Capital Conservation Buffer.* In addition to the minimum CET 1 capital ratio and Tier I capital ratio, CRD IV Firms are required to hold an additional buffer consisting of common equity and amounting to 2.5% of risk weighted assets as a capital conservation buffer. Depletion of the capital conservation buffer will trigger limitations on dividends, distributions on capital instruments and compensation and it is designed to absorb losses in stress periods;
- *Systemic Risk Buffer.* According to CRD IV/CRR, EU Member States may require the creation of a buffer against systemic risk in the financial sector or subsets thereof in order to prevent and mitigate

long term non-cyclical systemic or macroprudential risks not covered by CRD IV/CRR. The buffer should be at least 1% and is constituted by CET 1 elements;

- *Deductions from CET 1.* CRD IV/CRR revises the definition of items that should be deducted from regulatory capital. In addition, most of the items that were previously required to be deducted from regulatory capital will be deducted in whole from the CET 1 component;
- *A Grandfathering Period for existing “own funds” items.* Capital instruments that qualified as own funds under Directive 2006/48/EC will be phased out over a period that began on 1 January 2014 and ends on 31 December 2021. The regulatory recognition of capital instruments that qualified as own funds prior to 31 December 2011 will be reduced by a specific percentage in subsequent years. Step-up instruments will be phased out at their effective maturity date (i.e., their call and step-up date) if the instruments do not meet CRD IV/CRR criteria for inclusion in Tier I or Tier II. Existing public sector capital injections will be grandfathered until 31 December 2017;
- *No Grandfathering for instruments issued after 1 January 2012.* Only those instruments that were issued before 31 December 2011 qualify for the transition arrangements discussed above;
- *Countercyclical Buffer.* To protect the banking sector from excess aggregate credit growth, CRD IV/CRR gives EU Member States the right to require an additional buffer consisting of CET 1 and amounting to 0% to 2.5% of risk weighted assets, to be imposed during periods of excess credit growth, according to national circumstances. The countercyclical buffer, when in effect, will be introduced as an extension of the conservation buffer range;
- *Central Counterparties (“CCPs”).* The CRD IV/CRR framework brought into effect certain new capital requirements applying to exposures to CCPs. The CRD IV/CRR regime distinguishes between capital requirements applying to CCP clearing members (which are required to take into account both default fund and trade exposures), and capital requirements applying to the clients of those clearing members (which are simply required to take into account trade exposures, including initial and variation margin payments). The own funds requirements for exposures to CCPs that have been authorised or recognised in accordance with EMIR (“**Qualifying CCPs**”) are substantially lower than the own funds requirements imposed on exposures to other CCPs and uncleared bilateral transactions. As the client of a clearing member, the Bank would be required to calculate its trade exposures for cleared transactions in accordance with the CRD IV/CRR bilateral framework, other than in the case of transactions which are cleared by a Qualifying CCP and which meet certain defined conditions, in which case a 2% or 4% risk weighting would apply to the exposure value;
- *Asset Value Correlation Multiplier for Large Financial Institutions.* CRD IV/CRR increases risk weights on certain exposures to financial institutions; in particular, a multiplier of 1.25 has been introduced into the calculation of risk weighted exposure amounts for exposures to “large financial sector entities” and “unregulated financial entities” (as defined in the CRR);
- *Counterparty Credit Risk.* CRD IV/CRR raises counterparty credit risk management standards in a number of areas, including for the treatment of so-called wrong-way risk, i.e., cases where the exposure increases when the credit quality of the counterparty deteriorates. For example, a capital charge for potential mark-to-market losses associated with a deterioration in the creditworthiness of a counterparty and the calculation of expected positive exposure by taking into account stressed parameters;
- *Leverage Ratio.* CRD IV Firms are required under CRD IV/CRR to submit to their NCA all necessary information on the leverage ratio and its components and, since 1 January 2015, have been required to disclose information on the leverage ratio publicly. In this regard, the Basel Committee has stated that it intends to make final adjustments to the definition and calibration of the Basel III leverage ratio before 2017 based on its findings during the “parallel run period” between 1 January 2013 and 1 January 2017 during which it is testing a minimum requirement of 3% for the leverage ratio, with a view to migrating to a binding minimum requirement from 1 January 2018 (certain EU Member States, including the United Kingdom, have already implemented the 3% minimum requirement);
- *Systemically Important Institutions.* Systemically important CRD IV Firms should have loss-absorbing capacity beyond the minimum standards and work on this issue is ongoing. Under CRD IV/CRR, global systemically important institutions will, and other systemically important institutions may, be required to maintain a buffer of up to 3.5% and 2% of the total risk exposure amount, respectively,

taking into account the criteria for its identification as a systematically important credit institution. That buffer shall consist of and be supplemental to CET 1 capital; and

- *Liquidity Requirements.* CRD IV/CRR contains high level provisions on the LCR (as supplemented by Commission Delegated Regulation (EU) No 2015/61 which prescribe the criteria for liquid assets and methods of calculation as from 1 October 2015 and Commission Implementing Regulation (EU) No 2016/322 which prescribes supervisory reporting requirements and applied from 10 September 2016) and the net stable funding requirements (“**NSF Requirements**”). The LCR is the ratio (expressed as a percentage) of a CRD IV Firm liquidity buffer to its net liquidity outflows over a 30 calendar day stress period which will be phased in gradually, having started at 60% on 1 October 2015, and expected to be 100% from 1 January 2018; subject to Member State regulators exercising their discretion to impose higher LCR requirements until its LCR is fully phased in from 1 January 2018. The NSF Requirements (as proposed under Basel III) is the amount of longer-term stable funding that must be held by a CRD IV Firm over a one year timeframe based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures. The EC is required to produce, by 31 December 2016, a legislative proposal on the NSF Requirements if appropriate (taking into account relevant reports prepared by the European Banking Authority). The Basel Committee’s aim is that the NSF Requirements should be the minimum binding standard by 1 January 2018.
- *Prudential Reporting.* The implementing technical standards for supervisory reporting, which have applied as from 1 January 2014, establish rules on prudential reporting laid down in CRD IV/CRR and set out the content and format of data to be reported by credit institutions to their respective NCAs. The scope of the reporting requirements extends to reporting on the following items:
 - own funds;
 - financial information, including “FINREP” reporting for IFRS credit institutions;
 - real estate losses;
 - large exposures;
 - leverage ratio;
 - liquidity coverage ratio; and
 - liquidity net stable funding ratio.

As part of evaluating its compliance with the CRD IV / CRR capital and liquidity requirements, the BOC Group is required to have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that it considers adequate to cover the nature and level of the risks to which it is or might be exposed. This is referred to as the Internal Capital Adequacy Assessment Process (“**ICAAP**”). Banks must also have in place an Internal Liquidity Adequacy Assessment Process (“**ILAAP**”) through which they are required to evaluate their liquidity risk management processes and improve them if necessary. The maintenance of adequate capital and liquidity is necessary for the BOC Group’s financial stability in the face of continuing turbulence and uncertainty in the global economy. When reliable, ICAAPs and ILAAPs can provide substantial input into the determination of the SREP capital and liquidity requirements. Accordingly, if internal processes are not sufficiently efficient, this may result in higher than strictly necessary required capital and liquidity levels and increased costs. The ICAAP is subject to regular internal review to ensure that it remains comprehensive and proportionate to the nature, scale and complexity of the activities of the Bank. While the Bank has established its ICAAP, these strategies and processes incorporate assumptions, judgements and estimates that may change over time. Accordingly, the Bank continues to enhance and improve its ICAAP. The Bank completed its ICAAP and ILAAP in April 2016.

Although the CRR is directly applicable in each Member State, it leaves a number of important interpretational issues to be resolved through technical standards some of which are still being produced, and leaves certain other matters to the discretion of the NCA in each Member State. Furthermore, the Basel Committee continues to propose initiatives that could further increase Cyprus’ reserve requirement for banks.

In addition, CRD IV/CRR allows for the ECB to assume certain supervisory responsibilities formerly handled by national regulators. The ECB may interpret CRD IV/CRR or exercise discretion accorded to the NCA under CRD IV/CRR in a different manner than national regulators. The manner in which many of the new concepts and requirements under CRD IV/CRR will be applied to the Bank and the BOC

Group remains uncertain. Although it is difficult to predict with certainty the impact of the full implementation of CRD IV/CRR and its transposition into Cypriot law, changes arising in the transposition may lead to an increase in the Bank's capital/liquidity requirements and capital/liquidity costs (see "*Risk Factors—Risks Relating to Asset Quality, Provisions and Capital—The BOC Group is subject to ECB supervision which may result in requests that it increase its loan provisions or raise additional capital or increased costs*").

In addition to the substantial changes in capital and liquidity requirements introduced by CRD IV/CRR, there are several new regulatory initiatives, in various stages of finalisation, which represent additional regulatory pressure over the medium term and will impact the EU's future regulatory direction. These initiatives include, among others, the revised Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation (see "*—Other Relevant EU Financial and Payments Services Laws—The Markets in Financial Instruments Directive*") and the European Market Infrastructure Regulation (see "*—Other Relevant EU Financial and Payments Services Laws—The European Market Infrastructure Regulation*").

Implementation of CRD IV in Cyprus

In August 2014, the CBC issued a directive on Governance and Management Arrangements transposing certain aspects of CRD IV into Cypriot law.

On 30 January 2015, the Macroprudential Supervision of Institutions Law of 2015 (the "**Macroprudential Supervision Law**") and a law amending the Banking Law were introduced in order to harmonise the Banking Law with, and otherwise implement, the provisions of CRD IV in Cyprus.

Key amendments to the Banking Law include, among others, the following:

- the strengthening of bank governance processes, including the encouragement of the use of internal models to calculate capital requirements;
- providing the CBC with the authority to impose specific liquidity requirements to address liquidity risks;
- imposing an obligation on banks to take the necessary measures at an early stage to address any actual or potential failure by them to meet the requirements of CRD IV;
- the establishment of mechanisms by the CBC and banks to encourage the reporting of breaches of the Banking Law and CRD IV;
- increasing the sanctions for non-compliance with shareholding restrictions on the holding of shares in an authorised credit institution in Cyprus, such as the CBC's authority to publicly announce any such non-compliance, impose administrative fines of up to €5,000,000 on individuals, of up to 10% of the total annual net turnover in the case of a legal person, and of up to double the amount of the benefit derived from the breach where that benefit can be determined; and
- setting a capital conservation buffer of CET 1 capital equal to 2.5% of banks' total risk exposure amount.

The Macroprudential Supervision Law is mainly responsible for providing for:

- the identification of systemically important institutions; and
- the CBC, as the macroprudential supervisory authority, to have the power to establish the requirements for the capital buffers to be held by banks, such as the countercyclical capital buffer, systemic risk buffer, buffers for systemically important institutions, buffers for other systemically important institutions and reserves for changes in macro or systemic risk.

Under the current regulatory framework, credit institutions operating in Cyprus are required to, among other things:

- comply with the capital adequacy ratios determined by the ECB and/or CBC;
- observe the liquidity ratios prescribed by CRD IV/CRR;
- comply with certain concentration ratios determined by the ECB and/or CBC;
- maintain efficient internal control, compliance and risk management systems and procedures;

- adopt a remuneration policy and set up a remuneration committee of the board of directors;
- submit to the ECB and/or CBC periodic reports and statements;
- disclose data regarding the credit institution's financial position and the risk management policy;
- provide the ECB and/or CBC with such further information as they may require;
- in connection with certain operations or activities, notify or request the prior approval of the ECB and/or CBC, in each case in accordance with the applicable laws of Cyprus, the SSM Regulation and the relevant acts, decisions and circulars of the ECB and/or CBC; and
- permit the ECB and/or CBC to conduct audits and inspect books and records of the credit institution, in accordance with Cypriot law and the SSM Regulation.

If a credit institution breaches any law or regulation falling within the scope of the supervisory power attributed to the CBC, the CBC (and where applicable, in coordination with the ECB) is empowered to, among other things:

- require the relevant credit institution to take appropriate measures to remedy the breach or to restrict its operations by imposing conditions on its licence (which may include, requiring the relevant credit institution to take certain actions or refrain from taking certain actions, imposing limitations on the acceptance (and solicitation) of deposits, the granting of credit or the making of investments, prohibiting the entering into of certain transactions, requiring the removal of corporate officers, requiring the holding of own funds in excess of prescribed levels and requiring the implementation of policies on the treatment of certain assets and risk);
- impose fines;
- assume control of, and carry on in the credit institution's name, the business of the credit institution, for so long as the CBC considers necessary;
- demand the increase of a credit institution's share capital;
- demand that the credit institution prepares and submits a recovery plan and submit information so that the CBC can prepare a resolution plan in its capacity as Resolution Authority;
- demand that dividends be limited or withheld; and
- revoke the licence of the credit institution where the breach cannot be remedied and place it in a state of special liquidation (i.e., where a court application is made for liquidation on an ex-parte basis where services performed by the relevant credit institution concern the public interest).

Solvency II Directive

The directive on the taking-up and pursuit of the business of insurance and reinsurance (Directive 2009/138/EC) of 25 November 2009 ("**Solvency II**") provides the framework for a new solvency and supervisory regime for the insurance sector in the European Economic Area. It fundamentally reforms capital adequacy requirements for insurers and reinsurers by establishing a more sophisticated risk-based set of capital requirements that take account of all risks that insurers and reinsurers face, not just insurance risks. Solvency II also establishes a modernised (re)insurance supervisory system. EU Member States were required to transpose the new regime by 31 March 2015 and (re)insurers were required to implement it from 1 January 2016 (subject to certain transitional provisions). It was implemented in Cyprus on 7 April 2016 through the Law on Insurance and Reinsurance Services and Other Related Issues Law 38(I)/2016 and the BOC Group's insurance companies, GIC and EuroLife are subject to such Solvency II requirements.

Bank Recovery and Resolution

The BRRD was required to be implemented by EU Member States by 31 December 2014. EU Member States were required to apply their implementing legislation and regulations from 1 January 2015 with the exception of the provisions on the bail-in tool which were required to apply from 1 January 2016.

The stated aim of the BRRD is to provide supervisory authorities, including the relevant Cypriot resolution authority, 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 applies to banks of all sizes and consists of three pillars: preparatory and preventative measures, early intervention, and resolution tools and powers:

- *Preparatory and preventative measures.* Institutions subject to the BRRD are required to prepare recovery plans and the relevant resolution authority is required to prepare resolution plans for the relevant institutions based on the information provided by them.
- *Early supervisory intervention.* The relevant authorities are granted powers to take early action to address emerging problems. These powers include requiring an institution to implement its recovery plan and replacing existing management with a special manager to restore the institution's financial situation.
- *Resolution.* The relevant resolution authority is granted resolution powers and tools intended to ensure the continuity of essential services and to manage the failure of an institution in an orderly way.

The BRRD establishes common parameters for triggering the application of resolution tools and powers. The conditions that have to be met before resolution authorities take a resolution action in relation to a credit institution are: (a) the NCA determines that the institution is failing or is likely to fail; (b) there is no reasonable prospect that any alternative private sector or supervisory action taken would prevent the failure of the institution within a reasonable timeframe; and (c) a resolution action is necessary in the public interest. When the trigger conditions for resolution are satisfied, the BRRD provides a set of resolution tools that resolution authorities have the power to apply singly or in conjunction.

The resolution tools are the following:

- *Sale of business.* Resolution authorities may effect a sale of the institution, in whole or in part, on commercial terms, without requiring the consent of the shareholders or complying with other procedural requirements.
- *Bridge Institution.* Resolution authorities may transfer all or part of the business of an institution to a publicly controlled entity. The operations of a bridge institution are temporary, the aim being to sell the business to the private sector when market conditions are appropriate.
- *Asset Separation.* Resolution authorities may transfer impaired or problem assets to an asset management vehicle to allow them to be managed and worked out over time.
- *Bail-In.* Resolution authorities may write down and cancel the claims of shareholders and unsecured creditors of a failing institution and/or convert such claims into equity thereby diluting the holdings of pre-resolution shareholders.

As part of the BRRD bail-in requirements, institutions will be obliged to maintain MREL which may be bailed in. MREL is expressed as a percentage of a particular entity's total liabilities and own funds; the MREL for each entity is set by the relevant resolution authority on a case-by-case basis.

If a BRRD institution is part of a group, MREL will also apply on a consolidated basis, with the group-level resolution authority ("GLRA"), which, in the case of the BOC Group, is the Single Resolution Board, being responsible for determining the MREL for the consolidated group after consultation with the group's consolidating supervisor. In addition, the GLRA may apply MREL obligations to specific companies in the same group as a BRRD institution, such as financial holding companies and mixed financial holding companies. Again, this determination would be made by the GLRA subject to consultation with the group's consolidating supervisor.

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 2014/49/EU to be built up by 31 December 2024.

Coordinated Resolution of Cross-border Banking Groups

In addition, the BRRD provides a framework to improve cooperation across borders to coordinate resolution measures in all affected EU Member States in the event that a cross-border banking group should fail. It does this by ensuring that resolution authorities in EU Member States have the same tools and powers at their disposal, and by requiring resolution authorities to consult each other and cooperate in resolution colleges with a view to agreeing a group resolution scheme. The resolution college is not intended to be a decision-making body, but a platform facilitating decision making by national resolution

authorities. A group resolution scheme should take the form of joint decisions by national resolution authorities where possible, or coordinated decisions following consultation where there is disagreement by one or more national resolution authorities to a proposed group resolution scheme.

The resolution college for a cross-border banking group is chaired by the group-level resolution authority, which in the case of the Bank would be the SRB (see “—*Single Resolution Mechanism*”). If the group-level resolution authority considers that resolution action is required, it will prepare a group resolution scheme and submit it to the resolution college. National resolution authorities, for example those responsible for the resolution of banking subsidiaries, have an opportunity to disagree with the scheme and/or take independent resolution action, but must explain their reasons for disagreement to the group level resolution authority and other resolution authorities covered by the group resolution scheme. National resolution authorities must duly consider the potential impact of independent resolution action on the financial stability in the EU Member States where other resolution authorities are located and the potential effects on other parts of the group.

If no group resolution has been proposed, and a national resolution authority considers that resolution action is necessary in relation to a subsidiary for which it is responsible, it should inform the group-level resolution authority and the members of the resolution college. The group-level resolution authority must then consult with the other members of the resolution college, assess the likely impact of the proposed resolution actions on the group, and on group entities in other EU Member States. In particular, the group-level resolution authority must assess whether the resolution actions or other measures proposed by the national resolution authority would make it likely that the conditions for resolution would be satisfied in relation to a group entity in another Member State, and if so, prepare a group resolution scheme within 24 hours (unless allowed more time by the relevant national resolution authority). If the group-level resolution authority does not make an assessment within this time, the national authority may proceed with the proposed resolution action. If a group resolution scheme is proposed, the national resolution authority will have the opportunity to disagree and take independent resolution action as described above.

Single Resolution Mechanism

As part of the initiative for a European banking union, the EU has also established a single resolution mechanism (“**SRM**”), under the SRM Regulation which entered into force on 19 August 2014. Under the SRM, a single resolution process applies to all banks established in EU Member States participating in the SSM, and the process is co-ordinated by the Single Resolution Board (“**SRB**”); there is also a single resolution fund (“**SRF**”) established. The SRB is the resolution authority in respect of the Bank, and acts as the group-level resolution authority for the Bank and its subsidiaries.

The SRM applied from 1 January 2016 (with certain provisions relating to the establishment of the SRB and the SRF having applied earlier). The SRM Regulation is closely connected with the BRRD. For banks within the SSM, the SRB effectively takes on the role of the relevant national resolution authority established under the BRRD (in the case of the Bank, the CBC). The Bank is subject to the supervision of the SRB.

The SRM Regulation builds on the rulebook on bank resolution set out in the BRRD and its key provisions include:

- The SRB will prepare resolution plans for and directly resolve all banks directly supervised by the ECB (such as the Bank) and prepare group resolution plans for cross-border banking groups where the SRB is the group-level resolution authority (such as the Bank), together with national resolution authorities of subsidiaries and after consulting the resolution authorities of significant branches. National resolution authorities will prepare resolution plans and resolve banks which only operate nationally and are not subject to full ECB direct supervision, provided that this will not involve any use of the SRF. EU Member States can opt to have the SRB directly responsible for all their banks. The SRB will decide in any case for all banks, including those that operate nationally and are not subject to full ECB direct supervision, whether resolution will involve the use of the SRF;
- Centralised decision-making will be built around a strong SRB and will involve permanent members, as well as the EC, the Council, the ECB and the national resolution authorities. In most cases, the ECB will notify a bank that is failing to the SRB, the EC, and the relevant national resolution authorities. The SRB will then assess whether there is a systemic threat and the availability of any private sector solution. If no private sector solution exists, it will adopt a resolution scheme including the relevant resolution tools and any use of the SRF. If the resolution scheme entails state aid or use

of the SRF, the EC will need to approve the aid or use of the SRF prior to the adoption of the resolution scheme by the SRB. The EC is also responsible for assessing the adopted resolution scheme and it shall either endorse or object to the discretionary aspects of the resolution scheme. The EC's decision is subject to approval or objection by the Council where the amount of resources drawn from the SRF is modified or if there is no public interest in resolving the bank. If the Council or the EC objects to the resolution scheme, the SRB will need to amend the resolution scheme. The resolution scheme will be implemented by the national resolution authorities. Use of the SRF (as part of the "bail-in tools" under the SRM Regulation) is also subject to a number of conditions which include: (i) no less than 8% of the total liabilities of the institution under resolution has been bailed in by shareholders, the holders of relevant capital instruments and other liabilities through write-down, conversion or otherwise; and (ii) the use of the SRF does not exceed 5% of the total liabilities of the institution under resolution.

- In its plenary session, the SRB will take all decisions of a general nature and any individual resolution decisions involving the use of the SRF in excess of €5 billion. In its executive session, the SRB will take decisions in respect of individual entities or banking groups where the use of the SRF remains below this threshold. The composition of the executive session of the SRB will include the chair, the executive director and three other permanent members, with the EC and the ECB sitting as permanent observers. In addition, to ensure that the interests of all EU Member States on which the resolution had an impact were considered, the EU Member States which would potentially be affected by the resolution based on the institution being resolved will also participate in the session. None of the participants in the deliberation will have a veto;
- All the banks in the SSM contribute to the SRF. The SRF has an estimated target level of €55 billion and can borrow from the markets if decided by the SRB in its plenary session. The SRF will be owned and administrated by the SRB. The SRF will reach a target level of at least 1% of covered deposits over an eight-year period. During this transitional period, the SRF, established by the SRM Regulation, will comprise national compartments corresponding to each participating SSM Member State. The resources accumulated in those compartments will be progressively mutualised over a period of eight years, starting with 40% of these resources in the first year. The establishment of the SRF and its national compartments and decisions as to their use will be regulated by the SRM Regulation. The transfer of national funds into the SRF and the activation of the mutualisation of the national compartments is provided for in an inter-governmental agreement established among the participating SSM Member States on 14 May 2014; and
- The SRF is funded through contributions made by all credit institutions established in participating SSM Member States. Each year, the SRB, after consulting the ECB or the NCAs, and in close cooperation with the national resolution authorities, will calculate the individual contributions. The EC and the Council have also adopted delegated acts to specify, among other things, the criteria and the methodology for establishing the annual contributions payable by credit institutions. Contributions are determined in proportion to each institution's risk profile and calculated on the basis of their liabilities, excluding own funds and covered deposits.

Implementation of the BRRD in Cyprus

The BRRD has been fully transposed in Cyprus by way of a series of amendments and enactments to national legislation which includes:

- Law 20(I)/2016 regarding the recovery of investment firms and other entities under the supervision of CySEC (the "**Recovery Law**"), which transposes all the relevant provisions of the BRRD relating to the recovery of the relevant entities in the case of an impending systemic and/or financial crisis. The competent authority for the purposes of the Recovery Law is CySEC;
- Law 22(I)/2016 regarding the resolution of credit institutions and investment firms (the "**Resolution Law**"), which transposes all the relevant provisions of the BRRD relating to the resolution of the relevant entities. The designated resolution authority for the purpose of the Resolution Law is the CBC;
- Law 21(I)/2016 (the "**Banking Law**") amending the business of credit institutions law (Law 66(I)/1997, as amended), which transposes all the relevant provisions of the BRRD relating to the business of credit institutions. The designated authority for the purposes for the Banking Law is the CBC;

- Law 5(I)/2016 regarding the deposit guarantee scheme and resolution of credit institutions and other institutions (the “**DGS Law**”), which transposes all the relevant provisions of the BRRD relating to the resolution fund. The designated resolution authority for the purpose of the DGS Law is the CBC; and
- Law 17(I)/2016 amending the financial collateral arrangements law (Law 43(I)/2004, as amended), which transposes all of the relevant provisions of the BRRD relating to financial collateral arrangements.

together, the “**BRRD Regime**”.

The new BRRD Regime replaced, as at March 2016, the previous Cypriot resolution regime for credit institutions and other institutions under the Resolution of Credit and Other Institutions Law of 2013. The BOC Group is subject to the BRRD Regime. Shareholders of the Bank would be structurally subordinated to any creditors of the Bank. Creditors of the Bank may be issued shares in the Bank as a result of bail-in measures being imposed on the Bank, which measures may dilute or cancel the holdings of the pre-resolution shareholders of the Bank. Prior to resolution, BOCH is likely to be the sole shareholder of the Bank, thus resolution measures taken in relation to the Bank could dilute or cancel BOCH’s holding in the Bank, which in turn may have a materially detrimental affect on the value of shares issued by BOCH.

Implementation of the BRRD in the UK

The BRRD has also been implemented in the UK by various legislation and regulatory provisions, including by the Banking Act 2009 and a series of amendments thereto. The provisions of the BRRD relating to resolution of cross-border banking groups (see “—*Coordinated Resolution of Cross-border Banking Groups*” above) have been implemented in the United Kingdom by Part 16 of the Bank Recovery and Resolution (No.2) Order 2014 (SI 2014/3348) (“**BRRO2**”).

The resolution authority for BOC UK will be the Bank of England. Under paragraph 190 of BRRO2, the Bank of England is required to cooperate closely with other members of a resolution college established by another resolution authority. Paragraph 189 BRRO2 sets out various matters which the Bank of England must ensure when reaching a joint decision with other resolution authorities on the adoption of a group resolution scheme proposed by another resolution authority. Chapter 5 of Part 16 of BRRO2 sets out the provisions for group resolution involving a group subsidiary where neither the PRA nor the FCA is the consolidating supervisor (see “—*Coordinated Resolution of Cross-border Banking Groups*”). Amongst other matters, it provides for the Bank of England to communicate with the resolution college if group resolution action is proposed, or if the Bank of England determines that the failing subsidiary meets the conditions for resolution, and to take the resolution action it proposes if it does not receive a proposal from the group-level resolution authority within 24 hours or such longer period as it may allow. The Bank of England must endeavour to reach a joint decision on the adoption of a group resolution scheme. If a joint decision cannot be reached, the Bank of England must provide detailed reasons why it disagrees with the proposed group resolution scheme or considers that it needs to take independent resolution action, including an assessment of the potential impact of the resolution action or other measures that it intends to take on other group entities and the financial stability of other EEA States whose resolution authorities are members of the resolution college. The Bank of England is also required to take resolution action and other measures in respect of the failing subsidiary in close co-operation with the other members of the college with a view to ensuring that there is a co-ordinated strategy for applying the resolution tools and exercising the resolution powers in respect of group entities.

Deposit Guarantee and Investor Protection Requirements

EU Deposit Guarantee Scheme Directive

The recast EU Deposit Guarantee Schemes Directive 2014/49/EU (“**Recast DGSD**”) requires EU Member States to establish deposit guarantee schemes. The Recast DGSD provides that national deposit guarantee schemes should be prefunded, with the funds to be raised over a number of years. The funds of national deposit guarantee schemes should at least reach 0.8% of the covered deposits by 3 July 2024.

The Recast DGSD expands the scope of eligible claimants to include companies, which were previously ineligible for compensation on the basis that their balance sheets exceeded two or more of the following limits:

- balance sheet total €1 million;

- net turnover €2 million; and/or
- 50 employees.

EU Member States are also permitted to allow deposits held by personal pension schemes and occupational pension schemes of SMEs and those held by local authorities with an annual budget of up to €500,000 to be protected.

Implementation of the Recast DGSD in Cyprus

The Recast DGSD has been transposed in Cypriot law through the passing of the DGS Law on 11 February 2016 which replaced the Cypriot deposit protection scheme that applied until this point and established a new deposit protection scheme (the “**Deposit Protection Scheme**”).

The DGS Law provides for the creation of three funds: the Deposit Guarantee Fund for banks (the “**DGFB**”), the Deposit Guarantee Fund for cooperative credit institutions, and the Resolution of Credit and Other Institutions Fund (the “**RCIF**”). The DGFB and the RCIF are administered by a management committee, the members of which are representatives from the Ministry of Finance of Cyprus and the CBC.

The purpose of the funds administered under the DGS Law is:

- to compensate depositors of a bank in the event that the bank is unable to repay its deposits; and
- to fund the implementation of resolution measures in respect of banks.

The DGFB covers deposits denominated in all currencies and participation in the DGFB is compulsory for all credit institutions with authorisation to operate and accept deposits in Cyprus from the CBC. Accordingly, all credit institutions incorporated in Cyprus (including their branch operations located in other EU Member States) and all Cypriot branches of credit institutions incorporated in countries other than EU Member States are required to contribute to the relevant funds under the DGFB.

The Bank is obligated to make annual contributions to the DGFB which are determined by the management committee based on the deposits maintained with the bank concerned that are the covered (guaranteed), by the scheme, and having taken into account the relevant EBA guidelines. The minimum target level for the DGFB’s available funds is set at 0.8% of the covered (guaranteed) deposits and should be reached by 3 July 2024. The management committee may also impose on banks extraordinary contributions to the DGFB which cannot exceed 0.5% of the covered (guaranteed) deposits of the bank concerned per year. In exceptional circumstances, the management committee may impose even higher contributions following consultation with the CBC.

A bank is obligated to make annual contributions to the RCIF which are determined by the management committee based on the size of the bank and the risks associated with its activities in accordance with the provisions of the Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing the BRRD with regard to ex ante contributions to resolution financing arrangements. The management committee may also impose extraordinary contributions to the RCIF on banks where the funds available to it are not sufficient to cover its losses and other expenditure associated with the use of the fund. Such extraordinary contributions may not exceed an amount which is three times the annual contribution of the bank concerned.

The general parameters of the Deposit Protection Scheme are that:

- the payment of compensation is triggered if it is determined that a credit institution is unable to repay deposits. This determination can be made by the CBC or through an order issued by a Cypriot court or the competent court in the jurisdiction where the credit institution is incorporated, for the special liquidation of the credit institution concerned; and
- the maximum amount of compensation, per depositor per credit institution, is €100,000 (subject to possible extension to €150,000 in respect of certain types of deposit and upon the satisfaction of certain conditions).

The Deposit Protection Scheme does not provide compensation in relation to certain categories of deposits such as bank deposits (interbank), deposits by cooperative credit institutions, insurance companies, public authorities, deposits by collective investment schemes, deposits by financial institutions, debt securities issued by credit institutions, liabilities arising out of “own acceptances” (banker’s acceptances), promissory notes and deposits by pension funds (subject to certain exceptions). In addition,

deposits by persons against which criminal proceedings have been instigated or for which a confiscation order has been made under the Prevention and Suppression of Money Laundering Activities Law of 2007 or a corresponding law of another country are also excluded from compensation under the Deposit Protection Scheme.

In addition to the law that implemented the DGSD in Cyprus on 11 February 2016, secondary legislation was passed on 18 March 2016 which clarified that whilst deposits made by pension funds may not be covered (as described above), deposits held by personal pension schemes and occupational pension schemes of small or medium-sized enterprises whose members are employees of small or medium-sized enterprises or have an insurance contract with an insurance company operating under Section 7 of Cypriot Life Insurances Law will be covered in certain circumstances. Accordingly, such deposits are now included by the Bank as required.

Although the coverage level under the Recast DGSD is €100,000, under Cypriot implementing legislation deposits which: (a) relate to private residential properties; or (b) serve social purposes under national law, benefit from an additional coverage of €50,000 (i.e., beyond the level of €100,000) for a period of no longer than 6 months following the earlier of: (a) the date on which the amount has been credited to the account; or (b) from the moment when such deposits become legally transferable. Deposits which serve social purposes are classified as deposits related to life events such as dismissal, retirement, redundancy, invalidity, death, payment of insurance benefits, compensation for criminal injuries or wrongful conviction.

Other Relevant Cypriot Requirements

Investor Compensation Funds

The EU Directive 97/9/EC of the European Parliament and the Council of 3 March 1997 on investor compensation schemes requires EU Member States to establish investor compensation schemes to protect investors with respect to firms carrying on investment business. Cyprus implemented the Directive by amending, in February, 2004, the Investment Firms Law (“**IF Law**”) which requires the establishment of two separate compensation funds: one for clients of investment firms which is known as the Investor Compensation Fund for Clients of Investment Firms (“**ICFI**”) and one for clients of credit institutions which offer investment services (as defined in Directive 2004/39 on markets in financial instruments) which is known as the Investor Compensation Fund for Clients of Banks (“**ICFB**”).

The IF Law as amended enables the CBC and CySEC to issue relevant regulations for the operation of the ICFB and ICFI, respectively.

According to the CBC regulations for the establishment and operation of the ICFB, all Cyprus incorporated banks, which offer investment services as defined in Annex I of the IF Law, are obliged to become members of the ICFB. Branches of such banks which operate in other countries outside Cyprus are also obliged to become members of the ICFB.

The object of the ICFB is to secure the claims of the covered clients against banks (i.e., members of the ICFB) through the payment of compensation in cases where the bank concerned is unable, due to its financial circumstances and when no realistic prospect of improvement in the above circumstances in the near future seems possible:

- (a) to return to its covered clients funds owed to them or funds which belong to them but are, directly or indirectly, held by the bank in the context of providing investment services to the said clients; or
- (b) to hand over to covered clients financial instruments which belong to them and which the bank concerned holds, manages or keeps on their account.

The ICFB does not cover institutional and professional investors. The total payable compensation to each covered client of an ICFB’s member may not exceed €20,000, irrespective of the number of accounts held, currency and place of offering the investment service. The Bank is a member of the ICFB.

CISCO which is a subsidiary of the Bank, is a member of the ICFI.

Cypriot Guarantee Scheme for Credit Institutions

In 2012, the Government established a €6 billion guarantee scheme for credit institutions incorporated in Cyprus and licensed by the CBC (including subsidiaries of foreign financial institutions) and the Cooperative Central Bank to facilitate the access by eligible credit institutions to medium-term funding and to reinforce the overall stability of the banking system. On 6 November 2012, the EC approved the

establishment of the bank guarantee scheme under EU state aid rules. In June 2016, the EC announced the eighth extension of the bank guarantee scheme until 31 December 2016.

Pursuant to the Granting of Government Guarantees for the Conclusions of Loans and/or the Issue of Bonds by Credit Institutions Law of 2012, and implementing decrees, the maximum amount of Government guarantees that may be allocated to any credit institution cannot exceed 15% of the total domestic deposits of such credit institution as at 31 December 2011 and guarantees can only be granted in respect of debt obligations for a term between three months and five years. In addition, pursuant to the relevant Cypriot legislation, as long as the Government guarantee is in place, the relevant credit institution is, among other things, not allowed to repurchase its own shares, provide any discretionary bonuses to members of its board of directors or senior management or engage in aggressive commercial strategies which would not otherwise take place without the guarantee.

Before a Government guarantee can be granted, the relevant credit institution is required to provide the CBC with a plan for its mid-to-long term funding requirements and provide (subject to limited exceptions) eligible collateral to cover the guarantee allocated. In addition, the government guarantee scheme for credit institutions provides for the payment of a fee calculated based on the tenor of the debt obligation subject to the guarantee and the risk profile of the credit institution (based on an analysis of its credit default swap data or sample bank credit default swap data).

For more information, see “*Risk Factors—Funding and Liquidity Risks—The BOC Group is dependent on customer deposits and central bank funding for liquidity and any difficulties in securing these sources of liquidity may materially adversely affect the BOC Group’s business, financial condition, results of operations and prospects*” and “*Risk Factors—Funding and Liquidity Risks—Government and ECB actions intended to support liquidity may be insufficient or discontinued, thus the BOC Group may be unable to obtain the required liquidity*”.

Other Relevant EU Financial and Payments Services Laws

The Markets in Financial Instruments Directive

Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006) (“**MiFID**”) provides for the regulation of firms that provide investment services and advice and introduced a regulatory regime for the trading of financial instruments on regulated markets and multilateral trading facilities. MiFID was incorporated into Cypriot law by the Investment Services and Activities and Regulated Markets Law and the CBC and CySEC have issued several directives with respect to the requirements of this law.

MiFID introduced significant changes in Cyprus’ regulatory framework with a view to improving investor protection, increasing transparency, requiring investment services providers to categorise their clients as per the client’s risk profile, offering increased transparency on fees and expenses charged to clients, ensuring the timely and duly forwarding of clients’ orders to exchanges and improving procedures to identify and prevent conflicts of interest and other relevant matters.

The BOC Group has instituted appropriate policies and procedures to comply with the requirements of MiFID, as implemented into Cypriot legislation and regulations, and to be in line with applicable guidelines and best practices in relation to the provision of investment services and advice as well as the trading of financial instruments.

MiFID will be amended and replaced by a new EU Directive (Directive 2014/65/EU commonly referred to as “**MiFID II**”) and Regulation (Regulation (EU) No 600/2014 commonly referred to as “**MiFIR**”). MiFID II and MiFIR are intended to improve the functioning of financial markets in light of the financial crisis and to establish a safer and more transparent financial system by enhancing regulatory requirements, market transparency and strengthening investor protection. MiFID II and MiFIR were published in the Official Journal of the EU on 12 June 2014. The majority of MiFID II/MiFIR’s provisions are to apply from 3 January 2018.

PRIIPS

Packaged Retail and Insurance-based Investment Products (“**PRIIPS**”) relate to one or a combination of: (i) investments where the amount repayable is subject to fluctuations because of exposure to reference values or to the performance of one or more assets which are not directly purchased by retail investors; and (ii) insurance products which offer a maturity or surrender value that is wholly or partially exposed to

market fluctuations. Investors do not invest directly in the underlying investment products; instead, the provider of the PRIIP product combines, includes or groups together different assets in the packaged product.

EU Regulation (Regulation (EU) No 1286/2014) on PRIIPS (the “**PRIIPS Regulation**”), was published in the Official Journal of the EU on 9 December 2014 to encourage efficient markets and help investors to better understand the key factors, risks, rewards and costs of different PRIIPS, by requiring that, before a PRIIP is made available to retail investors a key information document (“**KID**”) must be provided to them. The KID must include information on the features, risks and costs of the PRIIP. The PRIIPS Regulation covers, amongst others, collective investment schemes, life insurance policies with an investment element, structured investment products and structured deposits. Retail investors who demonstrate loss as a result of relying on a KID may claim damages from the PRIIPS manufacturer in accordance with the applicable Member State law. However, the PRIIPS manufacturer will not incur civil liability solely on the basis of a non-compliant KID unless it is misleading, inaccurate or inconsistent with the relevant parts of the legally binding pre-contractual and contractual documents or with the PRIIPS Regulation.

The PRIIPS Regulation is expressed to apply directly in all Member States from 31 December 2016. However, following the European Parliament’s rejection of the Regulatory Technical Standards (“**PRIIPS RTS**”) which were to supplement the PRIIPS Regulation with requirements as to the scope and content of the KID, the EC has proposed an extension of the application date by one year to ensure legal certainty for the industry and allow the competent authorities to prepare for the new rules. If the proposal is accepted, the PRIIPS Regulation will apply from 1 January 2018 and the revised PRIIPS RTS is expected to be in place during the first half of 2017.

The Bank has included the PRIIPS Regulation in its compliance processes and aims to have completed implementation when the final application date is confirmed.

The European Market Infrastructure Regulation

On 16 August 2012, the EMIR came into force. EMIR introduces certain requirements in respect of derivative contracts, which apply to financial counterparties (“**FCs**”), such as investment firms, credit institutions, insurance companies, amongst others, and non-financial counterparties which are entities established in the EU that are not FCs. The Bank is classified as an FC under EMIR.

Broadly, EMIR’s requirements in respect of derivative contracts, as they apply to FCs, are: (i) mandatory clearing of OTC derivative contracts declared subject to the clearing obligation through an authorised or recognised CCP; (ii) the implementation of risk mitigation techniques in respect of uncleared OTC derivative contracts; and (iii) reporting and record-keeping requirements in respect of all derivative contracts. These requirements are described in more detail below.

- *Risk Mitigation Techniques.* The Bank is required to apply certain risk mitigation techniques in relation to timely confirmation, portfolio reconciliation and compression and dispute resolution to any OTC derivatives contracts which it enters into that are not cleared by a CCP. In due course, the Bank will also be required to comply with mandatory margining requirements in respect of any uncleared OTC derivative contracts which it enters into with certain counterparties; although the technical standards which will contain the detail relevant to EMIR’s mandatory margining requirement have not yet entered into force.
- *Reporting Obligation.* The Bank is required to report certain information about the derivative contracts which it enters into, modifies or terminates, to a trade repository registered or recognised under EMIR.
- *Record-Keeping Obligation.* EMIR imposes a record-keeping requirement on FCs, such as the Bank, pursuant to which counterparties, such as the Bank, must keep records of any derivative contracts they have concluded and any modification thereto for at least five years following the termination of the contract.

The Bank has taken measures to comply with the EMIR requirements that are currently in force.

Market Abuse Regulation

With effect from 3 July 2016, the EU Market Abuse Regulation (Regulation (EU) No 596/2014) (“**MAR**”), replaced the existing EU Market Abuse Directive (Directive 2003/6/EC) and the various laws of the EU Member States implementing it. As an EU Regulation, MAR is both directly applicable and directly effective meaning that MAR will form part of the domestic law of EU Member States without any need for further implementation or transposition.

MAR sets out various requirements and rules with respect to market abuse, including market manipulation, insider dealing and the unlawful disclosure of inside information. It also sets out various additional related requirements with respect to matters such as market soundings, suspicious transaction and order reporting and the provision of investment recommendations.

MAR itself sets out a number of administrative sanctions for breaches of its provisions, including, for example, fines of up to EUR 15,000,000 or 15% of total annual turnover for legal persons and up to EUR 5,000,000 for natural persons who breach the prohibitions against market manipulation and insider dealing.

Criminal sanctions for market abuse are established under the EU Criminal Sanctions for Market Abuse Directive (Directive 2014/57/EU) (“**CSMAD**”) which EU Member States are required to transpose into their national law by 3 July 2016. On 14 October 2016, CySEC passed the Market Abuse Law of 2016 which replaced the Law on Insider Dealing and Market Manipulation (Market Abuse) of 2005, as amended, of Cyprus. The United Kingdom has opted out of CSMAD which means in the United Kingdom the existing criminal sanctions for market abuse will continue to apply under the Criminal Justice Act 1993 and the Financial Services Act 2012.

Whilst many of the delegated regulatory standards under MAR will come into effect at the same time as MAR, other delegated standards and guidelines are yet to be finalised and these are expected to be published after MAR has come into effect. Furthermore, certain provisions of MAR (for example, those concerning the application of MAR to organised trading facilities) will only apply once MiFID II has come into effect.

EU Mortgage Credit Directive

Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (the “**Mortgage Credit Directive**”) was published in the Official Journal of the EU on 28 February 2014. The Mortgage Credit Directive was required to be implemented by EU Member States by 21 March 2016. The Mortgage Credit Directive applies to credit agreements (i) that are secured on residential immovable property; or (ii) the purpose of which is to acquire or retain property rights in land or (existing or projected) buildings.

The Mortgage Credit Directive regulates any person granting or promising to grant credit under a relevant credit agreement as a ‘creditor’ and sets out detailed conduct of business rules that “creditors” must comply with, including requirements governing pre-contractual disclosure requirements, rights of early repayment and related rebates and default charges.

Implementation of Mortgage Credit Directive in Cyprus

The Mortgage Credit Directive has not yet been fully implemented in Cyprus although some provisions have been implemented through the Directive on Credit Granting and Review Processes.

Payment Services Directive

Cyprus has transposed Directive 2007/64/EC on payment services, known as the “Payment Services Directive” (the “**PSD**”), by way of the Payment Services Law of 2009 and 2010, requiring a payment service provider (“**PSP**”), such as the Bank, to ensure in an accessible form a minimum level of information and transparency regarding the payment services it provides, under the terms and conditions set forth in such law. The PSD also provides further protection regarding the rights of the users of the payment services, but it only applies where both the payer’s PSP and the payee’s PSP are located in the European Economic Area (“**EEA**”), with the exception of provisions regarding the value date of the transaction.

On 24 July 2013, the EC published a proposal for a new payment services directive to incorporate and repeal the PSD. This proposal, referred to as “**PSD2**”, may lead to additional obligations being imposed on

PSPs, such as the Bank. PSD2 is also expected to extend the scope of existing requirements on PSPs to certain situations in which only the PSP of the payee or the PSP of the payer is located in the EEA. PSD2 was published in the Official Journal of the EU on 23 December 2015, and EU Member States are required to transpose PSD2 into their national laws and regulations by 13 January 2018.

Interchange Fees Regulation

Interchange fees are usually applied between card-acquiring PSPs and card-issuing PSPs belonging to a payment card scheme. The fees are charged on card-based payment transactions, including transactions executed through debit cards and credit cards. These fees are a major part of the charges paid by merchants to PSPs within merchant service charges.

The Regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions (Regulation (EU) 2015/751) (the “**EU IFR**”) came into force on 8 June 2015 following its publication in the Official Journal of the EU. However, the implementation of the EU IFR was phased, with certain provisions entering into force on 9 December 2015 and 9 June 2016, respectively. The EU IFR lays down business rules and other technical requirements that apply to all types of card-based payment transactions. The combined effect of the EU IFR and PSD2 is to introduce maximum levels of interchange fees for transactions based on consumer debit and credit card transactions and to prohibit payees from imposing surcharges on payers for such transactions.

Interchange fees paid per transaction are capped under the EU IFR at a maximum of 0.3% of the value of the credit card transactions and 0.2% of the value of debit card transactions. The caps apply in respect of EEA cross-border transactions (where the issuer and the acquirer are located in different EU Member States or where the card-based payment instrument is issued by an issuer located in an EU Member State different from that of the point of sale) and domestic transactions (where the issuer, acquirer and point of sale are all in the same EU Member State). In the case of domestic card transactions EU Member States may impose lower interchange fee caps.

Key elements of the EU IFR that could impact the Bank are (i) the permillage based fee for debit card transactions; (ii) the cap imposed on such interchange fees; and (iii) transparency requirements on interchange fees to merchants (a detailed invoice). In respect of (i) above, retailers in Cyprus are accustomed to paying a fixed fee per debit card transaction. A change in this practice to a permillage would disrupt the fee-generating practices that currently exist.

Single Euro Payments Area (“SEPA”)

Regulation (EC) No 924/2009 on cross-border payments in the European Community restricts a PSP, such as the Bank, from charging different amounts to payment service users for facilitating: (i) certain cross-border payments, including cross-border payments in euro; and (ii) corresponding national payments of the same value and in the same currency.

Regulation (EU) No 260/2012, which is known as the SEPA (migration) Regulation, establishes a number of technical and business requirements on PSPs, such as the Bank, in respect of credit transfers and direct debits in euro, including restrictions on charging multilateral interchange fees on direct debits in euro. Most of these requirements, including the interchange fee restrictions, were implemented in Cyprus under the Single Euro Payments Area Law of 2014.

Payment Accounts Directive

Other significant payment services legislation includes Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (the “**Payment Accounts Directive**”). The Payment Accounts Directive came into force in September 2014 and EU Member States were required to transpose its provisions into national law by 18 September 2016.

Once transposed into national law, the Payment Accounts Directive will require banks and other PSPs to provide consumers with certain pre-contractual and periodic information on fees charged in relation to services linked to a payment account, as well as to implement measures to facilitate account switching. Banks will also be required to offer payment accounts with basic features to all EEA consumers.

Third EU Money Laundering Directive

The EU anti-money laundering regime was amended by the implementation of the Third EU Money Laundering Directive (Directive 2005/60/EC). This Directive, and its implementing directive (Directive 2006/70/EC), imposes requirements in relation to the prevention of money laundering and terrorist financing and has formed the framework for many EU Member States' anti-money laundering regimes.

Implementation of Third EU Money Laundering Directive in Cyprus

As a fully cooperative member of the Financial Action Task Force (“**FATF**”) and a Member State, Cyprus abides by FATF recommendations and has transposed into national law Council Directives 2005/60/EC and 2006/70/EC and has adopted the International Convention for the Suppression of the Financing of Terrorism through the passing of the Prevention and Suppression of Money Laundering Activities Law of 2007 (the “**Money Laundering Activities Law**”).

The Money Laundering Activities Law, *inter alia*, cover the following and establishes that:

- money laundering, including money laundering deriving from tax evasion, and terrorist financing are criminal offences;
- credit institutions and financial organisations, including credit companies and insurance companies that provide life insurance or/and services related to investments, are included among the persons being bound by the provisions of the law;
- credit institutions are obliged to apply measures for verifying the identity of their customers, ongoing monitoring of the business relationship, holding files and reporting suspicious transactions to competent authorities;
- the CBC is the competent authority supervising, among others, credit institutions in relation to their compliance with the requirements prescribed by the Money Laundering Activities Law and responsible for issuing implementing administrative and regulatory acts. In this respect, the CBC issued the Fourth CBC Directive on the Prevention of Money Laundering and Terrorism Financing which is applicable to the credit and financial institutions supervised by it. Banking secrecy related restrictions do not apply in the context of the exchange of information for the purpose of money laundering prevention and suppression;
- CySEC is the competent authority supervising, among others, investment firms established and/or operating in Cyprus under the MiFID legislation and management and investment companies operating under the European Union Directive 2009/65/EC for undertakings for Collective Investment in Transferable Securities (“**UCITS**”) legislation, in relation to their compliance with the requirements prescribed by the Money Laundering Activities Law and responsible for issuing implementing administrative and regulatory acts. CySEC has issued Directive DI 144-2007-08 OF 2012 for the Prevention of Money Laundering and Terrorist Financing which is applicable to the regulated entities supervise by it;
- the Insurance Companies Control Service is the competent authority supervising among others, insurance companies established and/or operating in Cyprus in relation to their compliance with the requirements prescribed by the Money Laundering Activities Law and responsible for issuing implementing administrative and regulatory acts. In this respect, the Insurance Companies Control Service has issued a Directive for the Prevention of Money Laundering and Terrorist Financing, addressed to life-insurance companies and life-insurance intermediaries supervised by it;
- the Ministry of Finance of Cyprus is the central coordinator regarding the implementation of such law, assessment of the effectiveness of the mechanisms put in place for this purpose and coordination and enhancement of the actions of all competent authorities involved;
- the Cypriot Unit for Combating Money Laundering (“**Mokas**”) is responsible for investigating reports filed by all persons subject to the requirements of the Money Laundering Activities Law with respect to suspicious transactions; and
- a money laundering compliance officer (approved by the applicable supervisory authority) is required to be appointed by the board of directors of each supervised entity and that such compliance officer is required to file an annual report on compliance matters with the relevant supervised entity's board of

directors and the applicable supervisory authority. This reporting obligation is separate from the obligation to report certain suspicious transactions to Mokas.

The CBC has issued a number of decisions which are applicable to credit and financial institutions supervised by it and these decisions, where relevant, take into account and reflect the FATF recommendations and the common position regarding the obligations imposed by Regulation (EC) No 1781/2006 “on information on the payer accompanying transfers of funds”. These decisions relate to, among other matters, the “know-your-customer” process and related documentation, an indicative typology of unusual or suspicious transactions and the framework of administrative sanctions that may be imposed upon credit and financial institutions supervised by the CBC. Furthermore, the CBC has adopted regulations generally providing guidance on matters relating to tax evasion (for example, recommending that due diligence is performed on cash withdrawals in excess of €15,000).

The MoU includes an anti-money action plan focused on: strengthening customer due diligence procedures; ensuring the transparent and timely access to information on the beneficial ownership of trusts; and the implementation of a risk-based approach to supervision for financial and non-financial institutions.

The BOC Group has put processes in place to procure compliance with the Money Laundering Activities Law, as well as the sanctions administered by the EU, UN and the Office of Foreign Assets Control of the U.S. Department of the Treasury.

The Fourth Money Laundering Directive (EU) 2015/849 (“**MLD4**”) was adopted on 25 June 2015 and must be transposed into EU Member State legislation by 26 June 2017. Further guidance and technical standards will be published by a joint committee of the European Supervisory Authorities in the interim period. MLD4 contains a number of key amendments to the money laundering legislation that the BOC Group is currently subject to (including a reduction in the due diligence threshold and one-off transactions from €15,000 to €10,000) and changes will need to be made to the systems and controls, policies and procedures that are currently in operation to mitigate the risk of the BOC Group being used to launder money and in connection with terrorist financing. Other relevant measures being introduced by MLD4 include a requirement for EU Member States to establish beneficial owner registers, an increased emphasis on risk assessments, an extension in the application of enhanced due diligence and an increase in sanctions for non-compliance with money laundering rules. MLD4 is intended to give greater prominence to a risk-based approach to allow for firms to use targeted and effective measures to address the risks to their business.

On 5 July 2016, the EC adopted a legislative proposal for a new directive to amend MLD4 to further increase the transparency of ownership in relation to companies and trusts and to address the risks inherent in virtual currencies and anonymous prepaid cards for money laundering and terrorist financing. The proposed new directive is going through the legislative process at the Council and the European Parliament and is currently expected to be implemented by 26 June 2017.

In April 2016, the CBC issued amendments to its fourth anti-money-laundering directive, mainly relating to the introduction of restrictions on credit institutions’ ability to rely on “Professional Intermediaries” for the purpose of performing due diligence measures on clients. The amendments provide, *inter alia*, that customers introduced to banks by “Professional Intermediaries” (notably for the BOC Group, this would include Introducers) should be met by bank employees within a reasonable period of time, and in any event, within three months from account opening, failing which no transactions may be executed by the credit institution and the relevant accounts should be terminated. Similar restrictions were introduced for non-face to face clients whose turnover exceeds €100,000 or who are otherwise considered as high risk. Additional amendments were also introduced relating to the assessment process of Professional Intermediaries by banks.

Data Protection Directive and Regulation

In 2012 the EC presented its proposal to reform the general EU legal framework on the protection of personal data. The main policy objectives in this reform were to: (i) modernise the EU legal system for the protection of personal data, in particular to meet the challenges resulting from globalisation and the use of new technologies, (ii) strengthen individuals’ rights and at the same time reduce administrative formalities to ensure a free flow of personal data within the EU and beyond, and (iii) improve the clarity and coherence of the EU rules for personal data protection and achieve consistent and effective

implementation of the privacy rules and application of the fundamental right to the protection of personal data in all areas at the EU's activities.

This will be achieved by substituting the current EU Data Protection Directive of 1995 for a new EU General Data Protection Regulation (“**GDPR**”) that will apply directly and aims to harmonise data protection laws throughout the EU. This reform will have a major impact on the private sector and provides for significant fines of up to 4% of the worldwide turnover of a company or EUR 20 million, whichever one is higher. The GDPR also introduces significant new data protection requirements and rights for individuals. The GDPR will also have extra-territorial application where non-EU businesses will become subject to the GDPR where processing personal data of individuals in the EU through the offering of goods or services to such individuals or the monitoring of the individuals' behaviour.

After more than four years of intense negotiations, the GDPR was formally adopted in April 2016 and published in the Official Journal in May 2016. EU Member States have until May 2018 to implement the GDPR.

Additional Cypriot Regulatory Requirements Applicable to the Bank

Capital Control Measures

In order to address the risk of a significant outflow of funds from the Cypriot banking sector as a result of negotiations between the Government and the Troika for financial assistance, the first Enforcement of Restrictive Measures on Transactions in case of Emergency Law of 2013 Decree was issued by the Ministry of Finance of Cyprus on 27 March 2013 and imposed a wide ranging set of restrictions and controls on the flow of funds from within and outside of Cyprus including:

- a limit on the amount of cash that can be withdrawn daily to €300 per natural person and €500 per legal person (or their equivalent in foreign currencies) in each credit institution irrespective of the number of accounts held;
- the prohibition on the cashing of cheques;
- the prohibition on the transfer of funds of more than €5,000 per month to accounts held outside of Cyprus or in any other bank, subject to limited exceptions; and
- increased scrutiny of large cashless payments or transfers of deposits/funds from Cyprus to accounts held outside of Cyprus.

All capital control measures in Cyprus were lifted on 6 April 2015.

CBC Credit Risk Directives

As part of the restructuring of the financial sector in Cyprus, the CBC has issued a number of new directives which significantly impact the Bank's credit risk policies and the management of its credit risk. The BOC Group has instituted appropriate procedures to comply with the requirements of the directives described below.

Directive on Credit Granting and Review Process of 2016

The Credit Granting Directive prescribes the best practices to be followed by, and provides examples of documentation required for, credit institutions during the process of assessing or reviewing the provision of credit facilities, as well as the minimum requirements regarding the assessment of creditworthiness of borrowers.

The Credit Granting Directive:

- Requires that pre-contractual information must be provided to all borrowers except:
 - where credit facilities fall within the scope of the Consumer Credit Act or the Retail Mortgage Credit Agreements and Hire Purchase Law;
 - where the applicant is a legal entity that does not fall within the definition of a 'micro enterprise';
 - where the applicant is a legal entity that does fall within the definition of a micro enterprise, unless the applicant requests it; or

- where a credit facility does not exceed €5,000.
- Provides revised calculations for assessing a natural person's repayment ability.
- Requires credit institutions to inform borrowers when there are significant changes in their total amounts payable or their instalments due to significant exchange rate fluctuations.
- Provides that the interest rate for all new credit facilities (that do not fall within the definition of consumer) to be granted from 1 April 2016, to be calculated on the basis of the 365/365 days (366/366 days for leap years) method.

In addition the Credit Granting Directive involves the following:

- includes requirements for the type of information credit institutions are required to collect during the loan origination process. The information requirements are specific to the category of borrower and type of loan for which the application has been made;
- includes detailed criteria that credit institutions must consider in the evaluation of credit applications, such as the borrower's repayment ability, credit rating, loan contribution and collateral quality, among others;
- creates new guidelines for lending in foreign currencies;
- creates procedures and guidelines that credit institutions must adhere to when extending credit to developers or project financiers, or for the purchase of real property;
- creates procedures for the review of existing credit facilities and for type of information credit institutions are required to collect during the review process, especially in relation to monitoring the value of collateral;
- includes guidelines for the selection and use of property surveyors and on the procedure on the preparation of property valuation reports; and
- provides a set of best practices to be followed by credit institutions in granting credit facilities to customers.

Arrears Management Directive

Following the completion of a review conducted by the CBC with the assistance of an external expert on the arrears management policies and practices at the end of 2014, on 3 April 2015, the CBC issued the Arrears Management Directive which repeals and replaces the Arrears Management Directives of 2013 and 2014. The Arrears Management Directive requires the establishment of internal divisions and processes (including an appeals process for borrowers) in relation to the management of delinquent loans, sets out a code of conduct for dealing with borrowers who are in default and parameters for cooperation between credit institutions in relation to borrowers who have borrowed from multiple credit institutions.

The Arrears Management Directive also requires credit institutions to ensure the application of efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and viable restructurings of credit facilities for borrowers in financial difficulties. At a minimum, this includes:

- the establishment of policies on arrears management for each category of credit facility;
- the implementation of appropriate governance structures and control mechanisms by the credit institution with regard to arrears management;
- the implementation of portfolio segmentation requirements to permit credit institutions to segment and analyse their loan books in granular detail. In particular, for borrowers with credit facilities (together with the credit facilities of persons connected to them) of over €300,000 in total, the credit institution is required to calculate the net present value of the credit facilities concerned and analyse the impact on its capital position under each restructuring option for the credit facilities;
- the establishment of a clear and determined approach to arrears management for each category of credit facility;

- the establishment of procedures, mechanisms and systems, including data requirements, for arrears management. In particular:
 - the credit institution must consider macroeconomic forecasts and the likely adverse financial impact of failing to identify a restructuring option during the development of restructuring options; and
 - the credit institution must procure an independent professional valuation of the open market value and forced sale value of immovable property which is: (a) existing collateral to be sold to reduce a borrower's credit facilities; (b) unencumbered immovable property being considered as additional collateral; or (c) unencumbered immovable property being provided as collateral to convert unsecured credit facilities into secured credit facilities;
- adherence to the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties" (the "AMD Code"). In 2015:
 - the scope of the AMD Code was narrowed to cover micro and small enterprises (as defined in the European Commission Recommendation no. 2003/361/EC) and natural persons with credit facilities (including the credit facilities of persons connected to them) of up to €1,000,000 in total;
 - changes were made to the time-frames set out under the AMD Code in connection with the restructuring process to promote transparency, to set expectations between parties and to remove subjective interpretation of definitions (see "*—Insolvency Framework Laws*" and "*—Laws relating to Foreclosures*"); and
 - the term "sustainability" as used in the AMD Code has been clarified to mean a restructuring option which gives the borrower the ability to repay credit facilities in accordance with a revised restructuring plan while allowing for a medium or long term reduction in his balance of credit facilities at the same time; and
- the establishment of an independent internal appeals process for borrowers and the establishment of an appeals committee within the credit institution that is independent from the credit granting, monitoring and restructuring functions. In addition, the credit institution must publicise, through printed material in its local branches and on its website, the availability of mediation through the Ombudsman.

The Bank has taken measures to be in compliance with the Arrears Management Directive, including, amongst others, the implementation of a range of automatic notifications and other functions to minimise the risk of non-adherence to the restructuring time-frames set out under the AMD Code and improvements to its management information system. For more information, see "*Risk Factors—Regulatory and Legal Risks—The BOC Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*".

Directive on Loan Impairment and Provisioning Procedures of 2014 and 2015

The Loan Provisioning Directive provides guidance to credit institutions in connection with their loan impairment policies and procedures for provisions. The purpose of the Loan Provisioning 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 IFRS in the preparation of their financial statements. The Loan Provisioning Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Loan Provisioning Directive, in addition to those presented in the notes to the BOC Group's financial statements, are set out in its Additional Risk and Capital Management disclosures section of its annual and mid-year financial reports and are principally focused on the BOC Group's NPEs based on the definition contained in Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 (the "ITS") which came into force on 21 February 2015.

The ITS sets out, among other things, standards on forbearance and NPEs. NPEs are considered as those that satisfy one of the following conditions:

- 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;

- defaulted exposures as per the approach provided in Regulation (EU) No 575/2013 Article 178 or impaired for accounting purposes in accordance with the applicable accounting framework;
- material exposures which are more than 90 days past due;
- performing forbore exposures under probation for which additional forbearance measures are extended; or
- 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.

Where forbearance measures are applied to NPEs, those exposures may be considered to have ceased being non-performing only when all the following conditions are met:

- the application of forbearance measures does not lead to the recognition of impairment or default;
- one year has passed since the forbearance measures were applied; and
- there is not, following the forbearance measures, any past due amount or concerns regarding the full repayment of the exposure according to the post-forbearance conditions.

In addition, the following materiality criteria apply:

- when on-balance sheet exposures to a debtor that are past due by more than 90 days and the gross carrying amount of the past due exposures represent an amount that is greater than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, then total debtor exposures (both on-and off-balance sheet) are classified as non-performing;
- material arrear/excess is defined as:
 - for retail exposures:
 - for loans: arrear amount greater than €500 or number of instalments in arrear greater than one
 - for overdrafts: excess amount greater than €500 or greater than 10% of the approved limit
 - for all other exposures:
 - total customer arrear/excesses greater than €1,000 or greater than 10% of total customer funded balances.

CBC Governance Directives

Directive on Governance and Management Arrangements in Credit Institutions

In August 2014, the CBC issued the Directive on Governance and Management Arrangements in Credit Institutions (the “**CBC Governance Directive**”) which imposes new requirements for corporate governance on credit institutions operating in Cyprus. The CBC Governance Directive, amongst other things, establishes new requirements for the board of directors and board committees of credit institutions in Cyprus. The CBC Governance Directive also establishes new rules for the internal control functions, including rules regarding compliance, audit, risk and information security.

Fitness and Probity Directive

In November 2014, the CBC issued the Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions (the “**Fitness and Probity Directive**”), which sets out:

- the policies and procedures for the assessment and reassessment of the fitness and probity of the members of the management body and managers of authorised credit institutions (the “**Senior Managers**”);
- the assessment criteria for the fitness and probity of the Senior Managers;
- the measures applicable in cases where the Senior Managers are not fit or proper; and

- the criteria for determining the independence of members of the management body.

In addition, the Fitness and Probity Directive provides guidance as to how to ensure the effective functioning of the management body, including, among others, the overall composition of the management body, collective knowledge and expertise required, potential conflicts of interest of a member, the ability to commit sufficient time for the responsibilities of the position of a member. It also sets requirements for the number of directorships held by a member at the same time.

Consumer Protection

Banks in Cyprus are subject to consumer credit legislation that seeks to protect consumers from abusive contractual terms and conditions. This legislation also sets forth rules on the distance marketing and advertisement of consumer financial services, prohibits unfair and misleading commercial practices and includes penalties for violations of such rules and prohibitions. The Unfair Contract Terms in Consumer Contracts Law of 1996 (the “UCTCCL”), for example, provides that, *inter alia*, terms which allow a seller or a services provider to (i) terminate (without a material reason) a contract of unlimited duration without providing reasonable notice; or (ii) unilaterally amend the terms of a contract (without there being a material reason, which is specified in the contract), may be rendered void and unenforceable. See also, “—*Interest Rates*”.

On 22 April 2016, a law amending the UCTCCL was approved by the House of Representatives of Cyprus and became effective on 22 May 2016. It provides that the following clauses are to be deemed unfair:

- a provision that interest is to be calculated on the basis of the 360 day year instead of 365 or 366 (for a leap year) will be considered unfair in consumer contracts (“consumer” is defined as a natural person who acts outside his professional capacity);
- subject to certain exceptions, clauses that provide for credit facilities to be payable on demand, for reasons that are not specifically mentioned in the facility documentation or any law, and which are activated unilaterally; and
- the charging of expenses/costs, other than the interest rate or charges related to the operation of the credit facility which are incorporated into the instalments agreed to be paid. If the payment of such additional expenses/costs is specifically provided for in the credit facility document, they will not be deemed unfair and will be payable by the borrower upon charge. Should the borrower then fail to pay such charges, the credit institution may debit the credit facility account, or any other account of the borrower, and charge interest on this amount equal to the interest of the credit facility.

In 2010, Cyprus transposed Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers (repealing the previous Directive 87/102/EEC) through the passing of the Consumer Credit Agreements Law of 2010, which, in respect of certain consumer credit arrangements and amongst other things, provides the minimum content of pre-contractual information, introduces the obligation to assess the creditworthiness of the consumer, determines the minimum content of credit agreements, establishes the “Real Total Annual Interest Rate” and regulates issues regarding credit providers and credit intermediaries and other specific issues.

Moreover, the Consumer Credit (Housing Loans and Hire Purchase Agreements) Law of 2001 includes provisions for the protection of consumers in relation to certain housing loans and hire purchase agreements.

In April 2016, the Law regulating Financial Leasing and the activities of Financial Leasing Companies of 2016, Law 72(I)/2016 was enacted, with the aim to establish and regulate the provision of financial leasing services. The CBC is the regulatory authority for the purposes of ensuring the smooth operation of the financial leasing market.

Equity Participation in Companies

Credit institutions in Cyprus must follow certain procedures regarding holdings in other companies. An authorised credit institution incorporated in Cyprus is also subject to the following requirements under the CRR: where (i) the value of a qualifying holding outside of the financial sector which exceeds 15% of the credit institution’s eligible capital; or (ii) the total value of qualifying holdings outside the financial sector exceeds 60% of the credit institution’s eligible capital, the competent authority of the credit institution may either: (A) require that the credit institution apply a risk weight of 1250% to the amount of such holdings as the greater of: (i) the amount of qualifying holdings in excess of 15% of eligible capital; and the total

amount of qualifying holdings that exceed 60% of the eligible capital of the credit institution; or (B) prohibit the credit institution from having such holdings in excess of the relevant percentage. The competent authority of the credit institution is required to publish its choice of either (A) or (B). The CBC has elected (A) and credit institutions in Cyprus must apply a risk weight of 1250% to any such holdings, in accordance with Article 89 (3)(a) of the CRR.

This restriction only applies to qualifying holdings in an undertaking which is not one of the following:

- (a) a financial sector entity; or
- (b) an undertaking, that is not a financial sector entity, carrying on activities which the competent authority considers to be any of the following:
 - a direct extension of banking;
 - ancillary to banking; and
 - leasing, factoring, the management of unit trusts, the management of data processing services or any other similar activity.

Further, shares in undertakings not referred to in points (a) and (b) are excluded from the calculation of the limits above where any of the following conditions is met:

- those shares are held temporarily during a financial assistance operation;
- the holding of those shares is an underwriting position held for five working days or fewer; and
- those shares are held in the own name of the institution and on behalf of others.

New and significant holdings (concentrations) must be reported to the Cyprus Commission for the Protection of Competition according to the Control of Concentrations between Undertakings Law of 2014 (Law 83(I)/2014), and, if such transactions have a European Community dimension within the meaning of Regulation (EC) No 139/2004 on the control of concentrations between undertakings (as supplemented by Commission Regulation (EC) 802/2004), these new and significant holdings must also be notified to the EC and cannot be put into effect prior to receiving a clearance from the EC.

Constraints on the Use of Capital

There are no constraints on the use of capital that have or may have a significant impact, directly or indirectly, on the BOC Group's activities, except for the constraints imposed by the banking regulations discussed above and the legal framework applicable to credit institutions operating in Cyprus.

Part of this framework includes a prohibition set out in the Banking Law requiring CBC written approval (with such approval subject to the provisions set out in Cypriot company law) for any transaction which relates to a credit institution acquiring or dealing for its own account in its own shares, and a prohibition on granting, directly or indirectly, of credit facilities for the purchase of a credit institution's own shares or the shares of a holding company or subsidiary.

Equity Participations of Individuals or Legal Entities in Cypriot Credit Institutions

Any individual or legal entity that has decided to acquire a "qualifying holding" (a direct or indirect holding which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management) or further increase its equity participation beyond, directly or indirectly, certain legally defined thresholds (20%, 30%, 50% or so that the Cypriot credit institution becomes its subsidiary) of voting rights or of capital held in a Cypriot credit institution (or its parent) must notify and obtain prior approval from the ECB under the SSM Regulation. The notification is required to be submitted (together with all relevant supporting information) to the CBC in the first instance which will, after its assessment of the proposed acquisition in accordance with the Banking Law, forward the application and its proposed decision to the ECB. The ECB will decide whether to oppose the acquisition after its assessment in accordance with relevant EU law.

If a person fails to comply with the notification requirement, the CBC/ECB may, among other things, declare ineffective the legal documentation underlying the acquisition, suspend the voting rights attached to the relevant shares and impose fines.

Notification obligations also exist, and the relevant fines and administrative measures may be imposed in the case where an individual or legal entity decides to dispose of, directly or indirectly, an equity

participation or voting rights in a Cypriot credit institution or to reduce its current participation or voting rights resulting in a decrease thereof below the legally defined thresholds set out above, or to dispose of a “qualifying holding”, directly or indirectly, in a Cypriot credit institution.

In connection with these notification requirements, there is also an obligation on Cypriot credit institutions, on becoming aware of any acquisitions or disposals of qualifying holdings in its capital that cause holdings to exceed or fall below one of the legally defined thresholds set out above, to inform the CBC accordingly. Additionally, and subject to the provisions of the Banking Law, a Cypriot credit institution is required to know, for every legal person that possesses at least 5% of its issued share capital, the names of the ultimate beneficial owners to whom each legal person belongs, and to disclose this information to the CBC at least once a year or when there has been an amendment or change to the information.

Interest Rates

Pursuant to an amendment to the Interest Rate Law passed by the House of Representatives of Cyprus in September 2014, terms in agreements relating to credit facilities that give a credit institution the right to unilaterally increase the interest rate margin payable by the borrower are void and unenforceable. This amendment applies to all credit facilities in existence as at the date the amendment came into effect (9 September 2014) and all agreements relating to credit facilities entered into thereafter. In addition, this amendment, *inter alia*:

- requires credit institutions to ensure clarity and transparency on changes to the amount of interest charged, to the timing of interest payments and the methodology for calculating such interest;
- requires credit institutions to publish on their website the calculation methodology of the various categories of their base rates, as well as the conditions and parameters which contribute to the changes in base rates; and
- establishes that default interest shall not exceed 2%. If a credit institution cannot show that the default interest charged in the past above the 2% threshold relates to its real costs, the credit institution will have to reimburse the borrower for the additional amounts charged.

The CBC issued a directive on 23 April 2013 and subsequently on 17 February 2015, according to which Pillar II specific own funds capital requirements arise from high deposit interest rates. The Pillar II specific own funds capital requirements apply to deposits with an interest rate higher than the relevant Euribor/Libor plus 2% which is currently the applicable threshold.

On 7 May 2015, a further amendment to the Interest Rate Law was made which imposes a burden on credit institutions to prove that, in connection with all credit facility agreements in force or terminated on or before 7 May 2015, the default interest levied on a borrower represents the actual amount of damages suffered by them. The amendment also created an obligation on credit institutions to pay compensation to borrowers in the event that they are unable to provide such proof.

Compulsory Deposits with the CBC

The compulsory reserve requirement framework has been amended in accordance with EU regulations. As from January 2012, the compulsory reserve requirement ratio set by ECB Regulation (EC) No 1745/2003 and ECB Regulation (EU) No 1358/2011 is 1% for all categories of deposits to clients comprising the commitment base, with the exception of the following categories, to which a zero ratio applies:

- deposits with agreed maturity over two years;
- deposits redeemable at notice over two years;
- repurchase agreements; and
- debt securities with agreed maturity over two years.

As at 31 October 2016, the Bank is in compliance with the applicable compulsory reserve requirements.

Loan Collateral

Banks are allowed to provide loans and credit to their customers on an unsecured and secured basis against real estate and movable property, assets and receivables including cash deposits.

Mortgages, charges (fixed and floating), pledges and assignments are all recognised as valid security interests in Cypriot law. The primary step for the perfection of security in Cyprus is registration with either the Registrar of Companies and/or registration with a specialist register (e.g., the Districts Lands Office in respect of mortgages).

In general, loan collateral can be enforced by obtaining a judgment of a competent court in Cyprus or through the appointment of a receiver or manager in the manner set out in the relevant security agreement. The general timeframe for the enforcement of loan collateral has historically taken between five and 13 years, which is much longer than the international standard. With respect to mortgaged property, however, the New Foreclosure Laws are intended to enable foreclosure within two years. See “—*Laws relating to Foreclosures*” for more information on the New Foreclosure Laws.

In general, the appointment of a receiver or manager takes immediate effect.

Insolvency Framework Laws

The Cypriot insolvency framework laws enacted on 7 May 2015 comprise of the following:

- Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Orders) Law (No. 65(I)) of 2015—a new law which provides for debt relief orders and consensual and non-consensual debt repayment schemes for natural persons (“**Personal Repayment Schemes**”);
- Bankruptcy Law (Amending) (No. 61(I)) Law of 2015—a law amending the existing Cypriot Bankruptcy Law, Cap. 5 in relation to natural persons in order to provide, amongst other things, for the automatic discharge of a debtor from bankruptcy and certain debts after three years from the issue of the bankruptcy order if (i) he has been co-operative and acted in good faith and (ii) he has submitted to the official register or the trustee in bankruptcy at least one year prior to the automatic discharge a condition report of his property and his preliminary testimony in the prescribed manner, and to provide the official receiver with the power to dispose of assets without further court approval or involvement of the debtor (except in cases of property subject to security). In relation to property subject to a security interest, the official receiver/trustee in bankruptcy may obtain a court order to dispose of such property, however, the priority of the secured creditor in relation to the relevant sale proceeds is preserved;
- Company Law (Amending) (No. 63(I)) Law of 2015—a law amending the liquidation provisions of the existing Companies Law in order to, amongst other things, allow for the appointment of the liquidator by creditors and contributories and not just by the Cypriot courts and to allow the liquidator to obtain a court order to dispose of property subject to security for the benefit of all creditors, paying the secured creditor in priority;
- Company Law (Amending) (No. 62(I)) Law of 2015—a law amending the existing Companies Law in order to provide for a mechanism for the restructuring of a company’s debts and requires the appointment of an Insolvency Practitioner as an independent examiner (at the application of the company or any creditor or shareholder holding not less than one-tenth of the share capital or any guarantor or all of the aforementioned parties; jointly or separately) to formulate proposals for a compromise or a scheme of arrangement (“**Examinership**”). An examiner can be appointed if the Cypriot courts are satisfied that there is a reasonable prospect of the survival of the company and of the whole or any part of its undertaking as a going concern. If an examiner is appointed, a four month moratorium against the claims of any secured or unsecured creditor is afforded to the company. The proposals of the examiner require the confirmation of the Cypriot courts (which may sanction, modify or reject the proposals). A court may sanction a proposal involving a scheme of arrangement provided that, amongst other things, a majority in value of at least one impaired class of creditors has accepted the proposals; and
- Insolvency Practitioners Law (No. 64(I)) of 2015—a new law which provides for the licensing and supervision of independent insolvency practitioners who will act in various capacities under the Insolvency Framework Laws,

(collectively and with the underlying laws as amended as appropriate, the “**Insolvency Framework Laws**”).

The main objectives of the Insolvency Framework Laws are to modernise and increase the efficiency of liquidation and bankruptcy proceedings in Cyprus for individuals and companies and to create appropriate incentives for debt repayment while, at the same time, provide certain protections and benefits to debtors and guarantors, particularly the protection of their primary residences. Examples of these protections and

benefits under some of the insolvency regimes are set out below and there are similar protections and benefits found under the other regimes prescribed by the Insolvency Framework Laws:

- the ability of the Cypriot courts and the Insolvency Practitioner to impose Personal Repayment Schemes on both secured and unsecured creditors without their consent as long as certain criteria are met. These criteria include, amongst other things, a requirement that the total amount of the assets and the secured and unsecured debt of the debtor be not more than €250,000 and €350,000, respectively, and a requirement that the debtor's inability to pay his debts is a result of the deterioration of his financial position since 2009 which has led to a reduction of his income by at least 25%. In addition, the Insolvency Practitioner is expected to exclude any requirement on the debtor to sell his primary residence in a Personal Repayment Scheme to the extent possible.
- provisions which would render guarantors responsible for only the difference between the amount of the debt and the market value from time to time of any property securing the debt, even if the guarantee provides for the guarantor to be treated as principal debtor. The types of guarantors or guarantees protected by, and the definition of "market value" used in these provisions, vary under the different insolvency regimes.
- significant protections for guarantors who are natural persons in respect of debt subject to a Personal Repayment Scheme such as:
 - for a guarantor of any NPL existing as at 7 May 2015, a prohibition on legal measures against him if his assets, excluding his primary residence, do not exceed €750,000, the debt guaranteed was for an amount of up to €250,000 or, as at 7 May 2015, the remaining debt guaranteed was for an amount of up to €250,000 and the debt guaranteed is secured against the primary residence of the borrower; and
 - the imposition of a two year time limit commencing on the implementation of the relevant Personal Repayment Scheme for claims to be brought against a guarantor. In addition, until 7 May 2018, even if a creditor brings claims against him within the two year limit, a creditor will be unable to foreclose on the primary residence of any guarantor who executed a guarantee prior to 7 May 2015 unless mortgaged for the debt concerned.
- in respect of companies under liquidation, the imposition of a burden on the secured creditor to submit a preliminary estimation of the value of the secured property within 10 days of the publication of the liquidation order in the Official Gazette.
- for guarantors of a company under liquidation, the barring of a creditor from taking any legal or other measures against a guarantor who is a natural person and who has guaranteed debt in an amount not exceeding €500,000 if the creditor does not submit its proof of debt to the company's liquidator within the specified time limit.
- under Examinership, significant protections for guarantors, such as:
 - unless the guarantor is also subject to Examinership, a requirement that a creditor must offer the guarantor an assignment of its right to vote with respect to the proposed rehabilitation plan if the guarantor is a company or other legal entity, or is a natural person which has guaranteed an amount greater than €500,000. It is unclear whether the offer by the creditor should be conditional on, or based upon the amount of, the payment of the guaranteed amount by the guarantor, or how this requirement would operate if there is more than one guarantor; and
 - the barring of a creditor from taking any legal or other measures against a guarantor who is a natural person and who has guaranteed debt in an amount not exceeding €500,000 if the creditor fails to submit a list of guarantors (which includes the market value of the secured property and the balance of the debt) within the time limit specified in the relevant law (as may be extended by the examiner).

Further, the Protection of a Certain Category of Guarantors Law of 2003 was amended in order to provide for additional protections to guarantors who are natural persons and provided guarantees, except where the borrower is a company and the guarantor was a director of the company at the time he provided the guarantee (the "**Protected Guarantors**"). These additional protections include, amongst others:

- a requirement on the creditor to prove that the debtor does not have the financial ability or assets to repay the debt or that the creditor has exhausted all available measures against the debtor, otherwise, provided certain conditions set forth in the law are satisfied; the execution of judgment against the Protected Guarantor will be stayed; and

- a prohibition on foreclosure by a secured creditor on the mortgaged property of the Protected Guarantor if the mortgaged property of the debtor has not been subject to foreclosure.

The protections afforded to Protected Guarantors, however, do not apply to guarantors who guarantee debt subject to Examinership or Personal Repayment Schemes.

Laws relating to Foreclosures

As part of the policy reforms under the MoU, an amendment to the New Foreclosure Laws was passed by the House of Representatives of Cyprus in September 2014. This amendment is intended to improve the legal framework on foreclosures and the forced sales of mortgaged property, and is expected to improve banks' ability to negotiate with borrowers, as well as decreasing the time needed to sell or re-possess, in the event that negotiations fail.

The New Foreclosure Laws, as amended, aim to ensure that foreclosures cannot depend on auctions run by the Land Registry Offices department and establishes procedures for the valuation and auctioning of properties by third parties (such as the Bank). The amendment passed in September 2014, however, gives borrowers the right to appeal, *inter alia*, against valuations and imposes an obligation on lenders to attempt to reach an agreement with borrowers to restructure the defaulted loan. It also ensures the protection of property buyers who have deposited their sale contract at the Land Registry Department, but who have not secured the property's title deed. Contemporaneously with the passing of this amendment to the New Foreclosure Laws, the House of Representatives of Cyprus also passed The Legal Aid (Amending) (No 3) Law of 2014, which expanded mortgagors rights to legal assistance in court proceedings relating to foreclosures. In addition, the House of Representatives of Cyprus passed the Central Bank of Cyprus (Amending) (No 2) Law of 2014, which requires the CBC to report to the House of Representatives of Cyprus on a quarterly basis on the number and types of debts which have been restructured per credit institution and per financial institution, to report on the progress on the collection of delayed payment of debts and to report on developments with the application of the New Foreclosure Laws.

The amendment came into force following the enactment of the Insolvency Framework Laws in April 2015. In line with the protections afforded to the primary residences of debtors and guarantors under the Insolvency Framework Laws, a further amendment to the New Foreclosure Laws was passed on 29 May 2015 which, in the context of a foreclosure over immovable property involving an auction of a primary residence, provides the mortgagor and first degree relatives of the mortgagor with the right of first refusal to match the highest bid.

On 4 September 2015, a further amendment to the New Foreclosure Laws came into force, pursuant to which the director of the Land Registry Department has the authority to release and/or cancel mortgages and/or other encumbrances and/or prohibitions and thereafter, proceed with the transfer of the property into the name of the purchaser, depending on the case and under certain conditions. These conditions include the requirement that the related sales contract must have been deposited with the Land Registry Department by 31 December 2014 and that the sales price must be fully paid (although, the buyers will be given an opportunity to pay any balance of the sale price to a special temporary account).

As of 28 November 2016, a number of cases have been presented to the Cypriot District Courts in connection with the New Foreclosure Laws: some with a positive outcome for the Bank, as mortgagee, and a few against the Bank. One judgment (issued against the Bank in the District Court of Larnaca) concerned a case in which the Bank had previously obtained a judgment against the mortgagor, including a court order for the sale of the mortgaged property. The Bank subsequently proceeded on the basis of the foreclosure procedure governed by provisions under the New Foreclosures Law (Part VIA (Articles 44A—44II) of the Transfer and Mortgage of Immovable Property Law (Law 9/1965) in order to effect the sale of the mortgaged property. The judge ruled that the mortgagee cannot rely on the provisions of the New Foreclosure Laws in cases where a judgment had been previously obtained with a court order for the sale of the mortgaged property on the ground of abuse of process. Since then a number of judgments have been issued in favor of the mortgagee, including judgments from the President of the District Courts of Paphos and Nicosia. Overall, the majority of cases have resulted in positive outcomes for the Bank, as mortgagee. As at the date of this Prospectus, however, there a number of further cases pending before the courts, the outcome of which cannot be predicted with certainty.

The judgment referred to hereinabove against the Bank is not a binding precedent in respect of the other District Courts in Cyprus, and, as stated, there have been other judgments issued by other District Court judges in favor of the mortgagee without a suggestion that it is not possible for the mortgagee to pursue a sale of the mortgaged property in circumstances where a judgment with an order for sale was previously

issued. However, a discrepancy in court findings creates uncertainty, which in turn can lead to delays in the legal process by similar challenges being made and in respect of the recovery periods. The Bank has filed an appeal against the judgment of the District Court of Larnaca referred to hereinabove and, in the meantime, is pursuing an acceleration of the sale of the mortgaged property through the Land Registry Office where an application for sale is pending.

New enforcement procedure

The New Foreclosure Laws establish a new enforcement procedure which is intended to ensure that the foreclosure process is effective and provides adequate and balanced incentives for borrowers and lenders to work out NPLs. The new procedure is intended to take no more than two years to complete.

A summary of the new enforcement procedure is set out below.

- **Arrears:** a lender may only initiate the forced sale process after the borrower has been in arrears for at least 120 days from the date the entire mortgage debt becomes due and payable, unless pursuant to the provisions of any other applicable laws, regulations or directives, the forced sale process has been suspended.
- **Notice:** written notice should be served on the borrower (and any other interested party) accompanied by a detailed statement of the amounts outstanding and informing such persons that they have a specified amount of days, this number being not fewer than 30 days from the date of service of the notice to settle the debt. The notice should state that if the borrower does not comply with the notice, forced sale proceedings may be commenced.

If the debt is still outstanding after this specified number of days, the mortgage lender may serve a second written notice stating that the mortgaged property will be sold by public auction. This notice should be given at least 30 days prior to the arranged date of the public auction.

- **Appeal:** a borrower (and any other interested party) has the right within 30 days from the date of receipt of the second notice to file an appeal with the District Court on the grounds of procedural irregularities or there is a court case pending relating to the first notice.
- **Valuation:** each of the borrower and the lender has a right to appoint an independent appraiser to value the mortgaged property. If the borrower does not appoint its own appraiser, the lender is required to appoint two appraisers.
- **Process of sale:** the initial attempt of a forced sale of the mortgaged property must be conducted by public auction. The mortgaged property cannot be sold for a price which is lower than the reserve price. The reserve price must correspond to 80% of the market value of the mortgaged property.

If the initial attempt of the forced sale is not successful, the lender has two options:

- either to conduct the sale via another public auction, following the same procedure as that of the first public auction; or
- to conduct a direct sale with tenders of the mortgaged property.

The lender must notify the borrower and any interested third party which of the two options will be followed at least 20 days before the sale.

The lender may determine the reserve price of the mortgaged property corresponding to 80% of the market value for the first three months after the first public auction. Once the three months have passed, no reserve price is required. However, the lender has the right at any time to stop the sale on the basis that, based on the valuation reports, a fair sale price cannot be obtained.

If after the period of one year all sale attempts of the mortgaged property remain unsuccessful, the borrower may either buy the mortgaged property at market value based on new valuations received, or the property may be sold by public auction or by direct sale at a reserve price, which is not lower than 50% of the market value, based on new valuations received. If this attempt remains unsuccessful for a period of one year, the same procedure described in this paragraph is followed until the sale of the mortgaged property is achieved.

- **Public auction:** This involves the lender providing details of the auction to the borrower and any other interested third party and publishing such details in a comprehensive list of places, including on the official website of the Ministry of the Interior, on the lender's website and in two daily national newspapers.

In all cases, irrespective of whether the lender opts to directly sell the property or use the auction process, the property cannot be sold to a person who is an officer, director or employee of the lender, a person who holds more than 2% shareholding in the lender, or anyone who is connected, or is a representative or a spouse or a parent or a descending relative of third degree to such person.

- Sale proceeds: following the sale or auction of the property, the lender is required to notify the borrower of the sale proceeds obtained, any fees and expenses incurred and also to notify (in addition to the borrower) any interested third party of the proposed manner of distribution of the sale proceeds. The sale proceeds are used to pay, firstly, expenses and any taxes (including capital gains tax); secondly, prior registered secured creditors; thirdly, the mortgage debt plus interest; and fourthly, any other secured creditors. Any residual amount is required to be paid to the mortgagor and any other expenses relating to the sale are paid by the mortgagee. The mortgagor or any other interested person has the right to challenge (within 20 days of the date of notification) the proposed distribution of sale proceeds by filing an application/appeal with the District Court.

Sale of Credit Facilities Law

Pursuant to the requirements of the MoU, the Sale of Credit Facilities Law was approved by the House of Representatives of Cyprus on 12 November 2015 with the intention of facilitating and regulating the sale of loan portfolios by Cypriot banks. While the Sale of Credit Facilities Law is intended to facilitate the management of delinquent loans by Cypriot banks, the law is new and remains untested, and it is not yet clear how certain provisions of the law will operate in practice. In particular, the Sale of Credit Facilities Law requires purchasers of loans which have a principal amount of less than EUR 1 million to be, *inter alia*, authorised credit institutions in the EU or entities which are incorporated in Cyprus and regulated by the CBC. Pursuant to the Sale of Credit Facilities Law, the CBC has the authority to reject an application for authorisation from any purchaser for reasons of national interest. In addition, for all loans, regardless of amount, the Sale of Credit Facilities Law introduced a requirement to give notice to borrowers of the proposed sale of loans and gives borrowers (and guarantors) a right to submit a proposal to purchase these loans within a relatively limited time-frame.

UK Regulatory Requirements Applicable to BOC UK

As discussed in the section headed “*Business Description—Competitive Strengths and Strategies*”, the Bank has targeted BOC UK and its customer base for growth. BOC UK, which specialises in the provision of banking and lending services to small and medium sized businesses and property entrepreneurs, falls within the ambit of the supervisory and regulatory framework for banking and financial services in the United Kingdom.

The UK Regulatory Bodies

Prudential Regulation Authority

The PRA is the prudential regulator for banks, building societies, insurance companies and other deposit-takers. The general objective of the PRA is to promote the safety and soundness of PRA-authorised persons.

The PRA supervises and regulates financial institutions, including banks, on an ongoing basis by continually assessing their risk profile and capacity to manage and control risks. If the PRA finds that a financial institution has failed to comply with the requirements under the Financial Services and Markets Act 2000 (see below) or that it presents a risk to the stability of the UK financial system, the PRA has a variety of enforcement powers including:

- issuing a private warning;
- issuing a direction to a regulated entity or its parent undertaking, requiring it to take or refrain from taking a specified action; or
- taking disciplinary measures, such as issuing a public statement of misconduct or imposing a financial penalty.

BOC UK, as a consolidated subsidiary of the Bank for the purposes of CRD IV and CRR, is subject to joint decisions of both the ECB and PRA with respect to its capital and liquidity requirements. While BOC UK is subject to specific UK requirements implementing the CRD IV and (to the extent applicable) CRR, which may be at more advanced stages than in other EU Member States (e.g. the LCR requirement and

leverage ratio), the application of such UK requirements is on the basis of joint decisions of the ECB and PRA. See further the sections headed “—*Supervision of the BOC Group—Consolidated Prudential Supervision of BOC Group*” and “—*Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*”.

Financial Conduct Authority

The FCA is the conduct regulator for firms such as BOC UK that are prudentially regulated by the PRA (dual regulated firms). The FCA’s strategic objective is to ensure the relevant markets function well. The FCA’s operational objectives are: the consumer protection objective, the integrity objective and the competition objective.

The FCA also has a variety of enforcement powers under the Financial Services and Markets Act 2000 and, from 1 April 2014, is responsible for supervision of consumer credit regulation and superintendence and enforcement of the Consumer Credit Act 1974, as amended.

The Competition and Markets Authority

The Competition and Markets Authority (“CMA”) is established under the Enterprise and Regulatory Reform Act 2013 as the United Kingdom’s authority responsible for ensuring that competition and markets work well for consumers. The CMA and other bodies may enforce consumer legislation under the Enterprise Act 2002 by seeking an informal undertaking, or a formal undertaking, from a business or seeking a court enforcement order against a business.

UK Regulation

Financial Services and Markets Act 2000

The Financial Services and Markets Act 2000, as amended (“FSMA”) prohibits any person from carrying on a “regulated activity” by way of business in the United Kingdom unless that person is authorised or exempt under the FSMA. Regulated activities include: deposit-taking, mortgage activities (such as entering into, administering, or advising or arranging in respect of, regulated mortgage contracts), consumer credit lending, effecting and carrying out contracts of insurance as well as insurance mediation, and investment activities (such as dealing in investments as principal or as agent, arranging deals in investments, and managing investments). The FSMA also prohibits financial promotions in the United Kingdom unless the promotion is issued or approved by an authorised person or exempt from such requirements.

BOC UK’s Authorisation under the FSMA

BOC UK is authorised for deposit-taking, mortgage, consumer buy-to-let mortgage and consumer lending activities, together with limited investment activities in a principal capacity.

Mortgage Lending under the FSMA

The Financial Services and Markets Act 2000 regulates mortgage credit within the definition of “Regulated Mortgage Contract” and also regulates certain other types of home finance. A credit agreement is a Regulated Mortgage Contract:

- if at the time it is entered into:
 - a lender provides credit to an individual or to trustees (the ‘borrower’); and
 - the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, in the case of credit provided to an individual, as or in connection with a dwelling; or (in the case of credit provided to a trustee who is not an individual), as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a related person; and
- is not a home purchase plan, a limited payment second charge bridging loan, a second charge business loan, an investment property loan, an exempt consumer buy-to-let mortgage contract, an exempt equitable mortgage bridging loan, an exempt housing authority loan or a limited interest second charge credit union loan.

If prohibitions under the Financial Services and Markets Act 2000 as to authorisation or financial promotions are contravened, then the affected Regulated Mortgage Contract (and, in the case of financial

promotions, other credit secured on land) is unenforceable against the borrower without a court order. The Mortgage and Home Finance: Conduct of Business Sourcebook (“**MCOB**”), which is part of the FCA Handbook of Rules and Guidance (“**FCA Handbook**”), sets out rules in respect of Regulated Mortgage Contracts and certain other types of home finance. Under the MCOB rules, an authorised firm (such as BOC UK) is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed, which can include the extension of the term of the mortgage, product type changes and deferral of interest payments.

Mortgage Credit Directive Order 2015

The Mortgage Credit Directive Order 2015 (“**MCD Order**”) implements the Mortgage Credit Directive (2014/17/EU) in the United Kingdom. The MCD Order provides the framework by which the FCA regulates buy-to-let (“**BTL**”) mortgage contracts.

A BTL mortgage contract is distinct from a Regulated Mortgage Contract and is either:

- at the time it is entered into a Regulated Mortgage Contract which provides that the land subject to the mortgage cannot at any time be occupied as a dwelling by the borrower or by a related person, and is to be occupied as a dwelling on the basis of a rental agreement; or
- a regulated credit agreement under the FSMA which provides that the land subject to the mortgage cannot at any time be occupied as a dwelling by the borrower or by a related person, and is to be occupied as a dwelling on the basis of a rental agreement.

A BTL mortgage contract will only be regulated under the MCD Order if it is a consumer buy-to-let (“**CBTL**”) mortgage contract. A CBTL mortgage contract is one which is not entered into by the borrower wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower.

The MCD Order 2015 also prescribes conduct standards for CBTL lenders covering areas such as knowledge and competence requirements for creditors’ staff, provision of general information to customers, pre-contractual information and adequate explanations and treatment of debtors in arrears.

BOC UK’s regulated mortgage activities

BOC UK predominantly lends to property entrepreneurs and SMEs for the purposes of a business: 75% of its £827 million gross loan book as at 31 December 2015 is described as “buy-to-let”, predominantly to professional investors. Therefore, at present the majority of BOC UK’s mortgage activities are unregulated.

As at 31 December 2015, BOC UK has 189 Regulated Mortgage Contracts totaling £30.8 million. Effective 21 March 2016, BOC UK was registered by the FCA to provide CBTL mortgage contracts. As part of its strategy for recovery and growth, BOC UK expects to increase the number of Regulated Mortgage Contracts and CBTL mortgage contracts on its loan book.

Consumer Lending under the FSMA

BOC UK is subject to the consumer credit regime under FSMA, which regulates a wide range of credit agreements. The regulation of consumer credit pursuant to the Consumer Credit Act 1974 and its related secondary legislation (“**CCA**”) was transferred from the Office of Fair Trading (“**OFT**”) to the FCA in April 2014. Certain secondary legislation, made pursuant to the CCA, as well as OFT guidance, has been replaced by FCA rules and guidance set out within the FCA Handbook, although some secondary legislation remains.

The FCA has greater powers of enforcement than the OFT had and is anticipated to take a more proactive and intrusive approach to the regulation of consumer credit. Along with other credit providers that will need to comply with the FCA requirements applicable to the provision of consumer credit, BOC UK may come under a greater degree of scrutiny from the FCA, incur additional compliance costs and be subject to potential penalties and other sanctions for non-compliance. In addition, the courts have wide powers to look again at a credit agreement, when the borrower alleges an aspect of it was “unfair” or incorrectly documented and/or executed, and render such arrangement unenforceable.

Other Relevant Legislation, Rules & Guidance

Banking—Conduct of Business

The “Banking Conduct of Business Sourcebook” that forms part of the FCA Handbook provides a framework for the principles and conduct of business requirements applicable to BOC UK with respect to deposits taken from consumers, micro-enterprises or charities with an annual income of less than £1 million.

BOC UK also subscribes to The Lending Code which is sponsored by the British Bankers’ Association and the UK Cards Association. The Lending Code is a voluntary code of practice that sets standards of good lending practice in relation to loans, credit cards and current account overdrafts. The Lending Code contains key commitments and detailed notes on how customers should be dealt with through the whole product life cycle, from marketing and account opening, maintenance and the provision of information on changes to terms and conditions and interest rates. Important protection is also included to help when something goes wrong, including when someone is experiencing financial difficulties.

Payment Services Regulations 2009

The Payment Services Regulations (“**PSRs**”) implemented the Payment Services Directive (2007/64/EC) in the United Kingdom and impose authorisation requirements and conduct of business requirements on PSPs. Though the PSRs do not require banks such as BOC UK to be separately authorised for the conduct of payment services, as PSPs they are nonetheless required to comply with the conduct of business requirements set out in the PSRs relating to the provision of information. These requirements include, but are not limited to, pre-contractual information, descriptions of the payment service being provided, information about charges, interest and exchange rates, communication and changes to and termination of the framework contract.

Senior Managers Regime, Certification Regime and Conduct Rules

On 7 July 2015, the FCA and PRA published the final rules confirming their approach to the new individual accountability regime under the Banking Reform Act, which replaces the former approved persons regime in the banking sector. The rules cover three areas: the senior managers regime rules of individual accountability of the FCA and PRA under the Banking Reform Act (the “**Senior Managers Regime**”), the certification regime forming part of the accountability framework introduced by the Banking Reform Act (the “**Certification Regime**”) and the conduct rules (the “**Conduct Rules**”).

The new Senior Managers Regime applies to individuals who hold key roles and responsibilities within firms, including executive management, directors and non-executive directors (other than standard non-executive directors who do not act as chairman, senior independent director or chair any committee). The Senior Managers Regime requires such individuals to be pre-approved by regulators, and BOC UK is required to maintain procedures for the assessment of the fitness and propriety of such individuals before applying for approval and at least annually thereafter.

The Certification Regime applies to staff, other than senior managers, whose decisions could cause significant harm to the firm or its customers (for example, individuals providing mortgage advice). Staff subject to the Certification Regime will not be subject to regulatory pre-approval. However, BOC UK is required to identify staff subject to the Certification Regime and implement procedures for assessing the fitness and propriety of such staff at the point of recruitment and annually thereafter.

The Conduct Rules set out standards of behaviour that a firm’s staff is expected to meet. These rules replace the existing statements of principle and related codes of practice for approved persons in the banking sector. The Conduct Rules applied to all non-executive directors, staff falling within the Senior Managers Regime and the Certification Regime from 7 March 2016 (the commencement date of the Senior Managers Regime and the Certification Regime) and will expand to apply to other staff from March 2017.

Money Laundering and Counter Terrorist Financing

The UK Money Laundering Regulations 2007 (which implement the Money Laundering Directive) place a requirement on BOC UK to verify the identity of customers opening accounts with it, and to keep records to help prevent money laundering and terrorist financing. In addition, the Proceeds of Crime Act 2002, Terrorism Act 2000, Counter-Terrorism Act 2008, Terrorist Asset-Freezing etc. Act 2010, Wire Transfer

Regulation (EU Regulation 1781/2006) and Transfer of Funds (Information on the Payer) Regulations 2007/3298 collectively contain requirements and offences in relation to money laundering and the financing of terrorism that are applicable to BOC UK. Guidance in respect of BOC UK's anti-money laundering and counter-terrorist financing obligations is produced by the Joint Money Laundering Steering Group, which is made up of certain UK trade associations in the financial services industry.

Data Protection

The UK data protection law is primarily set out in the Data Protection Act 1998, which regulates the processing of data relating to individual customers.

Consumer Redress

Financial Ombudsman Service

The FSMA established the Ombudsman, which determines complaints by eligible complainants. An eligible complainant must be a consumer and not a person acting for the purpose of a business. All firms authorised under the FSMA are within the compulsory jurisdiction of the Ombudsman if a complaint made by an eligible complainant relates to an act or omission by a firm carrying on regulated activities and CBTL business.

The remit of the Ombudsman in respect of BOC UK includes deposit taking, the offer of Regulated Mortgage Contracts and CBTL mortgage contracts and any other regulated activity transacted with a customer who is not acting wholly or predominantly for the purposes of a business.

The Ombudsman determines complaints on the basis of what, in its opinion, is fair and reasonable in all the circumstances of the case. The maximum level of money award by the Ombudsman is £150,000 plus interest and costs. The Ombudsman may also make directions awards, which direct the business to take steps as the Ombudsman considers just and appropriate.

Financial Services Compensation Scheme

The Financial Services and Markets Act 2000 established the Financial Services Compensation Scheme, or FSCS, which pays compensation to eligible customers of authorised financial services firms which are unable, or are likely to be unable, to pay claims against them. There are different compensation limits for different categories of claim. By way of example, for claims against firms declared in default on or after 1 January 2016 the limits are, for the following examples:

- for deposits, 100% of the first £75,000;
- for mortgage advice and arranging, 100% of the first £50,000; and
- for certain temporary high balances, £1,000,000.

The FSCS pays compensation for financial loss and the actual compensation a customer will receive depends on the basis of their claim. Compensation limits are per person, per firm and per type of claim.

Consumer Rights Act 2015

The Consumer Rights Act 2015 (the “**CRA 2015**”) sets out rules on consumer rights and remedies in respect of the supply of goods and services by traders. A consumer is defined as an individual acting for purposes which are wholly or mainly outside that individual's trade, business, craft or profession. Accordingly to the extent that the CRA 2015 is applicable to BOC UK, it will be confined to its retail banking services.

It should however be noted that sector specific legislation takes precedence over the rules set out in the CRA 2015 in respect of the supply of services. Notably, the only example of sector specific legislation given in the Explanatory Notes to the CRA 2015 is financial services. The provision of financial services is, however, subject to the requirements of the CRA 2015 governing unfair contract terms. In this respect, the CRA 2015 requires that the contract between trader (here, BOC UK) and consumer: (i) creates no significant imbalance in favour of a trader; (ii) contains no term contrary to the requirements of fair and open dealing; (iii) does not have the potential for consumer detriment; (iv) contains “transparent” terms; and (v) contains no terms included by way of a black list as a schedule to the CRA 2015.

The CRA 2015 also makes provision for consumer law enforcement powers which apply to credit agreements regulated under the Consumer Credit Act 1974. This generic set of powers can be used by the FCA to ascertain compliance with, and investigate breaches of, consumer credit law pursuant to the Consumer Credit Act 1974.

Bank Recovery and Resolution

Banking Act 2009

The Banking Act 2009 introduced a special resolution regime (“**SRR**”) that provided new powers for HM Treasury, the Financial Services Authority (“**FSA**”) (now the FCA) and the Bank of England (“**BoE**”) for dealing with banks and building societies in financial difficulties. Since then, the role of the FSA in the SRR has largely been inherited by the PRA and the BoE and the scope of the SRR has been extensively amended to conform with the BRRD. The SRR provides the BoE with stabilisation powers in respect of banks the PRA deems to be failing or likely to fail which include, but are not limited to, temporary public ownership of a bank or its holding company.

See also above section headed “—*Bank Recovery and Resolution—Implementation of the BRRD in the UK*”.

Future Development in Regulatory Environment

EU Regulatory Proposals

Bank structural reform

On 29 January 2014, the EC adopted a proposal for a new regulation following the recommendations on the mandatory separation of certain banking activities published on 2 October 2012 by the High Level Expert Group on reforming the structure of the EU banking sector (the Liikanen Group). The proposed regulation contains new rules to prohibit the largest and most complex banks from engaging in proprietary trading. The proposed regulation would also give supervisors the power to require those banks to separate certain other trading activities from their deposit-taking business if the pursuit of such activities compromises the financial stability of the bank or of the EU financial system as a whole.

Broadly, the proposed regulation would apply to any EU bank that is designated as a global systemically important institution under CRD IV or any EU bank that exceeds the following thresholds for three consecutive years: (a) its total assets are equal to or that exceed €30 billion; and (b) its total trading assets and liabilities are equal to or exceed €70 billion or 10% of its total assets. Such a bank would be automatically banned from engaging in proprietary trading, defined narrowly as using own capital or borrowed money to take positions in financial instruments or commodities for the sole purpose of making a profit for own account and without any connection to client activity or hedging related to client activity. Such a bank would also be prohibited from investing (with the sole purpose of making a profit for own account) in alternative investment funds (e.g. hedge funds), or entities that engage in proprietary trading or acquire units/shares in alternative investment funds. In addition, regulators could require the transfer of other trading activities (such as market making, certain derivatives business and securitisation operations) from the bank to separate legal entities within the group (subsidiarisation). The proposed regulation would also apply to all branches and subsidiaries of such a bank. The proprietary trading ban is proposed to apply as at 1 January 2017 and the rules requiring separation of other trading activities are proposed to apply as at 1 July 2018.

On 19 June 2015, the European Council agreed its negotiating stance on these structural reform measures. This contains some differences to the EC’s proposal. Notably: (a) in-scope banks would be split into two tiers depending on whether the sum of their trading activities during the last three years exceeded €100 billion—stricter reporting requirements, a more thorough risk assessment and different supervisory actions would apply to banks exceeding the threshold; (b) the regime would not apply to institutions with total eligible deposits of less than 3% of their total assets, or total eligible retail deposits of less than €35 billion; and (c) as an alternative to requiring separation of other trading activities from a banking entity, regulators could require the banking entity to hold more regulatory capital.

The European Parliament is currently considering the proposed regulation. The European Parliament and the European Council will then seek to achieve political agreement on it.

Deposit Protection

The EC on 24 November 2015 published proposals for a regulation to amend Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme (the “EDIS”). The proposal builds upon the Five Presidents’ Report of 22 June 2015 and the follow-up communication issued by the EC on 21 October 2015. It envisages the establishment of the EDIS as the third pillar of Banking Union alongside bank supervision and bank resolution which would be mandatory for eurozone EU Member States and open to non-eurozone EU Member States willing to join the Banking Union.

The proposed regulation builds on the existing framework of national deposit guarantee schemes (“DGSs”), as governed by Directive 2014/49/EU, and has three proposed stages. Beginning in 2017, the three stages are: (i) a reinsurance scheme for participating national DGSs to last for three years; (ii) a co-insurance scheme for participating national DGSs to last for four years; and (iii) full insurance for participating national DGSs which meet the relevant requirements from then on. Thus, the EDIS is envisaged to provide full deposit insurance cover from 2024. In all three stages, the EDIS would provide both funding and the cover of losses for participating national DGSs.

Under the proposals, a national DGS could only benefit from the EDIS if its funds were built up in line with a precise funding path and it complied with other essential requirements under EU law. A European Deposit Insurance Fund would be created at the outset of the EDIS and would be financed directly by bank contributions on a risk-based basis, which take into account both the risk of activating the deposit insurance fund and the amount of deposits that would need to be covered.

The EDIS would be administered by the SRB, which would be attributed decision-making, monitoring and enforcement powers. The SRB would only release funds where certain clearly defined conditions were met.

The EDIS is proposed to be accompanied by other measures in parallel to reduce risks in the banking sectors. Examples of these include: (i) reducing national options and discretions in the application of prudential rules; (ii) implementing by 2019 the Financial Stability Board’s recommendations on total loss absorbing capacity for banks; (iii) establishing greater convergence in insolvency law; and (iv) initiatives as to the prudential treatment of banks’ exposures to sovereign risk.

New Regulatory Capital Requirements

The Basel Committee continues to conduct reviews and consultations on the regulatory capital framework. Current consultations include the prudential treatment of problem assets, reducing variation in credit risk-weighted assets and revisions to the Basel III leverage ratio framework. These regulatory reform proposals, if implemented, could result in the imposition of additional regulatory requirements for the Bank and the BOC Group to those discussed above under the heading “—*Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*”.

Regulatory Proposals in Cyprus

One of the pillars of the MoU requires the implementation of structural reforms to support competitiveness and the sustainable growth of the Cypriot banking sector and the wider economy (see “*The Macroeconomic Environment in Cyprus*”).

Some of the initiatives currently being formulated by the Government include:

- various tax reforms aimed at reinforcing the efficiency and effectiveness of revenue collection, bolstering tax administration agencies and infrastructure, improving the effectiveness of the immovable property tax and facilitating the exchange of information of tax matters across EU Member States (see “*Risk Factors—Regulatory and Legal Risks—The BOC Group is exposed to tax risk and the failure to manage this risk may have an adverse impact on the BOC Group*”); and
- the passing of a securitisation bill with a view to increasing the efficiency and transparency of the processes in relation to the securitisation of loan portfolios by Cypriot banks. The securitisation bill is in the process of being reviewed and considered by the Government and Cypriot bank representatives.

Generally, see “*Risk Factors—Regulatory and Legal Risks—The BOC Group’s business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with certain existing regulatory requirements and any adverse regulatory and governmental developments*”.

Tax-related Regulations

The BOC Group is committed, via group policies and relevant procedures, to comply fully with international tax initiatives and regulations that govern the automatic exchange of financial and tax information, as part of the global effort to eliminate tax evasion and promote transparency.

FATCA

FATCA was enacted in 2010 by the U.S. Congress as part of the Hiring Incentives to Restore Employment (HIRE) Act. FATCA requires foreign financial institutions (“**FFIs**”), such as the Bank and many entities in its BOC Group, that are resident in a country that has entered into a “Model 1” intergovernmental agreement with the United States (a “**Model 1 IGA**”) to report to their home country’s tax authority information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. Pursuant to the Model 1 IGA, their home country’s tax authority will provide such information to the U.S. Internal Revenue Service (the “**IRS**”).

In order to avoid U.S. federal income tax withholding under FATCA, an FFI in a country that has entered into a Model 1 IGA will be required to (a) register with the IRS; (b) identify U.S. accounts; (c) report certain information to their home country’s tax authority regarding U.S. accounts; and (d) in certain circumstances, withhold a 30% tax on certain U.S.-source payments to non-participating FFIs and account holders who are unwilling to provide the required information.

FFIs that fail to comply with the requirements of FATCA will be subject to a 30% withholding tax on certain U.S.-source payments made to them.

Registration of FFIs will take place through the “FATCA Registration Website” and, upon approval, the FFIs will receive a global intermediary identification number (“**GIIN**”) from the IRS. The IRS regularly publishes a list of registered and approved FFIs and their GIINs. Withholding agents will rely on this list to verify an FFI’s GIIN and not withhold on payments made to the FFI.

The Government signed a Model 1 IGA with the United States on 2 December 2014 (the “**IGA**”). The Bank began the implementation of due diligence procedures for new clients from 1 January 2015, as provided by the IGA. On 26 August 2015, the Cypriot Minister of Finance issued a decree for the application of the IGA in Cyprus (No. 281/2015). Following the issuance of the decree, the Bank submitted its first report to the Cyprus Competent Authorities on 31 August 2015. All BOC Group FFIs have registered with the IRS as Model 1 IGA Reporting Financial Institutions and have obtained their GIINs.

On 21 July 2016, the Cyprus Minister of Finance issued a new administrative decree for the application of the IGA in Cyprus (No. 223/2016) (which replaced the previous FATCA decree issued on 26 August 2015) which required the submission of FATCA reports by Cypriot financial institutions. BOC submitted its report in accordance with the decree.

Taking into consideration the impact that FATCA will have on BOC Group entities that are considered FFIs, as well as the fact that Cyprus has signed an intergovernmental agreement with the IRS, the Bank is closely following developments regarding FATCA and is coordinating with all relevant authorities.

Common Reporting Standard

On 6 May 2014, in an attempt to combat tax evasion globally, 47 member states of the OECD agreed in principle to share information on residents’ assets and incomes automatically (the “**Common Reporting Standard**”). On 29 October 2014, 51 OECD countries (including Cyprus) signed a multilateral competent authority agreement to commit to an early adoption of the Common Reporting Standard and to undertake the necessary reporting obligations from 2016 with reporting requirements expected to take effect in 2017.

Even though the Common Reporting Standard is based on the FATCA Model 1 IGA framework, there are significant differences between the two frameworks, the main ones being the following:

- potentially staggered approach for Common Reporting Standard implementation as and when jurisdictions sign competent authority agreements;
- under the Common Reporting Standard, “reportable person” covers an increased scope of individuals and entities to be classified;
- no “de minimis rules” as to financial accounts exist under the Common Reporting Standard;

- for the Common Reporting Standard, financial institutions in non-participating jurisdictions will be deemed passive non-financial entities and the controlling person(s) will be required to be identified;
- the Common Reporting Standard concentrates on tax residency rather than whether an account holder is a U.S. persons for FATCA purposes;
- citizenship not required in Common Reporting Standard self-certification;
- self-certification is always required to identify tax residency for new entities for the Common Reporting Standard; and
- volumes of reportable data and accounts will vastly increase.

On 20 May 2016, the Cypriot Minister of Finance, pursuant to the powers accorded to him by means of the Article 6(16) of the Assessment and Collection of Taxes Law, issued Administrative Decree (No. 161/2016) relating to the application of the Multilateral Competent Authority Agreement on the Automatic Exchange of Financial Account Information in Cyprus. The decree came into effect on 20 May 2016 (the “**Administrative Decree**”).

The Administrative Decree requires Cypriot financial institutions, such as the Bank, to provide to the Tax Department of Cyprus information about certain account holders who are tax residents in jurisdictions that are signatories to the Common Reporting Standard (“**Participating Jurisdictions**”). The Ministry of Finance issued a list of Participating Jurisdictions with which Cyprus intends to exchange information in accordance with the provisions of the Common Reporting Standard.

On 9 December 2014, the ECOFIN council agreed to amend the Directive on Administrative Cooperation (“**DAC2**”) to incorporate the Common Reporting Standard, thus providing for the introduction thereof amongst all EU Member States as from 2016 and announcing the first exchange of information between tax authorities of EU Member States as from September 2017 (or commencing in 2018 in the case of Austria).

On 25 April 2016, Law N.60 (I)/2016 (the DAC2 Law) was enacted to amend the Administrative Cooperation in the Field of Taxation Law of 2012, and implement the provisions of DAC2, regarding the mandatory automatic exchange of information in the field of taxation.

Despite the fact that local guidelines in connection with the Common Reporting Standard and the DAC2 have not been issued by the Government, the Bank has initiated a project to ensure timely and effective compliance with the Common Reporting Standard requirements. This project is continuing according to the prescribed timelines.

Transfer Fees Law and Capital Gains Tax Law

In order to increase the efficiency of liquidation and bankruptcy proceedings in Cyprus for individuals and companies, certain Cypriot tax laws were amended to complement and reinforce the provisions of the Insolvency Framework Laws and the New Foreclosure Laws.

In July 2015, the Transfer Fees Law, Cap. 219 of the Department of Lands and Survey (as amended, the “**Transfer Fees Law**”) was amended so that:

- no duties or fees would be chargeable under the Transfer Fees Law:
 - on the sale or transfer of a primary residence if the total sales proceeds per owner do not exceed €350,000 and so long as the sale or transfer concerned takes place in the context of a bankruptcy procedure, a procedure for the winding up of a company and/or a sale of mortgaged property by the creditor under the New Foreclosure Laws (see “—*Laws relating to Foreclosures*” above);
 - on transfers of immovable property in the name of the creditor as part of a restructuring under the terms of the Arrears Management Directive; or
 - if, among other exceptions, (i) on the same day as an existing mortgage is cancelled, a new mortgage is created over a different immovable property of the mortgagor in favour of the same mortgagee and in order to secure an amount which is equal to or less than the original amount; or (ii) on the same day as an existing mortgage is cancelled, a new mortgage is created over the same immovable property in favour of a different mortgagee in order to secure an amount which is equal to or less than the original amount.

- for the transfer, lease or sublease of immovable property, certain transfer fees are reduced by 50%, subject to certain exceptions, until 31 December 2016.

Further, in July 2015, the Capital Gains Tax Law, Law 52(I)/1980 was amended so that no capital gains tax would be chargeable:

- until 31 December 2017:
 - on the sale of a primary residence where the total sales proceeds per owner do not exceed €350,000 and so long as the sale or transfer concerned takes place in the context of a restructuring under the terms of the Arrears Management Directive, a composition or scheme of arrangement under bankruptcy proceedings, a Personal Repayment Scheme, Examinership, liquidation or a sale of mortgaged property by the creditor under the New Foreclosure Laws;
 - on the sale of any property (e.g., immovable property and securities) in the context of any other restructuring; and
 - on the sale of immovable property (not including an exchange or donation of immovable property) which was acquired during the period commencing on 16 July 2015 and ending on 31 December 2016 provided that such sale is made at market value and between persons not connected with each other, subject to certain exceptions.

Amendments to Cypriot Tax Legislation

The House of Representatives of Cyprus approved a number of legislative bills which amended Cyprus' tax legislation in line with the Memorandum of Understanding.

The Proposed Financial Transactions Tax (“FTT”)

On 14 February 2013, the EC published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the “**participating Member States**”). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in the BOCH Shares (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside the participating Member States. Generally, it would apply to certain dealings in the BOCH Shares where at least one party is a financial institution and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State, or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

On October 10th, 2016, a meeting of the finance ministers of the participating Member States gave the EC a mandate to draft a legislative proposal for the FTT, with the aim of reaching a final agreement by the end of 2016.

The scope of the FTT remains subject to negotiation between the participating Member States and the scope referred to above may be altered prior to any implementation, the timing of which, notwithstanding the above aim, remains unclear. Additional EU Member States may decide to participate.

TAXATION

BOC Shareholders should consult their own tax advisers in relation to the tax consequences for them from the Scheme. No representations are made regarding the tax consequences of the Scheme for any particular BOC Shareholder.

Cypriot Taxation

BOCH

It is intended that the affairs of BOCH will be managed in such a way that it will be treated as being solely resident for tax purposes in Cyprus. Accordingly, BOCH will be subject to corporate income tax in Cyprus on its worldwide income resulting from its business activities. The current rate of corporate income tax in Cyprus is 12.5%

BOCH will not be subject to corporate income tax in Cyprus on any dividends received from BOC nor on any proceeds arising from a disposal of New BOC Shares. However, BOCH will be subject to capital gains tax in Cyprus on any proceeds arising from a disposal of New BOC Shares where those shares remain unlisted on a recognised stock exchange at the time of disposal.

Cyprus will not levy any withholding tax on dividends paid by BOC to BOCH.

The Special Contribution for the Defence of the Republic (“SDC”) law will apply to dividends paid by BOCH to individual BOCH Shareholders who hold BOCH Shares or Depositary Interests representing BOCH Shares who are domiciled (for the purposes of the SDC) in Cyprus. The SDC law will not apply to dividends paid to Cypriot resident corporate BOCH Shareholders. The SDC law will also not apply to dividends paid by BOC to BOCH.

Cyprus does not withhold SDC on dividends paid to non-Cypriot tax resident persons or to individuals who are not considered (for the purposes of the SDC) to be domiciled in Cyprus on the assumption that the relevant declaration for exemption from SDC forms are fully completed and submitted to BOCH.

Cypriot stamp duty

No stamp duty will be due on the cancellation of the BOC Shares on the assumption that there is no written transfer agreement. On the basis that the BOCH Shares are in a non-Cypriot company (i.e., Irish shares), no stamp duty will be payable on the issue or on a transfer of BOCH Shares or Depositary Interests representing BOCH Shares.

Taxation of capital gains

Receipt of BOCH Shares

A Cypriot resident Shareholder should not suffer any adverse Cypriot tax implications on implementation of the Scheme.

Disposals of BOCH Shares

On the basis that the BOCH Shares are listed on a recognised stock exchange, a Cypriot resident Shareholder will not be required to pay either Cypriot capital gains tax or corporate income tax on a disposal of BOCH Shares.

Taxation of dividends

Individuals

A Cypriot domiciled Shareholder will not be subject to Cypriot personal income tax on dividends received from BOCH. Such dividend payments will, however, be subject to SDC (please see above).

Corporate BOC Shareholders

A Cypriot resident BOC Shareholder will not be subject to Cypriot corporate income tax on dividends received from BOCH. Such dividend payments will not be subject to SDC (please see above).

There will not be any change to the tax implications described in paragraphs (b) to (d) above in the case of BOC Shareholders who receive Depositary Interests representing BOCH Shares. An advance tax ruling has been obtained from the Cypriot tax authorities which confirms this position.

United Kingdom Taxation

The comments set out below are of a general nature and are based on current United Kingdom tax law and published Her Majesty's Revenue and Customs (the "HMRC") practice (which may not be binding on HMRC) at the date of this document (both of which are subject to change at any time, possibly with retrospective effect) and are not intended to be exhaustive. They relate only to the UK corporation tax position of BOCH and the position of persons who are, and will be, the absolute beneficial owners of their BOC Shares, BOCH Shares and Depositary Interests representing BOCH Shares, and do not apply to certain classes of persons such as dealers, certain professional investors, or persons connected with BOC. Any BOC Shareholders who are in doubt as to their own tax position should consult their professional advisers.

BOCH

The directors of BOCH intend that the affairs of BOCH will be managed in such a way that it will not be resident, nor considered to conduct any trading activities, in the United Kingdom for UK tax purposes. Accordingly, BOCH should not be subject to UK taxation on its profits and gains (other than withholding tax on any interest or certain other income which has a UK source).

Taxation of Capital Gains

Receipt of BOCH Shares or Depositary Interests representing BOCH Shares

A UK resident BOC Shareholder who does not hold (either alone or together with connected persons) more than 5% of, or of any class of, shares in or debentures of BOC should not be treated as having made a disposal or part disposal of BOC Shares for the purposes of taxation of chargeable gains on implementation of the Scheme. Instead any chargeable gain or allowable loss which would otherwise have arisen on a disposal of such BOC Shareholder's BOC Shares should be "rolled over" into their BOCH Shares or Depositary Interests representing BOCH Shares (as the case may be). As a result, the BOCH Shares or Depositary Interests representing BOCH Shares should be treated as the same asset and as having been acquired at the same time and for the same consideration as the BOC Shares from which they derived.

BOC Shareholders who hold (either alone, or together with connected persons) more than 5% of, or of any class of, shares in or debentures of BOC will be eligible for the above treatment only if the Scheme is effected for bona fide commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of a liability to capital gains tax or corporation tax.

Clearance has been given by HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 that the Scheme will be effected for bona fide commercial reasons and not for the purposes of avoiding liability to capital gains tax or corporation tax.

BOCH Shareholders should note that clearances have also been given by HMRC under section 701 of the Income Tax Act 2007 and section 748 of the Corporation Tax Act 2010 that HMRC will not issue a counteracting tax assessment under the transactions in securities rules in respect of the Scheme.

Disposals of BOCH Shares or Depositary Interests representing BOCH Shares

A disposal of BOCH Shares or Depositary Interests representing BOCH Shares by a BOCH Shareholder who is resident in the United Kingdom may, subject to the BOCH Shareholder's circumstances and any available exemption or relief, give rise to a chargeable gain (or allowable loss) for the purposes of UK taxation of chargeable gains.

A BOCH Shareholder who is not resident for tax purposes in the United Kingdom will not generally be liable to UK taxation on chargeable gains on a disposal of BOCH Shares or Depositary Interests representing BOCH Shares unless they are carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate Shareholder through a permanent

establishment) in connection with which the BOCH Shares or Depositary Interests representing BOCH Shares are used, held or acquired.

Individuals

For UK resident BOCH Shareholders who are individuals subject to capital gains tax an annual exemption is available, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £11,100 for individuals for the tax year 2016-2017. Capital gains tax chargeable will be at the rate of 10% (for basic rate taxpayers) and 20% (for higher and additional rate taxpayers) during the tax year 2016-2017.

Corporate BOCH Shareholders

BOCH Shareholders within the charge to UK corporation tax on chargeable gains will be subject to UK corporation tax (currently at 20% for companies paying the main rate of UK corporation tax) but indexation allowance or other reliefs may be available to reduce the amount of chargeable gain realised on a disposal of BOCH Shares or Depositary Interests representing BOCH Shares.

Taxation of Dividends

Individuals

From 6 April 2016 an annual tax-free dividend allowance of £5,000 will be available for individuals. Dividend income in excess of the dividend allowance will be taxed at 7.5% for an individual UK resident holder of BOCH Shares or Depositary Interests representing BOCH Shares who is subject to income tax at the basic rate, 32.5% for an individual UK resident holder of BOCH Shares or Depositary Interests representing BOCH Shares who is subject to income tax at the higher rate and 38.1% for an individual UK resident holder of BOCH Shares or Depositary Interests who is subject to income tax at the additional rate.

Corporate BOCH Shareholders

BOCH Shareholders who are within the charge to UK corporation tax will be subject to UK corporation tax on dividends paid by BOCH, unless (subject to special rules for such holder of BOCH Shares or Depositary Interests representing BOCH Shares that are small companies) the dividends fall within an exempt class and certain other conditions are met. The position of each holder of BOCH Shares or Depositary Interests representing BOCH Shares will depend on its own individual circumstances, although it would normally be expected that the dividends paid by BOCH would fall within an exempt class. BOCH Shareholders are advised to seek specific tax advice on this when completing UK corporation tax returns.

Stamp duty and stamp duty reserve tax (“SDRT”)

No UK stamp duty or SDRT should be payable on the issue of the BOCH Shares or Depositary Interests representing BOCH Shares. In practice, UK stamp duty should generally not need to be paid on an instrument transferring the BOCH Shares or Depositary Interests representing BOCH Shares, provided that such instrument is executed and retained outside of the United Kingdom. No UK SDRT will be payable in respect of any agreement to transfer Depositary Interests representing BOCH Shares. No UK SDRT will be payable in respect of any agreement to transfer BOCH Shares provided that the BOCH Shares are not registered in any register of BOCH kept in the United Kingdom.

Greece Taxation

Taxation of capital gains

Receipt of BOCH Shares or Depositary Interests representing BOCH Shares

Individuals

A Greek resident BOCH Shareholder who is an individual should not suffer any adverse Greek personal income tax implications on implementation of the Scheme, provided that the shares cancelled were acquired before January 1st 2009. In any case, a Greek resident BOCH Shareholder who is an individual and holds less than 0.5% of the share capital of BOCH should not suffer any adverse Greek capital gains tax implications on implementation of the Scheme irrespective of the initial acquisition date. However, where

a Greek resident BOC Shareholder does not qualify for any of the above exemptions, any capital gains arising from the implementation of the Scheme will be taxed at 15%, plus Greek solidarity tax.

Corporate BOC Shareholders

A Greek resident BOC Shareholder that is a corporation may, subject to its particular circumstances, suffer adverse Greek corporate income tax implications on implementation of the Scheme. This is on the basis that any profit arising to such BOC Shareholder on implementation of the Scheme will be considered as business income for the purposes of Greek taxation and will be subject to Greek corporate income tax, at the current rate of 29%.

Disposals of BOCH Shares or Depositary Interests representing BOCH Shares

Individuals

A Greek resident BOCH Shareholder who is an individual who holds BOCH Shares representing less than 0.5% of the share capital of BOCH should not be liable to Greek capital gains tax on a disposal of BOCH Shares. However, where a Greek resident BOCH Shareholder, who is an individual, holds more than 0.5% of the share capital of BOCH, any gain arising from a disposal of the BOCH Shares will be taxed at 15%, plus Greek solidarity tax.

A Greek resident BOCH Shareholder who is an individual and who disposes of Depositary Interests representing BOCH Shares would in principle be taxable on any gain arising. In the absence of any specific provision in the Greek tax laws, this gain would be considered as a gain from a derivative and thus capital gains tax would apply at 15%, plus Greek solidarity tax.

Corporate BOCH Shareholders

A Greek resident BOCH Shareholder that is a corporation may, subject to its particular circumstances, be liable to Greek corporate income tax on a disposal of BOCH Shares or Depositary Interests representing BOCH Shares. This is on the basis that any profit arising to such a BOCH Shareholder on a disposal of BOCH Shares or Depositary Interests representing BOCH Shares will be considered as business income for the purposes of Greek taxation and will be subject to Greek corporate income tax, at the current rate of 29%.

Taxation of dividends

Individuals

A Greek resident BOCH Shareholder who is an individual will be subject to Greek income tax in respect of dividends received from BOCH. Where such dividend income has been subject to foreign tax, such foreign tax may potentially be offset against the Greek income tax due. Such a tax credit (to the extent available) may not exceed the amount of the Greek income tax due.

A Greek resident BOCH Shareholder who is an individual will also be subject to Greek solidarity tax in respect of dividends received from BOCH.

Corporate BOCH Shareholders

A Greek resident BOCH Shareholder that is a corporation will be subject to Greek corporate income tax (at the current rate of 29%) in respect of dividends received from BOCH.

Transaction tax

Greece imposes a transaction tax on the transfer of listed shares (whether or not listed in Athens). The tax is levied at a rate of 0.2% of the value of the transaction and is payable by the transferor. No tax, however, is due by a Greek tax resident (individual or corporate) where the following two conditions are satisfied: (a) the shares transferred are listed on a stock exchange outside of Greece, and a common electronic trading system exists between that exchange and the Athens Exchange SA, and b) non-Greek tax is due on the transfer.

An initial ruling was obtained from the Greek tax authorities that the Scheme would not give rise to adverse transaction tax consequences. However that ruling referred to a UK (and not an Irish) incorporated holding company for BOC and there was no reference to the potential receipt of Depositary

Interests representing BOCH Shares. Therefore, a new clarification ruling has been obtained from the Greek tax authorities which updates the previous ruling. The new ruling provides confirmation that neither the use of an Irish incorporated holding company nor the Depository Interest alternative will give rise to any adverse transaction tax consequences upon the implementation of the Scheme.

It is expected that Greek transfer taxes will be payable on a further transfer of BOCH Shares. This is on the basis that the exemption conditions referenced above are not expected to be satisfied.

United States Taxation

General

The following is a discussion of the material U.S. federal income tax consequences of the Scheme to U.S. holders (as defined below) as well as at the subsequent ownership and the disposition of BOCH Shares or Depository Interests representing BOCH Shares to U.S. holders (as defined below). This discussion:

- (i) assumes you hold your BOC Shares as a capital asset within the meaning of Section 1221 of the Internal Revenue Code of 1986 (the “Code”) (that is, for investment purposes);
- (ii) is based upon the Code, Treasury regulations promulgated under the Code (“Treasury Regulations”), judicial decisions and published administrative rulings, all as currently in effect and all of which are subject to change, possibly with retroactive effect (and no IRS private letter ruling has been sought by BOC in respect of any U.S. federal tax consequences of the Scheme);
- (iii) does not address (A) U.S. federal taxes other than income taxes, (B) the 3.8% Medicare tax, (C) state, local or non-U.S. taxes or (D) tax reporting requirements, in each case, as applicable to the Scheme; and
- (iv) does not address U.S. federal income tax considerations applicable to U.S. holders of shares of BOC Shares that are subject to special treatment under U.S. federal income tax law, including, for example, financial institutions; pass-through entities (such as entities treated as partnerships for U.S. federal income tax purposes); insurance companies; broker-dealers; tax-exempt organizations; dealers in securities or currencies; traders in securities that elect to use a mark to market method of accounting; persons that hold BOC Shares as part of a straddle, hedge, constructive sale, conversion transaction, or other integrated transaction for U.S. federal income tax purposes; regulated investment companies; certain U.S. expatriates; U.S. holders whose “functional currency” is not the U.S. dollar; persons who are subject to the alternative minimum tax; or persons who acquired their BOC Shares of BOC through the exercise of an employee stock option or otherwise as compensation.

This discussion is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this discussion.

For purposes of this discussion, you are a “**U.S. holder**” if you beneficially own BOC Shares and you are:

- (i) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organised in or under the laws of the United States or any political subdivision thereof;
- (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- (iv) a trust that (A) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (B) has a valid election in place under the Treasury Regulations to be treated as a U.S. person.

For purposes of this discussion, you are a “**non-U.S. holder**” if you are a beneficial owner of BOC Shares and you are not a U.S. holder.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds BOC Shares, then the tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. Any partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds BOC Shares and the partners in such partnership (as determined for U.S. federal income tax purposes), should consult their own tax advisors.

Holders of Depository Interests representing BOCH Shares will generally be treated for U.S. federal income tax purposes as holding the underlying BOCH Shares represented by such Depository Interests. No

gain or loss will be recognised on an exchange of BOCH Shares for Depositary Interests representing BOCH Shares or an exchange of Depositary Interests representing BOCH Shares for BOCH Shares, provided the Depositary has not taken any action inconsistent with either the material terms of the Depositary Agreement or the U.S. Holder's ownership of BOCH Shares. Upon an exchange of Depositary Interests representing BOCH Shares for BOCH Shares, the tax basis and holding period of BOCH Shares would be the same as the tax basis and holding period of Depositary Interests representing such BOCH Shares.

The U.S. federal income tax rules applicable to the Scheme are complex. You should consult your own tax advisors regarding the specific tax consequences to you of the Scheme as well as the subsequent ownership and disposition of BOCH Shares or Depositary Interests representing BOCH Shares, including the applicability and effect of U.S. federal, state, local and non-U.S. income and other tax laws, and potential changes in applicable tax laws, in light of your particular circumstances.

Tax Status of BOC and BOCH for U.S. Tax Purposes

Based on a review of its method of operation, its organisational structure, and its available information about its shareholder basis and after obtaining legal advice regarding the requirements for qualification, BOC believes that it has not been a "controlled foreign corporation" (or "CFC") or "passive foreign investment corporation" (or "PFIC") for U.S. federal income tax purposes. A "CFC" is any non-U.S. corporation if it has one or more "10% U.S. BOC Shareholders" and those "10% U.S. BOC Shareholders" own, directly, indirectly or constructively, in the aggregate more than 50% (by vote or value) of the shares of such non-U.S. corporation. For this purpose, a "10% U.S. shareholder" is defined as a U.S. person who owns, directly, indirectly, or constructively, 10% (by vote) of the shares of such non-U.S. corporation. A PFIC is any non-U.S. corporation if either 75% of its gross income is passive income (e.g., interest, dividends, gains from the sale of bonds and shares, currency gains, and similar types of income) or at least 50% of its assets (determined on the basis of a quarterly average) are assets that are held for the production of passive income.

As noted above, the determination of BOC's CFC status depends on the composition of its direct and indirect Overseas Shareholders who are U.S. persons for U.S. federal income tax purposes. Because of the limitations of the shareholder disclosure regimes and the public trading of the BOC Shares, BOC's information about its shareholder basis is limited, and, as a result, there can be no assurance that BOC has not been a CFC.

In addition, BOC's PFIC status depends on the application of the 25% look through rule (i.e., BOC may, for purposes of the PFIC asset and income tests, look through subsidiaries if it owns at least 25% of the shares of such subsidiary) and the so-called banking exception which exempts certain non-U.S. banking operations from the application of the PFIC rules if certain requirements (such as banking license, substantial deposit taking, lending activities, etc.) are met. The scope and the details of that PFIC banking exception are not always clear due to a lack of guidance. Accordingly, there can be no assurance that BOC has not been a PFIC.

For purposes of the following discussion, it is assumed that BOC has neither been a CFC nor a PFIC at any time. In addition, based on that foregoing assumption, it is also assumed that, after the Effective Date, BOCH will neither be a CFC nor a PFIC.

Tax Treatment of the Scheme

Although not entirely free from doubt given the corporate mechanics of the Scheme, the Scheme should qualify for non-recognition treatment either under Section 368(a)(1)(B) or Section 351 of the Code, in either case, in conjunction with Section 367 of the Code. Accordingly, you should not recognise any gain or loss in connection with the Scheme. Your tax basis in your BOC Shares should carry over to your BOCH Shares or Depositary Interests representing BOCH Shares, and your holding period in respect of your BOC Shares should be included in your holding period of your BOCH Shares or Depositary Interests representing BOCH Shares.

If you are a 5% shareholder of BOC, then the foregoing tax-free treatment will apply to you only if you enter into a gain recognition agreement under Section 367(a) of Code. If you do not enter into such a gain recognition agreement, you will recognise gain equal to the difference, if any, between the fair market value of the BOCH Shares or Depositary Interests representing BOCH Shares you receive in the Scheme and your tax basis in your BOC Shares. Such gain will generally be capital gain and will be long-term

capital gain or loss if you have held your BOC Shares for more than one year. **You should consult your own tax advisors in respect of the advisability of entering into a gain recognition agreement.**

Treatment of Dividends on BOCH Shares Paid by BOCH

Dividends on BOCH Shares or Depositary Interests representing BOCH Shares that you will receive from after the completion of the Scheme will be ordinary income unless such dividends qualify for treatment as “qualified dividend income”. Such dividends will be qualified dividend income only if certain holding requirements are met and if BOC is a qualified non-U.S. corporation. BOC is a qualified non-U.S. corporation only if (i) it is not a PFIC; (ii) it is treated as resident in Cyprus for purposes of the income tax treaty between the United States and Cyprus (the “**US-Cyprus Tax Treaty**”); and (iii) it is entitled to the benefits of the US-Cyprus Tax Treaty. A corporation will be treated as a resident of Cyprus for purposes of the US-Cyprus Tax Treaty if it is a body corporate for tax purposes under the laws of Cyprus, which is resident in Cyprus for purposes of Cypriot tax. The US-Cyprus Tax Treaty sets forth several alternative means by which a corporation can be treated as be entitled to the benefits of the US-Cyprus Tax Treaty. Under one such alternative, a corporation resident in Cyprus will not be denied the benefits of the United States under the US-Cyprus Tax Treaty if it is determined that the establishment, acquisition and maintenance of such corporation and the conduct of its operations did not have as a principal purpose obtaining benefits under the US-Cyprus Tax Treaty. Given that (i) BOCH is not expected to be a PFIC; (ii) BOCH is expected to be a resident of Cyprus for purposes of the US-Cyprus Tax Treaty; and (iii) BOCH is expected to be entitled to the benefits of the US-Cyprus Tax Treaty, it is expected that dividends on BOCH Shares will qualify as “qualified dividend income”. Accordingly, if you are a non-corporate U.S. holder (including an individual), then you will be entitled to the long-term capital gains tax rate that is applicable to such “qualified dividend income” if you otherwise satisfy the holding period requirements.

Dividends paid in a currency other than US dollars will be includable in your income as a US dollar amount based on the exchange rate in effect on the date such dividend is received whether or not the currency is converted into US dollars at that time. If the dividend is converted to US dollars on the date of receipt, you generally will not recognise a foreign currency gain or loss. However, if you convert the currency into US dollars on a later date, you must include in income any gain or loss resulting from any exchange rate fluctuations during the period from the date you included the dividend in income to the date such holder converts the currency into US dollars (or otherwise disposes of the currency). Generally, any gain or loss resulting from currency exchange rate fluctuations will be ordinary income or loss and will be treated as being from sources within the United States for foreign tax credit limitation purposes. You should consult your tax advisors regarding the tax consequences to you if BOCH pays dividends in a non-US currency.

Sale, Exchange, Redemption or Other Disposition of BOCH Shares or Depositary Interests representing BOCH Shares

If you sell, exchange, redeem or otherwise dispose of your BOCH Shares or Depositary Interests representing BOCH Shares in a taxable transaction, then you will recognise gain or loss in an amount equal to the difference, if any, between the amount realised from such sale or other disposition and your tax basis in those BOCH Shares or Depositary Interests representing BOCH Shares. Such gain or loss will generally be capital gain or loss, and will be long-term capital gain or loss if you have held your BOCH Shares or Depositary Interests representing BOCH Shares for a period exceeding one year at the time of the disposition (your holding period will include your holding period in the BOC Shares surrendered in the Scheme, assuming the Scheme of the Arrangement qualifies as a non-recognition transaction, as described above). The deductibility of capital losses against ordinary income is subject to limitations. Any gain or loss recognised by you will be treated as U.S. source gain or loss.

If you receive currency other than US dollars upon the sale or other disposition of your BOCH Shares or Depositary Interests representing BOCH Shares, you will realise an amount equal to the US dollar value of the foreign currency at the spot rate on the date of sale or other disposition. You will have a tax basis in the foreign currency received equal to the US dollar amount realised. Generally, any gain or loss realised by you on a subsequent conversion or disposition of such foreign currency will be United States source ordinary income or loss.

Required Disclosure with Respect to Foreign Financial Assets

Certain U.S. holders are required to report information relating to an interest in BOCH, subject to certain exceptions, by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in BOCH. You should consult your own tax advisors regarding information reporting requirements relating to your ownership of BOCH Shares.

Russian Taxation

Taxation of capital gains

Receipt of BOCH Shares or Depositary Interests representing BOCH Shares

Individuals

The implementation of the Scheme is expected to be treated as a share exchange for Russian tax purposes, giving rise to a sale of the BOC Shares and an acquisition of BOCH Shares or Depositary Interests representing BOCH Shares.

On the basis of the above, a Russian resident BOC Shareholder who is an individual will be obliged to file a Russian personal income tax return in connection with the implementation of the Scheme (declaring the sale proceeds arising from the disposal of the BOC Shares and any relevant documented expenses applicable to the initial acquisition of the BOC Shares, holding of the BOC Shares and sale of the BOC Shares).

There is a further risk that the Russian tax authorities may consider that the BOCH Shares or Depositary Interests representing BOCH Shares, have been acquired below their fair market value (“FMV”). Where such a view is adopted, income in the form of a “material benefit” may arise to the individual shareholders assessed as the difference between the FMV of the BOCH Shares or Depositary Interests representing BOCH Shares and the individual’s historical acquisition cost of the BOC Shares or the latest FMV of the BOC Shares.

Given the above and depending on the applicable facts and circumstances, there may be Russian personal income tax implications arising in respect of the Scheme. Russian resident BOC Shareholders who are individuals are advised to seek guidance from their professional advisers.

Corporate BOC Shareholders

A BOC Shareholder which is a corporation participating in the Scheme will be subject to a Russian corporate profits tax charged at a rate of up to 20% on the amount of any taxable gain. The amount of any such taxable gain shall be calculated based on the disposal value of the BOC Shares less the cost of their acquisition, including any expenses connected with the acquisition or disposal of the BOC Shares. The disposal value of the BOC Shares should be determined taking into account Russian transfer pricing rules. The application of those rules may result in an upward adjustment of the disposal value of the BOC Shares.

Due to the complex Russian tax rules relating to the determination of the disposal value of the BOC Shares which may arise in connection with the implementation of the Scheme, Russian resident BOC Shareholders that are corporations are advised to seek guidance from their professional advisers.

Disposals of BOCH Shares or Depositary Interests representing BOCH Shares

Individuals

A disposal of BOCH Shares or Depositary Interests representing BOCH Shares, by a Russian resident BOCH Shareholder will generally be liable to tax in Russia. Upon such disposal, the documented acquisition cost and the cost of any relevant expenses related to holding and sale of BOCH Shares (or Depositary Interests representing BOCH Shares) and sale of BOCH Shares (or Depositary Interests representing BOCH Shares) could be deducted from the sale proceeds.

Depending on the applicable facts and circumstances, as well as the basis on which the Russian tax authorities view the transaction, there may be Russian personal income tax implications arising in respect of a disposal of BOCH Shares or Depositary Interests representing BOCH Shares. Depending on the documentation that Russian resident BOCH Shareholders who are individuals have in their possession upon implementation of the Scheme, the Russian tax authorities may try to reject the cost basis for the

purchase of BOCH Shares or Depositary Interests representing BOCH Shares. Russian resident BOCH Shareholders are advised to seek guidance from their professional advisers.

Corporate BOCH Shareholders

A disposal of BOCH Shares or Depositary Interests representing BOCH Shares by a Russian resident BOCH Shareholder that is a corporation will generally be liable to Russian corporate profits tax at a tax rate of up to 20%. The amount of any gain subject to Russian corporate profits tax is calculated as the disposal value of the BOCH Shares or Depositary Interests representing BOCH Shares less the value of their acquisition, including any expenses connected with their acquisition or disposal to the extent they represent justified and documented costs. The disposal value may be adjusted upwards pursuant to the Russian transfer pricing rules, should those apply to the sale of the BOCH Shares or Depositary Interests representing BOCH Shares. Due to the complex Russian tax rules governing such a disposal, specifically in respect of the determination of the purchase value of the BOCH Shares or Depositary Interests representing BOCH Shares received as a result of the Scheme, Russian resident BOCH Shareholders that are corporations are advised to seek guidance from their professional advisers.

Taxation of dividends

Individuals

BOCH Shareholders that are individuals and at the time of receipt, are resident in Russia for Russian tax purposes will be subject to Russian personal income tax on dividends received from BOCH at the rate of 13%.

Corporate BOCH Shareholders

As a general rule, Russian resident BOCH Shareholders that are corporations will be subject to Russian corporate profits tax on dividends received from BOCH at the rate of 13%.

Irish Taxation

The paragraphs set out below summarise the Irish corporation tax treatment of BOCH and the Irish tax treatment of BOCH Shareholders under the Scheme. They are based on current Irish legislation and an understanding of current Revenue Commissioners' practice as at the date of this document (both of which are subject to change at any time, possibly with retrospective effect).

The paragraphs are intended as a general guide, are not intended to be exhaustive and, except where express reference is made to the position of non-Irish residents or non-Irish domiciled BOCH Shareholders, apply only to BOCH Shareholders who are resident and, if individuals, ordinarily resident and domiciled in Ireland for tax purposes. They relate only to such BOCH Shareholders who hold their BOCH Shares or their BOCH Shares or Depositary Interests representing BOCH Shares as an investment and who are absolute beneficial owners of those shares. These paragraphs do not deal with certain types of BOCH Shareholders, such as dealers in securities, trusts, collective investment schemes, insurance companies, persons connected with BOCH, or persons holding or acquiring BOCH Shares or BOCH Shares or Depositary Interests in the course of a trade or by reason of employment.

If you are in any doubt as to your taxation position, you should consult an appropriate professional adviser immediately.

Tax Treatment of BOCH

The directors of BOCH intend that the affairs of BOCH will be managed in such a way that it will not be resident, nor considered to conduct any trading activities, in Ireland for Irish tax purposes. Accordingly, BOCH should not be subject to Irish taxation on its profits and gains (other than tax on any interest or certain other income which has an Irish source and gains on Irish land, mineral rights and exploration rights).

Tax Treatment of BOCH Shareholders

Tax on chargeable gains

Liability to Irish tax on chargeable gains ("CGT") will depend on the individual circumstances of BOCH Shareholders.

Irish resident or ordinarily resident BOC Shareholders

BOC Shareholders that are resident or ordinarily resident in Ireland for Irish tax purposes, or BOC Shareholders who hold their BOC Shares in connection with a trade carried on by such persons through an Irish branch or agency, will, subject to the availability of any exemptions and reliefs, generally be within the charge to CGT arising on the cancellation of their BOC Shares pursuant to the Scheme.

On the basis that the Scheme is effected for bona fide commercial reasons and does not form part of an arrangement or scheme of which the main purpose, or one of the main purposes is avoidance of liability to Irish tax, the receipt by a Shareholder of the BOCH Shares or the Depositary Interests representing BOCH Shares in exchange for BOC Shares should not be treated as a disposal of BOC Shares but instead the BOCH Shares or the Depositary Interests representing BOCH Shares should be treated as the same asset as those BOC Shares acquired at the same time and for the same consideration as those BOC Shares. As a result, any chargeable gain or allowable loss which would otherwise have arisen on a disposal of such Shareholder's BOC Shares should be "rolled over" into their BOCH Shares or the Depositary Interests representing BOCH Shares.

A subsequent disposal of BOCH Shares or Depositary Interests representing BOCH Shares by a shareholder who is resident or ordinarily resident in Ireland will, depending on individual circumstances and subject to the availability of exemptions and reliefs, generally be within the charge to CGT.

A shareholder of BOCH who is an individual and who is temporarily not resident in Ireland may, under Irish anti-avoidance legislation, still be liable for Irish tax on any chargeable gain realised upon subsequent disposal of BOCH Shares or Depositary Interests representing BOCH Shares during the period in which such individual is a non-resident.

On the basis of the treatment described above, a holder's base cost in the BOCH Shares or Depositary Interests representing BOCH Shares for the purposes of CGT will be its base cost in the BOC Shares and, consequently, any chargeable gain or allowable loss on a disposal or part disposal of either the BOCH Shares or Depositary Interests representing BOCH Shares should be calculated by reference to this allocated base cost.

For the purposes of calculating a chargeable gain but not an allowable loss arising on any disposal or part disposal of BOCH Shares or Depositary Interests representing BOCH Shares, indexation relief on the relevant proportion of the original allowable cost should be taken into account to the extent that such cost was incurred prior to 1 January 2003 in respect of the BOC Shares.

Non-Irish Resident BOC Shareholders

BOC Shareholders holding BOCH Shares or Depositary Interests representing BOCH Shares who are not resident or, in the case of individuals, not ordinarily resident for tax purposes in Ireland and, in the case of temporary Irish non-residents, who do not return to Ireland within five full years of assessment of the disposal will not be liable for CGT on gains realised on a subsequent disposal of their BOCH Shares or Depositary Interests representing BOCH Shares unless such shares derive the greater part of their value from land, mineral rights or exploration rights in Ireland, or are used, held or acquired for the purposes of a trade, profession or vocation carried on in Ireland through a branch or agency.

Dividend Withholding Tax

On the basis that BOCH is not and will not become resident for tax purposes in Ireland, Irish dividend withholding tax will not apply to distributions made by BOCH.

Taxation of Dividends

BOCH Shares or Depositary Interests representing BOCH Shares

An individual shareholder holding BOCH Shares or Depositary Interests representing BOCH Shares who is resident or ordinarily resident in Ireland will be taxed on dividends received at his or her marginal rate of tax, plus social insurance (**PRSI**) contributions, and the universal social charge (subject to applicable credits and reliefs from double taxation).

Corporate BOCH Shareholders

A corporate shareholder holding BOCH Shares or Depositary Interests representing BOCH Shares which is resident in Ireland will be subject to Irish corporation tax at the rate of 25% or, subject to specific rules applying to dividends derived from foreign trading activities, or corporate BOC Shareholders whose dividend income would be considered trading income, 12.5% (subject to applicable credits and reliefs from double taxation).

Encashment Tax

Irish encashment tax will be required to be withheld at the standard rate of income tax (currently 20 percent) from any dividends paid by BOCH, where such dividends are entrusted to a bank or encashment agent in Ireland (i.e. a paying agent) for payment to any BOCH Shareholder who is Irish resident, and paid over to the Irish Revenue Commissioners. It is the intention of the Bank to use an Irish paying agent function and as such, the above withholding tax treatment should apply.

Any tax withheld and paid in such circumstances in respect of a dividend payment to a BOCH Shareholder who is Irish resident would be available for credit against the income or corporation tax liability of such BOCH Shareholder.

Stamp duty

General

The rate of stamp duty (where applicable) on transfers of shares of Irish incorporated companies is 1% of the price paid or the market value of the shares acquired, whichever is greater. Where Irish stamp duty arises it is generally a liability of the transferee. No stamp duty should be payable on the cancellation of the BOC Shares or the issue of BOCH Shares or Depositary Interests representing BOCH Shares pursuant to the Scheme.

Transfers of BOCH Shares will generally be subject to Irish stamp duty.

Depositary Interests

Transfers of Depositary Interests representing BOCH Shares through the DSS will not be subject to Irish stamp duty.

BOCH Shares (i) held outside of the DSS or (ii) transferred into or out of the DSS

Transfers of BOCH Shares where any party to the transfer holds such shares outside the CDCR will generally be subject to Irish stamp duty. BOCH Shareholders wishing to transfer their BOCH Shares into (or out of) the DSS may do so without giving rise to Irish stamp duty provided that:

- there is no change in the beneficial ownership of such shares as a result of the transfer; and
- the transfer into (or out of) the DSS is not effected in contemplation of a sale of such shares by a beneficial owner to a third party.

Due to the potential Irish stamp charge on transfers of BOCH Shares held outside of the DSS, BOC Shareholders may wish to consult their own tax advisor in respect of the election made by them in the Share Election Form.

CERTAIN ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan (a “**plan**”) subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances in connection with the Scheme. Accordingly, among other factors, the fiduciary should consider whether any particular transaction effected by the plan would (i) satisfy the prudence and diversification requirements of ERISA, (ii) be consistent with the documents and instruments governing the plan, and (iii) involve a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Code (also “**plans**”) from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code (“**parties in interest**”) with respect to the plan or account. A violation of these prohibited transaction rules may result in civil penalties or other liabilities under ERISA and/or an excise tax under Section 4975 of the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. Certain employee benefit plans and arrangements including those that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and non-U.S. plans (as described in Section 4(b)(4) of ERISA) (“**non-ERISA arrangements**”) are not subject to the requirements of Section 404 of ERISA or Section 4975 of the Code but may be subject to similar provisions under applicable federal, state, local, non-U.S. or other regulations, rules or laws (“**similar laws**”).

The U.S. Department of Labor has issued prohibited transaction class exemptions, or “**PTCEs**”, that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the taking part in transactions by a plan. These class exemptions (as may be amended from time to time) include, without limitation: (i) PTCE 84-14, an exemption for certain transactions determined or effected by independent qualified professional asset managers; (ii) PTCE 90-1, an exemption for certain transactions involving insurance company pooled separate accounts; (iii) PTCE 91-38, an exemption for certain transactions involving bank collective investment funds; (iv) PTCE 95-60, an exemption for transactions involving certain insurance company general accounts; and (v) PTCE 96-23, an exemption for plan asset transactions managed by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code each provide a limited exemption for the purchase and sale of securities and related lending transactions, **provided that** neither the issuer of the securities nor any of its affiliates has or exercises any discretionary authority or control or render any investment advice with respect to the assets of any plan involved in the transaction and **provided further that** the plan pays not more than (or receives not less than) adequate consideration in connection with the transaction (the so-called “**service provider exemption**”). There can be no assurance that any of these PTCEs or the service provider exemption will be available with respect to a particular transactions.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering the transactions on behalf of or with “plan assets” of any plan, plan asset entity or non-ERISA arrangement consult with their counsel regarding the availability of exemptive relief under any of the PTCEs listed above or any other applicable exemption, or the potential consequences of any such exchange or acquisition under similar laws, as applicable.

ADDITIONAL INFORMATION

1. Responsibility

- 1.1 The BOCH Directors, whose names are set out in “*Management and Corporate Governance—Members of the BOCH Board of Directors*”, and, accept responsibility for the information contained in this document. To the best of the knowledge of BOCH and the BOCH Directors (who have taken due care so as to form a reasonable opinion), the information contained in this document is true and complete and contains no omission likely to affect the content of this document and/or mislead investors.

2. Incorporation and registered office of BOCH and the Bank

- 2.1 BOCH was incorporated in Ireland, under the name “Aion Cyprus Public Limited Company”, on 11 July 2016, under the Companies Act as a public limited company with registered number 585903. BOCH changed its name to “Bank of Cyprus Holdings Public Limited Company” (its current name) on 10 August 2016. The principal legislation under which BOCH operates and the BOCH Shares were created is the Companies Act. The BOCH Shares are ordinary shares and denominated in euro.
- 2.2 The registered office of BOCH is at Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2 Ireland and the telephone number is +353 1 618 0000.
- 2.3 The BOCH Board of Directors has, subject to Ernst & Young formally accepting, appointed Ernst & Young, whose registered address is Harcourt Centre, Harcourt Street, Dublin 2, Ireland as the auditors of BOCH and following such formal acceptance Ernst & Young will have been the only auditors of BOCH since its incorporation. Ernst & Young are chartered accountants and are members of the Institute of Chartered Accountants in Ireland and registered auditors qualified to practice in Ireland. Ernst & Young have not yet formally accepted the engagement.
- 2.4 BOCH is operating in accordance with its constitution, which is comprised of the BOCH Memorandum and BOCH Articles.
- 2.5 The Bank’s legal name is “Bank of Cyprus Public Company Limited” and its commercial name is “Bank of Cyprus”. The Bank is currently the holding company of the BOC Group. The registered office of the Bank is located at the BOC Group Headquarters at 51 Stassinou Street, Ayia Paraskevi, Strovolos, 2002 Nicosia, Cyprus, telephone number +357 22 122100. The Bank is a public company and, following the Scheme becoming Effective, will be wholly beneficially owned by BOCH and limited by shares under the Cyprus Companies Law, Cap. 113. The Bank is registered in the companies register of Cyprus with registration number HE 165. The Bank’s primary regulator is the ECB (see “*Financial Services Regulation and Supervision*”).

3. Share Capital

Authorised and issued share capital of BOCH

- 3.1 The authorised share capital of BOCH is €1,000,025,000 divided into 10,000,000,000 ordinary shares of €0.10 each and 25,000 deferred ordinary shares of €1.00 each.
- 3.2 BOCH was incorporated on 11 July 2016 with an issued share capital of €1.00, comprising of one ordinary share of €1.00 (the “**Subscriber Share**”). The Subscriber Share was issued fully paid-up to Fand Limited (a nominee company of Arthur Cox, BOC’s legal advisers as to matters of Irish law), and then on 12 July 2016, transferred to Christodoulos Patsalides, an existing BOC Shareholder, a BOC Director and a director of BOCH.
- 3.3 On 4 August 2016, BOCH adjusted the nominal value of its ordinary shares by sub-dividing: (a) the existing Subscriber Share of €1.00 into 10 BOCH Shares of €0.10 each, and (b) each authorised but unissued ordinary share of €1.00 in the capital of BOCH into 10 BOCH Shares of €0.10 each.
- 3.4 On 9 August 2016, the authorised share capital of BOCH was increased by €25,000 by the creation of 25,000 deferred ordinary shares of €1.00 each and on 11 August 2016, the 25,000 deferred ordinary shares of €1.00 were allotted and issued to Enceladus Holding Limited (a nominee company of Arthur Cox, BOC’s legal advisers as to matters of Irish law) solely for the purpose of ensuring that BOCH satisfies Irish law minimum share capital requirements for public limited companies at all times prior to the issue of the BOCH Shares pursuant to the Scheme. The deferred ordinary shares carry no voting or income rights and have only limited rights on a return of capital. The 25,000 deferred ordinary shares currently in issue will be acquired by BOCH for nil consideration and cancelled

concurrently with the issue of the BOCH Shares pursuant to the Scheme. To facilitate the implementation of the Scheme, Mr Patsalides has (in order to take into account the ten BOCH Shares already held by him) agreed with BOC and BOCH that on completion of the Scheme the BOCH Shares to which he will be entitled, when aggregated with the ten BOCH Shares already held by him, will amount to the number of BOCH Shares he would have been entitled to pursuant to the terms of the Scheme and the Consolidation Basis, had he not been the current holder of ten BOCH Shares.

3.5 The issued and fully paid-up share capital of BOCH as at the date of publication of this Prospectus is as follows:

<u>Issued Share Capital</u>	<u>Number</u>
BOCH Shares of €0.10 each	10
Deferred ordinary shares of €1.00 each	25,000

3.6 The proposed, issued and fully paid share capital of BOCH as it is expected to be on the date of Admission is as follows:

<u>Issued Share Capital</u>	<u>Number</u>
BOCH Shares of €0.10 each	Up to 700,000,000 (expected to be approximately 450,000,000)

The final number of BOCH Shares that will be issued as part of the Scheme will be calculated using the Consolidation Basis.

BOCH will, pursuant to the relevant legislation, announce the final number of BOCH Shares that are issued and listed following Admission, by making an announcement on the CSE and the LSE, as soon as practicable after Admission.

Authorisations relating to the share capital of BOCH

3.7 By various resolutions passed on 15 November 2016, it was resolved by the holder of the sole BOCH Share then in issue that:

- (a) BOCH adopt the BOCH Constitution;
- (b) conditional upon the acquisition and cancellation of the deferred ordinary shares (to occur concurrently with the Scheme becoming Effective), BOCH adopt a revised BOCH Constitution, such revised constitution being the same as the BOCH Constitution save for the omission of all references to the deferred ordinary shares, such references being unnecessary following the acquisition and cancellation of the deferred ordinary shares;
- (c) conditional upon the Scheme becoming Effective and conditional on the buy-back and cancellation of all deferred ordinary shares, the authorised share capital of BOCH be reduced from €1,000,025,000 divided into 10,000,000,000 ordinary shares of €0.10 each and 25,000 deferred ordinary shares of €1.00 each to €1,000,000,000 divided into 10,000,000,000 ordinary shares of €0.10 each;
- (d) the BOCH Directors be authorised to exercise all the powers of BOCH to allot and issue the BOCH Shares pursuant to the Scheme;
- (e) the BOCH Directors be authorised to establish, subject to the approval of the ECB and in a manner consistent with the provisions of the CBC Governance Directive, the Share Option Plan on terms identical to the long term incentive plan of BOC approved by the shareholders of BOC on 24 November 2015; and
- (f) the BOCH Directors be authorised to exercise all the powers of BOCH to allot and issue up to 8,922,945 BOCH Shares pursuant to the Share Option Plan on a non pre-emptive basis.

Allotment of BOCH Shares

3.8 As a matter of Irish law, the BOCH Board of Directors may only issue authorised but unissued BOCH Shares if authorised to do so by the BOCH Articles or if authorised by an ordinary resolution of the BOCH Shareholders at a general meeting. An ordinary resolution requires over 50% of the votes of a company's shareholders cast at a general meeting. The authority conferred can be granted for a maximum period of five years, at which point it must be renewed by the BOCH Shareholders by a

further ordinary resolution. Save as described below with respect to the granting of options or the allotment of shares to employees of the BOC Group in relation to the Share Option Plan and with respect to its authority to allot and issue the BOCH Shares pursuant to the Scheme, the BOCH Board of Directors is not currently authorised to allot and issue any shares and will not be so authorised unless the BOCH Shareholders pass an ordinary resolution at a general meeting granting the BOCH Board of Directors this authority.

Even if such an authority was in place, under the Irish Takeover Rules the BOCH Board of Directors would not be permitted to issue any shares in BOCH during a period when an offer has been made for BOCH or is believed to be imminent unless the issue is (i) approved by shareholders of BOCH at a general meeting, (ii) consented to by the Irish Takeover Panel on the basis it would not constitute action frustrating the offer, (iii) consented to by the Irish Takeover Panel and approved by the holders of more than 50% of the voting rights in BOCH, (iv) consented to by the Irish Takeover Panel in circumstances where a contract for the issue of the shares had been entered into prior to that period or (v) consented to by the Irish Takeover Panel in circumstances where the issue of the shares was decided by the BOCH Board of Directors prior to that period and either action has been taken to implement the issuance (whether in part or in full) prior to such period or the issuance was otherwise in the ordinary course of business.

The BOCH Articles authorise the BOCH Board of Directors to grant from time to time options to subscribe for the unallotted shares in the capital of BOCH to persons in the service or employment of BOCH or any subsidiary or associated company of BOCH (including directors holding executive offices) on such terms and subject to such conditions as the members of BOCH in general meeting may from time to time approve. Accordingly, as a result of the resolution passed by the shareholder of BOCH on 15 November 2016, the BOCH Board of Directors is permitted to grant options over and allot up to 8,922,945 unissued ordinary shares in the capital of BOCH pursuant to the Share Option Plan without further approval from the BOCH Shareholders for a period of 5 years from the date of such resolution.

Pre-emption rights

- 3.9 Certain statutory pre-emption rights apply automatically in favour of BOCH Shareholders where shares in BOCH are to be issued for cash. Statutory pre-emption rights do not apply (i) where shares are issued for non-cash consideration (such as in a share-for-share acquisition), (ii) to the issue of non-equity shares (that is, shares that have the right to participate only up to a specified amount in any income or capital distribution) or (iii) where shares are issued pursuant to an employee option or similar equity plan (such as the Share Option Plan). While Irish law permits companies to opt-out of the statutory pre-emption rights for a period of up to five years if authorised by shareholders by a special resolution (a special resolution requires not less than 75% of the votes of BOCH Shareholders cast at a general meeting), save for the shareholder resolutions passed in respect of the issue of BOCH Shares in respect of the Share Option Plan, no such resolution has been adopted by BOCH's Shareholders and accordingly BOCH shares issued for cash otherwise than in relation to the Scheme or the Share Option Plan must be offered to pre-existing shareholders of BOCH *pro rata* to their existing shareholding before the shares can be issued to any new shareholders.
- 3.10 Save as disclosed in this Prospectus, at the date of this document:
- (a) no share or loan capital of BOCH has been issued or been agreed to be issued fully or partly paid, either for cash or for a consideration other than cash and no such issue is now proposed;
 - (b) no commissions, discounts, brokerages or other special terms have been granted in respect of any share capital of BOCH;
 - (c) no share or loan capital of BOCH is under option or agreed, conditionally or unconditionally, to be put under option; and
 - (d) BOCH has no subsidiaries and accordingly no share or loan capital of any subsidiary has been issued or been agreed to be issued fully or partly paid either for cash or for a consideration other than cash and no such issue is now proposed and no share or loan capital of any subsidiary is under option or agreed, conditionally or unconditionally, to be put under option.

3.11 The BOCH Shares are in registered form and, subject to the provisions of the 1996 Regulations, the Directors may permit the holding of BOCH Shares in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the 1996 Regulations).

3.12 Following Admission the BOCH Shares will be registered under ISIN: IE00BD5B1Y92.

3.13 The BOCH Shares will rank *pari passu* for dividends.

3.14 BOCH does not have any shares in issue which carry special control rights. To the knowledge of BOCH immediately following Admission, BOCH will not be directly or indirectly controlled.

4. Share Capital of the Bank

As at 31 October 2016 (being the latest practicable date prior to the publication of this document) the total issued share capital of the Bank was €892.3 million divided into 8,922,944,533 ordinary shares of a nominal value of €0.10 each. On that date, Laiki Bank, Lamesa Holding S.A. (an affiliate of the Renova Group), TD Asset Management Inc., Tyrus Capital Group, Senvest Cyprus Recovery Investment Fund, L.P., and the EBRD held, directly or indirectly, 9.62%, 9.88%, 5.24%, 3.92%, 3.22% and 5.02%, respectively, of the issued share capital of the Bank. Other than Laiki Bank, Lamesa Holding S.A., TD Asset Management Inc., Tyrus Capital Group, Senest Cyprus Recovery Investment Fund, L.P., and EBRD, the Bank is not aware of any other shareholders holding, directly or indirectly, more than 3% of the issued share capital of the Bank. The Bank does not have any shares in issue which carry special control rights. To the knowledge of the Bank, it is not directly or indirectly controlled. Save as disclosed above, the Bank is not aware of any person or corporation who, directly or indirectly, has an interest in the Bank's capital or voting rights which is notifiable under Cypriot law.

Upon the Scheme becoming Effective, BOCH and its nominees will own 100 per cent of the New BOC Shares and the BOC Shareholders will become the BOCH Shareholders. For further information please see "*The Scheme of Arrangement*". From the Effective Date, at least six BOC Shares will be held by nominees of BOCH to ensure that the Bank retains at least seven shareholders in order to preserve its status as a public limited company under Cypriot Company law. Each of these nominees will hold each such new share on trust for BOCH.

5. Significant Subsidiaries, Associates and Branches

The following table indicates the significant subsidiaries, associates and branches included within the BOC Group as at 30 June 2016:

<u>Company</u>	<u>Country</u>	<u>Activities</u>	<u>Percentage holding (%)</u>
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	100
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
The Cyprus Investment and Securities Corporation Limited (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Bank of Cyprus Public Company Ltd (branch of the Bank)	Greece	Administration of guarantees and holding of real estate properties	N/A
Bank of Cyprus (Channel Islands) Ltd ⁽¹⁾	Channel Islands	Commercial bank	100
Bank of Cyprus Romania (branch of the Bank)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
MC Investment Assets Management LLC	Russia	Distressed asset management company	100
CNP Cyprus Insurance Holdings Ltd	Cyprus	General Insurance	49.9
Interfund Investments Plc	Cyprus	Closed-end investment company	23.1

(1) On 30 August 2016, as part of the BOC Group's strategy focusing on its core businesses and markets, the BOC Group decided to close the operations of BOC CI.

Additionally, the BOC Group has a number of subsidiaries and investments in associates and joint ventures which are disclosed in Notes 51 and 53 respectively in “*Historical Financial Information*” in this Prospectus.

6. Summary of BOCH’s Constitution

6.1 Memorandum of Association

A full description of the objects of BOCH is set out in clauses 3 and 4 of its memorandum of association which is available for inspection as provided for in “*Additional Information—Documents available for inspection*” of this Prospectus. Those objects include the carrying on of the business of a holding company of one or more licensed credit institutions, the raising of money and the acquisition of securities.

6.2 Articles of Association

The BOCH Articles, which are available for inspection as provided for in “*Additional Information—Documents available for inspection*” of this Prospectus, contain (amongst others) provisions to the following effect.

6.3 Share rights

The authorised share capital of BOCH is €1,000,025,000 divided into 10,000,000,000 ordinary shares of €0.10 each and 25,000 deferred ordinary shares of €1.00 each.

Without prejudice to any special rights conferred on the holders of any existing shares or class of shares in BOCH, and subject to the provisions of the Companies Act, any share may be issued with such rights or restrictions as BOCH may by ordinary resolution determine.

Ordinary shares

The rights and restrictions attaching to the ordinary shares are as follows:

- (a) subject to the right of BOCH 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 BOCH and to exercise one vote per ordinary share at any general meeting of BOCH;
- (b) the right to participate pro rata in all dividends declared by BOCH; and
- (c) the right, in the event of BOCH’s winding up, to participate pro rata in the total assets of BOCH.

The rights attaching to the ordinary shares may be subject to the terms of issue of any series or class of preferred shares allotted by the BOCH Board of Directors from time to time.

Deferred ordinary shares

The deferred ordinary shares were included in BOCH’s share capital solely to ensure that BOCH satisfies Irish law minimum share capital requirements for public limited companies at all times prior the Scheme becoming Effective. The deferred ordinary shares carry no voting rights or income rights and have only limited rights on a return of capital equal. The 25,000 deferred ordinary shares currently in issue will be acquired by BOCH for nil consideration and cancelled upon the Scheme becoming Effective.

Preferred shares

Provided preferred shares are comprised in the authorised share capital of BOCH, and where authorised by shareholders to issue authorised but unissued preferred shares in the capital of BOCH, and subject to the scope of any such authority, in accordance with the BOCH Articles, the BOCH Board of Directors will have the authority to issue unissued preferred shares from time to time in one or more classes or series, and to fix for each such class or series such voting power, full or limited, or no voting power, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board providing for the issuance of such class or series.

6.4 *Allotment of BOCH Shares*

As a matter of Irish law, the BOCH Board of Directors may only issue authorised but unissued BOCH Shares if authorised to do so by the BOCH Articles or if authorised by an ordinary resolution of the BOCH Shareholders at a general meeting. An ordinary resolution requires over 50% of the votes of a company's shareholders cast at a general meeting. The authority conferred can be granted for a maximum period of five years, at which point it must be renewed by the BOCH Shareholders by a further ordinary resolution. Save as described below with respect to the granting of options or the allotment of shares to employees of the BOC Group in relation to the Share Option Plan and with respect to its authority to allot and issue the BOCH Shares pursuant to the Scheme, the BOCH Board of Directors is not currently authorised to allot and issue any shares and will not be so authorised unless BOCH Shareholders pass an ordinary resolution at a general meeting granting the BOCH Board of Directors this authority.

The BOCH Articles authorise the BOCH Board of Directors to grant from time to time options to subscribe for the unallotted shares in the capital of BOCH to persons in the service or employment of BOCH or any subsidiary or associated company of BOCH (including directors holding executive offices) on such terms and subject to such conditions as the members of BOCH in general meeting may from time to time approve. Accordingly, as a result of the resolution passed by the shareholder of BOCH on 15 November 2016, the BOCH Board of Directors is permitted to grant options over and allot up to 8,922,945 unissued ordinary shares in the capital of BOCH pursuant to the Share Option Plan without further approval from the BOCH Shareholders for a period of 5 years from the date of such resolution.

6.5 *Pre-emption rights*

Certain statutory pre-emption rights apply automatically in favour of BOCH Shareholders where shares in BOCH are to be issued for cash. Statutory pre-emption rights do not apply (i) where shares are issued for non-cash consideration (such as in a share-for-share acquisition), (ii) to the issue of non-equity shares (that is, shares that have the right to participate only up to a specified amount in any income or capital distribution) or (iii) where shares are issued pursuant to an employee option or similar equity plan (such as the Share Option Plan). While Irish law permits companies to opt-out of the statutory pre-emption rights for a period of up to five years if authorised by shareholders by a special resolution (a special resolution requires not less than 75% of the votes of BOCH Shareholders cast at a general meeting), save for the shareholder resolution passed in respect of the issue of BOCH Shares in respect of the Share Option Plan, no such resolution has been adopted by the BOCH Shareholders and accordingly BOCH shares issued for cash otherwise than (if applicable) in relation to the Scheme and the Share Option Plan must be offered to pre-existing shareholders of BOCH *pro rata* to their existing shareholding before the shares can be issued to any new shareholders.

6.6 *Dividends and other distributions*

Under Irish law, dividends and distributions may only be made from distributable reserves. Distributable reserves generally means accumulated realised profits, so far as not previously utilised by distribution or capitalisation, less accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital, and includes reserves created by way of capital reduction. In addition, no distribution or dividend may be made unless the net assets of BOCH are equal to, or in excess of, the aggregate of BOCH's called-up share capital plus undistributable reserves and the distribution does not reduce BOCH's net assets below such aggregate.

Undistributable reserves include the undenominated capital and the amount by which BOCH's accumulated unrealised profits, so far as not previously utilised by any capitalisation, exceed BOCH's accumulated unrealised losses, so far as not previously written off in a reduction or reorganisation of capital. The determination as to whether or not BOCH has sufficient distributable reserves to fund a dividend must be made by reference to "relevant financial statements" of BOCH. The "relevant financial statements" are either the last set of unconsolidated annual audited financial statements or other financial statements properly prepared in accordance with the Companies Act, which give a "true and fair view" of BOCH's unconsolidated financial position and accord with accepted accounting practice. The relevant financial statements must be filed in the Companies Registration Office (the official public registry for companies in Ireland).

The BOCH Articles authorise the directors to pay interim dividends without shareholder approval to the extent they appear justified by profits.

The BOCH Board of Directors may also recommend a dividend to be approved and declared by the BOCH Shareholders at a general meeting and may direct that the payment be made by distribution of assets, shares or cash. No dividend issued may exceed the amount recommended by the BOCH Board of Directors. Any general meeting declaring a dividend may direct payment of such dividend or bonus or interim dividend wholly or partly by the distribution of specific assets and in particular of paid-up shares, debentures or debenture stocks of any other company or in any one or more of such ways, and the BOCH Board of Directors shall give effect to such resolution, and where any difficulty arises in regard to such distribution, the BOCH Board of Directors may settle the same as they think expedient, and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the footing of the value so fixed, in order to adjust the rights of all the parties, and may vest any such specific assets in trustees as may seem expedient to the BOCH Board of Directors and generally may make such arrangements for the allotment, acceptance and sale of such specific assets or fractional certificates, or any part thereof, and otherwise as they think fit.

Provided preferred shares are comprised in the authorised share capital of BOCH, and when authorised to do so by shareholders, the BOCH Board of Directors will also be entitled to issue shares with preferred rights to participate in dividends declared by BOCH (which may be cumulative or non-cumulative). The holders of such preferred shares may, depending on their terms, be entitled to claim arrears of a declared dividend out of subsequently declared dividends in priority to ordinary shareholders. Dividends on BOCH Shares are not cumulative in nature.

6.7 Share Purchases and Redemptions

Overview

The BOCH Articles provide that, unless the BOCH Board of Directors specifically elects to treat such an acquisition as a purchase for the purposes of the Companies Act, any ordinary share which BOCH has acquired or agreed to acquire shall be deemed to be a redeemable share. Accordingly, for Irish company law purposes, the repurchase of ordinary shares by BOCH will technically be effected as a redemption of those shares as described below under “*Purchase by Subsidiaries of BOCH.*” If the BOCH Articles did not contain this provision, repurchases by BOCH would be subject to many of the same rules that apply to purchases of BOCH ordinary shares by subsidiaries described under “*Repurchases and Redemptions by BOCH*”, including the shareholder approval requirements described below and the requirement that any on-market purchases be effected on a “*securities market.*” Except where otherwise noted, references to repurchasing or buying back ordinary shares of BOCH refer to the redemption of ordinary shares by BOCH or the purchase of ordinary shares of BOCH by a subsidiary of BOCH, in each case in accordance with the BOCH Articles and the Companies Act as described below.

Repurchases and Redemptions by BOCH

Under Irish law, a company can issue redeemable shares and redeem them out of distributable reserves or the proceeds of a new issue of shares for that purpose.

The issue of redeemable shares may only be made by BOCH where the nominal value of the issued share capital that is not redeemable is not less than 10% of the nominal value of the total issued share capital of BOCH. Provided preferred shares are comprised in the authorised share capital of BOCH, and when authorised to do so by shareholders, the BOCH Board of Directors will also be entitled to issue preferred shares which may be redeemed at the option of either BOCH or the relevant BOCH Shareholder, depending on the terms of such preferred shares. Repurchased and redeemed shares may be cancelled or held as treasury shares. The nominal value of treasury shares held by BOCH at any time must not exceed 10% of the aggregate of the nominal value and share premium in respect of the allotment of BOCH shares together with the nominal value of any shares acquired by BOCH. While BOCH holds shares as treasury shares, it cannot exercise any voting rights in respect of those shares. Treasury shares may be cancelled by BOCH or re-issued subject to certain conditions.

Purchases by Subsidiaries of BOCH

Under Irish law, it may be permissible for an Irish or non-Irish subsidiary to purchase of BOCH Shares either on-market or off-market. A general authority of the BOCH Shareholders is required to allow a subsidiary of BOCH to make on-market purchases of BOCH ordinary shares; however, as long as this general authority has been granted, no specific shareholder authority for a particular on-market purchase

by a subsidiary of BOCH ordinary shares is required. In order for a subsidiary of BOCH to make an on-market purchase of BOCH Shares, such shares must be purchased on a “regulated market” or another market recognised for the purposes of section 1072 of the Companies Act. The LSE and the CSE, on which it is proposed to list the BOCH Shares, are regulated markets for this purpose. For an off-market purchase by a subsidiary of BOCH, the proposed purchase contract must be authorised by special resolution of the BOCH Shareholders before the contract is entered into. The person whose shares are to be bought back cannot vote in favor of the special resolution and, from the date of the notice of the meeting at which the resolution approving the contract is to be proposed, the purchase contract must be on display or must be available for inspection by BOCH Shareholders at the registered office of BOCH.

The number of shares held by the subsidiaries of BOCH at any time will count as treasury shares and will be included in any calculation of the permitted treasury share threshold of 10% of the aggregate of the nominal value and share premium in respect of the allotment of BOCH shares together with the nominal value of any shares acquired by BOCH. While a subsidiary holds BOCH Shares, it cannot exercise any voting rights in respect of those shares. The acquisition of the BOCH Shares by a subsidiary must be funded out of distributable reserves of the subsidiary.

6.8 *Capitalisation of reserves*

The BOCH Articles provide that the BOCH Board of Directors may from time to time at their discretion, subject to the provisions of the Companies Act and, in particular, to their being duly authorised pursuant to the Companies Act to allot the relevant shares, offer to the holders of ordinary shares the right to elect to receive in lieu of any dividend or proposed dividend or part thereof an allotment of additional ordinary shares credited as fully paid-up.

The BOCH Articles also provide that the BOCH Board of Directors may resolve to capitalise any amount credited to any reserve or fund available for distribution or the share premium account or other undistributable reserve of BOCH for issuance and distribution to shareholders as fully paid-up bonus shares on the same basis of entitlement as would apply in respect of a dividend or distribution.

6.9 *Transfer of Shares*

Under the BOCH Articles, the BOCH Board of Directors may, in their absolute discretion and without assigning any reason therefore, decline to register:

- (a) any transfer of a share which is not fully paid; or
- (b) any transfer to or by a minor or person of unsound mind,

but this shall not apply to a transfer of such a share resulting from a sale of the share through a stock exchange on which the share is listed.

Under the BOCH Articles, the BOCH Board of Directors may decline to recognise any instrument of transfer unless:

- (a) save for transfers effected in a manner permitted under the 1996 Regulations, the Companies Act or any applicable regulations made thereunder, the instrument is accompanied by the certificate of the shares to which it relates and such other evidence as the BOCH Board of Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) it is for a share which is fully paid-up;
- (c) it is for a share upon which BOCH has no lien;
- (d) it is for one class of share only;
- (e) it is duly stamped or is duly certificated or otherwise show to the satisfaction of the BOCH Board of Directors to be exempt from stamp duty (if this is required);
- (f) it is in favour of not more than six transferees; and
- (g) it is lodged at the registered office of BOCH or at such other place as the BOCH Board of Directors may appoint.

The BOCH Board of Directors may decline to register any transfer of shares in uncertificated form only in such circumstances as may be permitted or required by the 1996 Regulations.

In addition to any other right or power of BOCH under the Companies Act or under the BOCH Articles, the BOCH Board of Directors may at any time give a shareholder a notice requiring that shareholder to notify BOCH of his interest in any shares in BOCH and where a shareholder fails to comply such notice or any notice served under the Companies Act, the BOCH Board of Directors may serve a further notice on the relevant shareholder directing that, amongst other things where the relevant shares represent at least 0.25% of the nominal value of issued share capital of that class, save in specified circumstances, no transfer of any such shares shall be registered.

6.10 Changes in capital

Increases or reductions in authorised share capital

The authorised share capital may be increased or reduced (but not below the number of BOCH Shares or deferred ordinary shares, as applicable, in issue) by ordinary resolution.

Consolidation, Division, Subdivision and Cancellation

Under the BOCH Articles, BOCH may by ordinary resolution:

- (a) consolidate and divide all of any of its share capital into shares of larger amount;
- (b) subdivide its shares, or any of them, into shares of smaller amount;
- (c) increase the nominal value of any of its shares by the addition to them or any undenominated capital;
- (d) reduce the nominal value of any of its shares by the deduction from them of any part of that value, subject to the crediting of the amount of the deduction to undenominated capital, other than the share premium account; or
- (e) cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and reduce the amount of its authorised share capital by the amount of the shares so cancelled.

Reductions of Capital

BOCH's Articles provide that BOCH may, by special resolution, reduce its company capital, any capital redemption reserve fund, share premium account or any undenominated capital in any manner and with, and subject to, any incident authorised, and consent required, by law any reserve arising from such reduction of capital shall be treated as a realised profit in accordance with the Companies Act.

6.11 Variation of rights

Variation of all or any special rights attached to any class of shares of BOCH is addressed in the BOCH Articles as well as the Companies Act. Any variation of class rights attaching to the issued shares of BOCH must be approved with the consent in writing or by a special resolution of the shareholders of the class affected passed at a separate general meeting of the holders of the shares of the class. The quorum at any such separate general meeting, other than an adjourned meeting, shall be ten persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question provided that, if the relevant class of holders only has one holder, that holder present in person or by proxy, shall constitute the necessary quorum. The quorum at an adjourned meeting shall be one person holding shares of the class in question or his proxy.

6.12 Disclosure of Interests

Under the Companies Act and the Irish Transparency Regulations, there is a notification requirement for shareholders who acquire or cease to be interested in 3% of the shares of an Irish public limited company. A shareholder of BOCH must therefore make such a notification to BOCH if as a result of a transaction the shareholder will be interested in 3% or more of the shares of BOCH or if as a result of a transaction a shareholder who was interested in more than 3% of the shares of BOCH ceases to be so interested.

Where a shareholder is interested in more than 3% of the shares of BOCH, any alteration of his or her interest that brings his or her total holding through the nearest whole percentage number, whether an increase or a reduction, must be notified to BOCH. The relevant percentage figure is calculated by reference to the aggregate nominal value of the shares in which the shareholder is interested as a proportion of the entire nominal value of BOCH's share capital. Where the percentage level of the

shareholder's interest does not amount to a whole percentage this figure may be rounded down to the next whole number. All such disclosures should be notified to BOCH within 5 business days of the transaction or alteration of the shareholder's interests that gave rise to the requirement to notify. Where a person fails to comply with the notification requirements described above no right or interest of any kind whatsoever in respect of any shares in BOCH concerned, held by such person, shall be enforceable by such person, whether directly or indirectly, by action or legal proceeding. However, such person may apply to the court to have the rights attaching to the shares concerned reinstated.

In addition to the above disclosure requirement, if at any time the BOCH Board of Directors are satisfied that any shareholder, or any other person appearing to be interested in shares held by such shareholder, has been duly served with a Section 1062 Notice and is in default for the Section 1062 prescribed period (as defined in the BOCH Articles) in supplying to BOCH the information required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the directors may, in their absolute discretion at any time thereafter by notice (a "**Direction Notice**") to such shareholder direct:

- (a) that the shareholder shall not be entitled to attend or to vote at a general meeting either personally or by proxy in respect of the shares in relation to which the default occurred (the "**Default Shares**") or to exercise any other right conferred by membership in relation to meetings of BOCH;
- (b) that, where the nominal value of the Default Shares represents at least 0.25% of the nominal value of the issued shares of that class:
 - (i) no payment shall be made of any sums due from BOCH on the Default Shares and BOCH shall not have any liability to pay interest on any such payment when it is finally paid (in each case except in a liquidation of BOCH);
 - (ii) no other distribution shall be made on the Default Shares; or
 - (iii) no transfer of any of the Default Shares held by such member shall be registered unless (A) the member is not himself in default as regards supplying the information requested; or (B) the transfer is an approved transfer (as defined in the BOCH Articles).

Any Direction Notice shall cease to have effect:

- (a) in relation to any shares which are transferred by such member by means of an approved transfer; or
- (b) when the directors are satisfied that such shareholder (and any other person appearing to be interested in shares held by such shareholder) has provided BOCH with the information required in the Section 1062 Notice.

The BOCH Board of Directors may at any time give notice cancelling a Direction Notice.

6.13 Regulatory Approval of Significant Shareholdings

The acquisition or disposition of a "qualifying holding" in an EEA credit institution requires prior notification and/or approval under Articles 4(1)(c) and 15 of the ECB Regulation and "qualifying holding" for these purposes is defined to include a direct or indirect holding of 10% or more of the capital or of the voting rights of an undertaking (the "**Change in Control Requirements**").

Given the definition of "qualifying holding", subject to the implementation of the Scheme, any person who intends to acquire 10% or more of the capital or voting rights in BOCH would also be subject to the Change in Control Requirements, since that person would have an "indirect" holding of 10% or more in the Bank by virtue of BOCH's ownership of the Bank.

In addition to new controller approval requirements, Article 17 of the Cypriot Credit Institution Law provides that, where an existing shareholder further increases its (direct or indirect) holding in the Bank as a result of which its holding would reach or exceed 10%, 20%, 30% or 50% of the voting rights or capital of the Bank or the shareholder would become a parent undertaking of the Bank, any such increases would also need prior approval from the CBC.

Furthermore, Article 17C of the Cypriot Credit Institution Law provides that where an existing shareholder disposes of or reduces its (direct or indirect) holding in BOC so that its holding falls below any of these thresholds (i.e. 10%, 20%, 30% and 50%), the shareholder is required to notify the CBC in advance of the disposition or reduction, as the case may be.

It is not anticipated that any existing shareholders of the Bank would be subject to the Change in Control Requirements as part of the Scheme, given that the Bank does not currently have any shareholders that hold 10% or more of its shares or voting rights.

As a means of ensuring observance by the shareholders of BOCH of the Change in Control Requirements or any similar requirements, the following restrictions are in the BOCH Articles:

- (a) BOCH will have the ability to impose restrictions on the exercise of a shareholder's voting rights in the event that its holding reaches or exceeds 10% or more of its shares or where its holding would reach or exceed 20%, 30% or 50% of the voting rights or capital of BOCH; and
- (b) any such restrictions will only be disapplied after the shareholder has complied with any applicable regulatory requirements in relation to that acquisition.

6.14 Share certificates

Except in respect of an allotment or transfer of a share in uncertificated form in accordance with the 1996 Regulations, every member of BOCH shall be entitled without payment to receive within two months after allotment or lodgement of a transfer to him of the shares in respect of which he is so registered (or within such other period as the conditions of issue shall provide) one certificate for all the shares of each class held by him or several certificates each for one or more of his shares upon payment for every certificate after the first of such reasonable sum as the directors may determine provided that BOCH shall not be bound to issue more than one certificate for shares held jointly by several persons and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

If a share certificate is defaced, worn out, lost, stolen or destroyed, it may be replaced on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by BOCH in investigating such evidence, as the board may prescribe, and, in the case of defacement or wearing out, upon delivery of the old certificate. The board may in its absolute discretion decide to waive the right of BOCH to receive such payment.

6.15 Directors

The BOCH Articles allocate authority over day-to-day management of BOCH to the BOCH Board of Directors. The BOCH Board of Directors may then delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee consisting of such person or persons (whether directors or not) as it thinks fit, but regardless, the directors will remain responsible, as a matter of Irish law, for the proper management of the affairs of BOCH.

Number of directors

The number of directors shall not be more than thirteen. BOCH may by ordinary resolution vary the maximum number of directors.

Appointment and retirement of directors

At each annual general meeting of BOCH every director who has been in office at the completion of the most recent annual general meeting since he was last appointed or reappointed, shall retire from office.

Directors are elected by an ordinary resolution at an annual general meeting (or an extraordinary general meeting called for that purpose), provided that if, at any general meeting, the election of all director nominees in this manner would cause the number of directors to exceed the maximum number of directors permitted by the BOCH Articles (or by a shareholder resolution increasing the maximum number of directors permitted) (the "**Maximum Number of Directors**"), the election of BOCH Directors shall be determined by separate resolutions and nominees will be elected in priority of those receiving the highest number of votes, provided that no director shall be elected that has not received votes in favour of his or her appointment at least equal to the number of votes required to pass an ordinary resolution and once the Maximum Number of Directors has been elected the remaining nominees shall be deemed not to have been elected.

A director who retires at an annual general meeting may be reappointed, if willing to act. If he is not reappointed (or deemed to be reappointed pursuant to the BOCH Articles) he shall retain office until the meeting appoints someone in his place or, if it does not do so, until the end of the meeting.

BOCH may from time-to-time by ordinary resolution appoint a person to be director either to fill a vacancy or as an additional director.

BOCH may also from time to time by ordinary resolution increase or reduce the number of directors, and may also determine in what rotation the increased or reduced number is out of office.

The directors may also appoint a person who is willing to act as a director, either to fill a vacancy or as an additional director, provided that the appointment does not cause the number of directors to exceed the maximum number of directors fixed by the BOCH Articles or by an ordinary resolution. A director so appointed will hold office until the next following annual general meeting, and shall then be eligible for re-election. If not re-appointed at such annual general meeting such director shall vacate office at the conclusion thereof.

Disqualification and removal of directors

Under Irish law, BOCH, by ordinary resolution of which notice has been given in accordance with the Companies Act may remove any director before the expiry of his period of office notwithstanding anything in the BOCH Articles or in any agreement between BOCH and such director and may, if thought fit, by ordinary resolution appoint another director in his stead.

The BOCH Articles provide that the office of a director will be vacated if:

- (a) he is restricted or disqualified from acting as a director of any company under the provisions of Part 14 of the Companies Act;
- (b) he becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (c) in the opinion of a majority of his co-directors, he becomes incapable by reason of mental disorder of discharging his duties as a director;
- (d) (not being a director holding for a fixed term an executive office in his capacity as a director) he resigns his office by notice to BOCH;
- (e) he is convicted of an indictable offence, unless the directors otherwise determine;
- (f) he shall have been absent for more than three consecutive months without permission of the directors from meetings of the directors held during that period and the directors pass a resolution that by reason of such absence he has vacated office; or
- (g) he is required in writing by all his co-directors to resign.

Proceedings of the board

Subject to the provisions of BOCH's Articles, the directors may regulate their proceedings as they think fit. A director may call a meeting of the directors. The quorum necessary for the transaction of the business of the BOCH Board of Directors may be fixed by the board and, unless so fixed at any other number, shall be four. If the number of directors present is less than the number fixed as the quorum, they may act only for the purpose of filling vacancies or of calling a general meeting.

Subject to any appointment to the office of chairman made pursuant to the BOCH Articles, the directors may elect a chairman of their meetings and determine the period for which he is to hold office. Questions arising at any meeting of directors shall be decided by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.

Any director may participate in a meeting of the directors or any committee of the directors by means of a conference telephone or other telecommunications equipment by means of which all persons participating in the meeting can hear each other speak and such participation in a meeting shall constitute presence in person at the meeting.

All acts done by any meeting of the directors or of a committee of directors or by any person acting as a director, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any such director or person acting as aforesaid, or that they or any of them were disqualified from holding office or had vacated office, shall be as valid as if every such person had been duly appointed and was qualified and had continued to be a director and had been entitled to vote.

Remuneration and expenses of directors

The ordinary remuneration of the directors will be determined from time to time by an ordinary resolution of BOCH. Any director who holds any executive office, including that of chairman or deputy chairman, or who serves on any committee, or who otherwise performs services which in the opinion of the directors are outside the scope of a director's ordinary duties, may be paid such extra remuneration by way of salary, commission or otherwise as the directors may determine.

The directors may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of directors or committees of directors or general meetings or separate meetings of the holders of any class of shares or of debentures of BOCH, or otherwise in connection with the discharge of their duties. In addition, the BOCH Articles expressly permit each director of BOCH (for the purposes of section 228(1)(d) of the Companies Act) to use BOCH's property subject to such conditions as may be or have been approved by the board or pursuant to any delegation of the board in accordance with the BOCH Articles or as permitted by their terms of employment or otherwise.

Pensions, insurance and gratuities for directors

The directors may provide benefits, whether by way of pensions, gratuities or otherwise, for any director, former director or other office or former officer of BOCH or to any person who holds or has held any employment with BOCH or with any of its present or past subsidiaries or associated companies.

The directors shall have the power to purchase and maintain insurance for or for the benefit of any persons who are or were at any time directors, officers or employees of BOCH, or of any other company which is its holding company or in which BOCH or such holding company has any direct or indirect interest.

Directors' interests

Subject to the provisions of the Companies Act, and provided that he has disclosed to the directors the nature and extent of any material interest of his, a director notwithstanding his office:

- (a) may be a party to, or otherwise interested in, any transaction or arrangement with BOCH or any subsidiary or associated company thereof or in which BOCH or any subsidiary or associated company thereof is otherwise interested;
- (b) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate promoted by BOCH or in which BOCH or any subsidiary or associated company thereof is otherwise interested;
- (c) shall not be accountable, by reason of his office, to BOCH for any benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the ground of any such interest or benefit; and
- (d) shall not be disqualified from his office from contracting with BOCH either as vendor, purchaser or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the other company in which any director shall be in any way interested be avoided nor shall any director so contracting or being so interested be liable to account to BOCH for any profit realised by any such contract or arrangement by reason of such director holding that office or of the fiduciary relationship thereby established.

Restrictions on voting

Save as otherwise provided by the BOCH Articles, a director shall not vote at a meeting of the directors or a committee of directors on any resolution concerning a matter in which he has, directly or indirectly, an interest which is material or a duty which conflicts or may conflict with the interests of BOCH and shall not be allowed to attend any meeting during which such resolution may be discussed. A director shall not be counted in the quorum present at a meeting in relation to any such resolution on which he is not entitled to vote.

BOCH may by ordinary resolution suspend or relax to any extent the provisions relating to directors' interests or the restrictions on voting or ratify any transaction not duly authorised by reason of a contravention of such provisions.

6.16 *General meetings*

Within 18 months of BOCH's incorporation (11 July 2016), and every year thereafter, BOCH shall hold a general meeting as its annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notices calling it. Not more than fifteen months shall elapse between the date of one annual general meeting and that of the next. All general meetings other than annual general meetings shall be called extraordinary general meetings.

Subject to the provisions of the Companies Act allowing a general meeting to be called by shorter notice, an annual general meeting and an extraordinary general meeting called for the passing of a special resolution shall be called by at least twenty-one clear days' notice. Any other extraordinary general meeting shall also be called by at least twenty-one clear days notice, except that it may be called by fourteen clear days' notice, whether in electronic form or otherwise, where:

- (a) all members, who hold shares that carry rights to vote at the meeting, are permitted to vote by electronic means either before or at the meeting; and
- (b) a special resolution reducing the period of notice to fourteen clear days' notice has been passed at the immediately preceding annual general meeting, or at a general meeting held since that meeting.

Any notice convening a general meeting must state the time and place of the meeting and, in the case of special business, the general nature of that business. A notice calling an annual general meeting must state that the meeting is an annual general meeting.

A director of BOCH shall be entitled to attend and speak at any general meeting and at any separate meeting of the holders of any class of shares in BOCH. The Chairman of the BOCH Board of Directors, or, in his absence, the deputy chairman or, in his absence, some other director nominated by the directors, shall preside as chairman at every general meeting of BOCH.

Under the BOCH Articles, DI Holders are permitted to receive notice of and attend general meetings of BOCH.

Voting

At any general meeting a resolution put to a vote shall be decided on a show of hands unless a poll is duly demanded. Votes at general meetings may be given either personally or by proxy.

Under the BOCH Articles, each shareholder is entitled to one vote for each BOCH Share he or she holds as at the record date for the meeting. The holders of any deferred ordinary shares shall not be entitled to a vote at any general meeting.

Except where a greater majority is required by the Companies Act, any question, business or resolution proposed at any general meeting shall be decided by a simple majority of the votes cast.

At any meeting of BOCH, all resolutions shall be decided on a show of hands unless a poll is demanded by: (i) the chairman, (ii) at least 10 members present in person or by proxy having the right to vote at the meeting, (iii) by any member or members present (in person or by proxy) representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting, (iv) by any member or members (in person or by proxy) holding shares in BOCH conferring the right to vote at the meeting being shares on which an aggregate sum has been paid-up equal to not less than one-tenth of the total sum paid-up on all the shares conferring that right.

A person shall be entered on the register of members of BOCH by the record date (being a date and time specified by BOCH for eligibility for voting at a general meeting which may not be more than 48 hours before the general meeting to which it relates (provided the Saturdays, Sundays and public holidays shall not be counted in the calculation of such 48 hours period)) specified in respect of a general meeting in order to exercise the right of a member to participate and vote at the general meeting and any change to an entry on the register of members shall be disregarded in determining the right of any person to attend and vote at the meeting.

The BOCH Articles also allow for DI Holders to vote at general meetings of BOCH pursuant to (a) a proxy issued by the Custodian appointing a DI Holder (or such person(s) as a DI Holder may nominate in writing to BOCH) as its proxy entitled to cast the votes in respect of underlying BOCH Shares represented by a DI Holder's Depository Interests, or (b) a deemed appointment as corporate representative of the Depository in respect of the underlying BOCH Shares represented by their Depository Interests upon a copy of the register of Depository Interests being provided by the Depository to BOCH.

Restrictions on voting rights at general meetings

In addition to any voting restrictions that may be imposed in the circumstances described above, see “—*Disclosure of Interests*” and “—*Regulatory Approval of Significant Shareholdings*” and/or in accordance with the Companies Act, if at any time the directors determine that a member has failed to pay any call or instalment of a call in respect of his shares, the directors may serve upon him a restriction notice (as defined in the BOCH Articles). No recipient of such a restriction notice shall be entitled to attend or vote at any general meeting, either personally or by proxy, for the time that the restriction notice remains in force.

6.17 Borrowing powers

The directors of BOCH may exercise all the powers of BOCH to borrow or raise money and to mortgage or charge its undertaking, property, assets and uncalled capital or any part thereof and subject to Part 3 of the Companies Act, to issue debentures, debenture stock and other securities whether outright or as collateral security for any debt, liability or obligation of BOCH or of any third party, without any limitation as to amount.

6.18 Lien on Shares, Calls on Shares and Forfeiture of Shares

The BOCH Articles provide that BOCH will have a first and paramount lien on every share (not being a fully paid share) for all moneys (whether immediately payable or not) payable at a fixed time or called in respect of that share. BOCH may sell in such manner as the BOCH Board of Directors determine any share on which BOCH has a lien if a sum in respect of which the lien exists is immediately payable and is not paid within fourteen clear days after notice demanding payment, and stating that if the notice is not complied with the share may be sold, has been given to the holder of the share or to the person entitled to it by reason of the death or bankruptcy of the holder.

Subject to the terms of their allotment, the directors may call for any unpaid amounts in respect of any share to be paid and each member (subject to receiving at least twenty-eight clear days' notice specifying when and where payment is to be made) shall pay to BOCH as required by the notice the amount called on his shares, and if payment is not made, the shares may be forfeited.

The BOCH Shares issued in connection with the Scheme will be fully paid-up.

6.19 Communications with BOCH Shareholders

The BOCH Articles provide that any notice to be given, served or delivered pursuant to such articles must be in writing (whether in electronic form or otherwise).

The BOCH Articles further provide that any notice or document (including any notices of general meetings and any statutory financial statements of BOCH (together with every document required by law to be annexed thereto, but excluding share certificates which can only be delivered under paragraphs (a) to (c) below) may be sent to, served on or delivered to any member of BOCH by BOCH by any of the following means:

- (a) by handing the same to him or his authorised agent;
- (b) by leaving the same at his registered address;
- (c) by sending the same by the post in a pre-paid cover addressed to him at his registered address;
- (d) by sending, with the consent of the member, the same by means of electronic mail or other means of electronic communication approved by the directors, with the consent of the member, to the address of the member notified to BOCH by the member for such purpose (or if not so notified, then to the address of the member last known to BOCH); or

(e) by being made available or displayed on a website of BOCH, being at the date of this document “www.bankofcyprus.com” (or any website designated by the board and notified to the BOCH Shareholders, in accordance with the BOCH Articles).

The BOCH Articles provide that each member of BOCH is deemed to have irrevocably consented to receiving a notice or document by the means provided for in paragraph (e) above as a condition of being a member of BOCH and such consent shall be deemed to be a condition to the acquisition of any share or security in BOCH, and there shall be no requirement to provide a member with notification by any other means. The BOCH Articles further provide that where a notice or document is given, sent, served or delivered pursuant to paragraph (e) above, the giving, sending, service or delivery thereof shall be deemed to have been effected at the time the notice or document is made available or displayed on a website instead of being provided by other means, and in proving such giving, sending, service or delivery, it shall be sufficient to prove that the notice or document was made available or displayed on a website and each member and each person becoming a member of BOCH, by virtue of his acquisition and holding of a share, as applicable, shall be deemed to have acknowledged and agreed that any notice or other document (excluding a share certificate) may be provided by BOCH by being made available or displayed on a website instead of being provided by other means.

6.20 Directors’ indemnities

Subject to the provisions of and to the extent permitted by the Companies Act, every director, chief executive, company secretary or other officer of BOCH shall be entitled to be indemnified by BOCH against all costs, charges, losses, expenses, and liabilities incurred by him in the execution and discharge of his duties or in relation thereto including any liability incurred by him in defending any proceedings, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of BOCH and in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application under any statute for relief from liability in respect of any such act or omission in which relief is granted to him by the High Court of Ireland.

6.21 Rights of DI Holders

Under the BOCH Articles, DI Holders are permitted to receive notice of and attend general meetings of BOCH. The BOCH Articles also allow for DI Holders to vote at general meetings of BOCH pursuant to (a) a proxy issued by the Custodian appointing a DI Holder (or such other person(s) as a DI Holder may nominate in writing to BOCH) as its proxy entitled to cast the votes in respect of underlying BOCH Shares represented by a DI Holder’s Depository Interests or (b) a deemed appointment as corporate representative of the Depository in respect of the underlying BOCH Shares represented by their Depository Interests upon a copy of the register of Depository Interests being provided by or on behalf of the Depository to BOCH.

The BOCH Articles also provide that DI Holders shall be entitled to receive, at the direction of the Custodian, any dividend or other moneys payable in respect of any shares represented by such DI Holders’ Depository Interests. The BOCH Board of Directors may make regulations or adopt bye-laws from time to time (including by way of a deed poll executed by BOCH) pursuant to which BOCH grants in whole or in part further entitlements or rights to the DI Holders (a) equivalent or analogous to those of a holder of BOCH Shares and/or (b) to facilitate the DI Holders to exercise rights equivalent or analogous to those of a holder of BOCH Shares. The directors of BOCH may at any time vary or revoke any regulations or bye-laws or deed poll made or adopted pursuant to the BOCH Articles.

BOCH has therefore extended the scope of the above provisions of the BOCH Articles directly to the DI Holders through the BOCH Deed Poll such that DI Holders may enforce such provisions as set out in the BOCH Articles directly against BOCH. The BOCH Deed Poll also provides that upon the receipt from a DI Holder of a requisition calling for a general meeting of BOCH which had such requisition been received from one or more holders of BOCH Shares would have entitled such holders of BOCH Shares to validly issue a requisition requiring the BOCH Board of Directors to convene a general meeting of BOCH (or otherwise give rise to a right to convene a general meeting of BOCH directly), in each case, in accordance with the Companies Act and the BOCH Constitution, BOCH shall use its reasonable endeavours to procure the Custodian’s consent to such requisition and shall, subject to such consent being given, treat such requisition as equivalent or analogous to that made by one or more holders of BOCH Shares.

7. Summary of the principal differences between the BOCH Articles and the BOC Articles

There exist certain differences in respect of shareholder rights between the BOC Articles and the BOCH Articles:

- (a) under the BOCH Articles, ordinary shares in BOCH may be issued as redeemable and any acquisition by BOCH of ordinary shares in BOCH from a third party will, unless the BOCH Board of Directors elects otherwise, be deemed a redemption of such shares. As a result, no shareholder authority is required for BOCH to redeem its ordinary shares. BOCH may still, however, generally repurchase BOCH Shares with the authorisation of a special resolution of BOCH Shareholders. There are no equivalent provisions in the BOC Articles;
- (b) under the BOCH Articles there is an exemption from the prohibition on the recognition of shares held upon any trust, given that the BOCH Articles contain provisions for the recognition of certain rights of DI Holders;
- (c) the BOCH Articles allow the disapplication by shareholders of pre-emption rights on the issue and allotment of BOCH Shares for cash. There are no equivalent provisions in the BOC Articles;
- (d) under the BOCH Articles, if a share certificate is defaced, worn out, lost, stolen or destroyed, it may be replaced on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by BOCH in investigating such evidence, as the BOCH Board of Directors may prescribe, and, in the case of defacement or wearing out, upon delivery of the old certificate. The BOCH Board of Directors may in its absolute discretion decide to waive the right of BOCH to receive such payment. Under the BOC Articles, there is a prescribed charge of €8.00 for the issue of replacement share certificates in respect of BOC Shares;
- (e) if at any time the BOCH Board of Directors are satisfied that any BOCH shareholder, or any other person appearing to be interested in shares held by such shareholder, has been duly served with a Section 1062 Notice and is in default for the Section 1062 prescribed period (as defined in the BOCH Articles) in supplying to BOCH the information required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material particular, then the BOCH Board of Directors may, in their absolute discretion at any time thereafter by notice (a “**Direction Notice**”) to such shareholder direct that (a) the shareholder shall not be entitled to attend or to vote at a general meeting in respect of the shares in relation to which the default occurred (the “**Default Shares**”) (b) where the nominal value of the Default Shares represents at least 0.25% of the nominal value of the issued shares of that class (i) no payment shall be made of any sums due from BOCH on the Default Shares and BOCH shall not have any liability to pay interest on any such payment when it is finally paid (in each case except in a liquidation of BOCH); (ii) no other distribution shall be made on the Default Shares; or (iii) no transfer of any of the Default Shares held by such shareholder shall be registered unless (A) the shareholder is not himself in default as regards supplying the information requested; or (B) the transfer is an approved transfer (as defined in the BOCH Articles). There are no equivalent provisions in the BOC Articles;
- (f) voting rights are suspended in respect of BOCH Shares on the occurrence of certain events, such as failure by the relevant BOCH Shareholder to pay a call or comply with a direction notice. The BOC Articles do not contain provisions suspending voting rights on shares, save for those restrictions attached to a class of share on issue;
- (g) BOCH is not bound to register more than six persons as joint holders of any BOCH Share, however no such limit has been prescribed in the BOC Articles;
- (h) interest payable on sums unpaid on BOCH Shares is fixed by the terms of allotment of such shares or in the notice of any call or (if a rate is not specified) at the “appropriate rate” (as defined in the Companies Act) which, as of the date of this document, is 5% per annum. However, any interest due on sums unpaid on BOC Shares is currently set by the BOC Articles at BOC’s base rate plus 4%;
- (i) Under the BOCH Articles, the directors may decline to register transfers of BOCH Shares if such shares are not fully paid or transferred to or by a minor or person of unsound mind. The BOCH Articles include the following additional conditions required for registration:
 - (i) the BOCH Board of Directors may require evidence to show the right of the transferor to make the transfer;
 - (ii) it is for a share which is fully paid up;

- (iii) it is for a share upon which BOCH has no lien;
- (iv) it is duly stamped or is duly certificated or otherwise shown to the satisfaction of the Directors to be exempt from stamp duty (if this is required);
- (v) the instrument of transfer is in respect of one class of share only;
- (vi) the instrument of transfer is in favour of not more than six transferees; and
- (vii) it is lodged at the registered office or at such other place as the Directors may appoint;

The BOC Articles do not prescribe conditions for registration of share transfers, though every transfer must be in writing in the usual common form, or in such other form as the BOC Directors shall from time to time approve, and must be duly executed and left at the registered office of BOC, accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the BOC Directors may require to prove the title of the intending transferor.

- (j) BOCH may at its absolute discretion, or may procure that a subsidiary of BOCH may, pay Irish stamp duty arising on a transfer of BOCH Shares on behalf of the transferee of such shares. There is no such provision in the BOC Articles;
- (k) the BOCH Articles permit BOCH to repurchase and cancel (or hold in treasury) any of its own shares, provided such repurchase has been authorised by special resolution of BOCH. There are no equivalent provisions in the BOC Articles;
- (l) the BOCH Articles provide that notice of BOCH general meetings may be called on shorter notice if all eligible members are permitted to vote by electronic means and such shorter notice has been approved in the immediately preceding general meeting. There are no equivalent provisions in the BOC Articles;
- (m) the BOCH Articles contains provisions enabling members, subject to any requirements and restrictions as the directors may specify, to vote in advance of general meetings by correspondence or by electronic means if not present at a general meeting and to appoint proxies by electronic means. There are no equivalent provisions in the BOC Articles;
- (n) BOCH shareholders may table draft resolutions in respect of an extraordinary general meeting, provided a request to table such a resolution is received by BOCH at least 42 days in advance of the meeting to which the resolution relates. There are no equivalent provisions in the BOC Articles;
- (o) in respect of voting at general meetings by incapacitated members, the BOCH Articles requires evidence to the satisfaction of the directors of the authority of the person purporting to exercise the right to vote on behalf of the incapacitated member. There are no equivalent requirements in the BOC Articles;
- (p) the appointment of proxies under the BOCH Articles shall give such proxies the option to vote in one of three ways (i.e. for or against a resolution, or withholding the vote), whereas the BOC Articles prescribes voting for or against a resolution only (i.e. withholding the vote is not included as an option on the relevant proxy form);
- (q) voting rights in respect of BOCH Shares may be suspended following the occurrence of certain specified events (e.g. failure to pay amounts subject to a call), and shall be reinstated not later than 48 hours following the remedy of such default. The BOC Articles are more generic, stating that the right of BOC Shareholders to vote is subject to any rights or restrictions attached to any class of BOC Shares;
- (r) under the BOCH Articles, the members have the right to elect the entire board of directors by ordinary resolution at the annual general meeting. Under the BOC Articles, the members are able to re-elect only one-third of the directors at the annual general meeting (those that are obliged to retire annually);
- (s) dividends on BOCH Shares are forfeited in favour of BOCH and cease to remain owing by BOCH in the event they remain unclaimed for 12 years from the date of declaration. Furthermore, should the BOCH Board of Directors recommend, and the BOCH Shareholders approve such recommendation, BOCH may declare a dividend to be satisfied wholly or partly by the distribution of assets. The BOC Articles contain no equivalent provisions; and

- (t) as a means of ensuring observance by BOCH Shareholders with Articles 4(1)(c) and 15 of the SSM, the BOCH Articles contain the following restrictions:
- (i) BOCH will have the ability to impose restrictions on the exercise of a BOCH Shareholder's voting rights in the event that its holding reaches or exceeds 10%, 20%, 30% or 50% of the voting rights of BOCH; and
 - (ii) any such restrictions will only be disapplied after the shareholder has complied with any applicable regulatory requirements in relation to that acquisition.

While the above provisions are not directly included in the BOC Articles, BOC is still currently subject to these requirements under Cypriot law.

8. Dividends

BOCH has never distributed a dividend and does not expect to do so for so long as the ECB imposes a prohibition on the Bank from making any distributions to its shareholders. For a further discussion see *“Risk Factors—Risks relating to the BOCH Shares—BOCH does not expect to pay dividends on the BOCH Shares for so long as the ECB imposes a prohibition on the Bank from making any distributions to its shareholders and even if that prohibition is lifted, BOCH may not have any profits that are available for distribution and there is no guarantee that such profits will be generated or created in the future”*.

9. Takeover bids

As a public limited company incorporated in Ireland with securities to be admitted to trading on the LSE and the CSE, BOCH intends to notify CySEC that CySEC will be its main takeover regulator. Therefore, BOCH will be subject to the provisions of both the Takeover Bids Law and the Irish Takeover Rules, both of which will apply to any offers made to shareholders of BOCH to acquire their shares.

In practice, CySEC would have responsibility for regulating matters in relation to bid procedure (e.g. timetable and procedure, fixing of bid price, share offer documents and announcement obligations generally) in accordance with the Takeover Bids Law. The Irish Takeover Panel, which administers the Irish Takeover Rules, would have responsibility for regulating matters relating to company law (e.g. determining the appropriate threshold for “squeeze-out” provisions relating to the compulsory purchase of a dissenting minority in an offer).

Mandatory Offer

If an acquisition of BOCH Shares were to increase the aggregate holding of an acquirer and its concert parties to BOCH Shares carrying 30% or more of the voting rights in BOCH, the acquirer and, depending on the circumstances, its concert parties would be mandatorily required (except with the consent of the Irish Takeover Panel) to make a cash offer for the remaining outstanding BOCH Shares at a price not less than the highest price paid for the BOCH Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by an acquisition of BOCH Shares by a person holding (together with its concert parties) BOCH Shares carrying between 30% and 50% of the voting rights in BOCH if the effect of such acquisition were to increase the percentage of the voting rights held by that person (together with its concert parties) by 0.05% within a 12 month period. A single holder (that is, a holder excluding any parties acting in concert with the holder) holding more than 50% of the voting rights BOCH is not subject to this rule.

10. Share Option Plan

10.1 General

A resolution similar to and, subject to adjustments required pursuant to Irish law, having the same effect as the resolutions approved by the BOC Shareholders at the annual general meeting of BOC on 24 November 2015 to introduce a share option plan was approved by the shareholder of BOCH on 15 November 2016 (the **“Share Option Plan”**). No share option plan will be implemented at BOC level. The purpose of the Share Option Plan is to provide eligible persons of the BOC Group with an opportunity to obtain a one-off grant of options, and to benefit from any possible appreciation in the value of shares in BOCH. The operation of the Share Option Plan is supervised by the HRRC. The Share Option Plan is conditional on approval of, and subject to any amendments from the ECB. The

implementation of the Share Option Plan will be carried out in a manner consistent with the provisions of the CBC Governance Directive.

10.2 *Eligibility*

Any employee of the BOC Group who is employed in Cyprus or the United Kingdom and meets certain eligibility criteria (an “**Eligible Person**”), is eligible to participate in the Share Option Plan. The HRRC may, in its absolute discretion, grant options to eligible employees.

10.3 *Options under the Share Option Plan*

An option is the right to acquire one registered ordinary share of BOCH with a nominal value of EUR 0.10 each at an exercise price of EUR 5.00 pursuant to the rules of the Share Option Plan (the “**Options**”). The Options are granted at the absolute discretion of the HRRC save that no participant shall be granted options of a total value exceeding 100% of such participant’s fixed annual salary.

10.4 *Timing of Grant*

Options may be granted to eligible employees following, and subject to, approval of the ECB. No further options may be granted under the Share Option Plan.

The tranche of options are as follows:

- Tranche 1: 20% of the options granted to the Eligible Person on the grant date;
- Tranche 2: 20% of the options granted to the Eligible Person on the grant date;
- Tranche 3: 60% of the options granted to the Eligible Person on the grant date;

The vesting periods are as follows: Tranche 1, three years from the grant date; Tranche 2, four years from the grant date; and Tranche 3, five years from the grant date; or, in exceptional circumstances (determined at the absolute discretion of the HRRC) such periods as identified in the option agreement for a participant.

10.5 *Performance Criteria*

The options are subject to certain performance conditions during the vesting periods. Upon on expiry of the applicable vesting period, all the options shall vest subject to the achievement of the applicable performance conditions. The performance conditions include specific key business performance conditions, participant performance conditions and additional financial and non-financial metrics (the “**Additional Metrics**”).

The key business performance conditions relating to the financial position of BOC are:

- full repayment of BOC’s ELA funding;
- the lifting of restrictions imposed by the ECB and any other competent authority on BOC concerning any distributions to shareholders, members or holders of additional Tier 1 instruments of BOC;
- the full redemption and/or repayment of any bonds or debt issued or incurred by BOC and guaranteed by Cyprus in accordance with the Granting of Government Guarantees for the Conclusions of Loans and/or the Issue of Bonds by Credit Institutions Law of 2012; and
- that the vesting of the options concerned would not otherwise be detrimental to BOC’s capital base or result in a breach of applicable law, regulation or order of a court with competent authority or regulatory authority with jurisdiction over BOC.

The participant performance conditions require participants to achieve a rating of “3” or above in their annual performance appraisal for each year of the vesting period.

To the extent that the HRRC determines that the business performance conditions have not been satisfied by the expiry of the applicable vesting period, the applicable tranche of options will lapse on the date of such determination. To the extent that the HRRC determines that the participant performance conditions have not been satisfied during any year of the vesting period, a portion of the participant’s unvested options shall lapse on a pro rata basis to reflect the participant’s failure to meet this condition.

If the key business performance conditions and participant performance conditions are met then Additional Metrics will be applied at the end of each relevant vesting period which, if not met, will reduce the value of any award by a set percentage.

10.6 Exercise of an Option

A participant can exercise a tranche of options from the day after the expiry of a retention period (the period one year from the expiry of the relevant vesting period) for that tranche of options. Within each calendar year options can be exercised within the following periods: 01/03–15/03; 01/06–15/06; 01/09–15/09; and 01/12–15/12, although these periods may be subject to change in the future.

The Share Option Plan applies various provisions on termination of employment in relation to the vesting and exercise of options depending on the reason for termination. Unvested awards shall lapse save at the absolute discretion of the HRRC. Vested awards shall remain in place for good leavers subject to a time-limited exercise window.

10.7 Malus and claw back

The HRRC may reassess any Options that have been granted in the light of the financial situation of the Bank and/or the conduct, capability or performance of the participant. The review may take place at any time determined by the HRRC and will be carried out in accordance with all applicable provisions of the Bank policies, and where the circumstances and Bank policies dictate, the HRRC may take steps to revoke any Options granted. For these purposes, the HRRC will, by reference to the applicable circumstances set out in the remuneration policy (from time to time) determine whether (i) any such Options granted shall be reduced or cancelled prior to the exercise or vesting of the Options (“**Malus Provisions**”); and (ii) any BOCH Shares and/or cash amount acquired by the relevant participant upon exercise of such Option should be recovered (“**Clawback Provisions**”). The HRRC shall in its absolute discretion (but taking into account any applicable provisions of the remuneration policy, the CBC Governance Directive and any other applicable regulatory and industry guidelines applicable to the Bank, the UKLA or the CSE) determine the specific terms and conditions for the exercise of the Malus Provisions and the Clawback Provisions.

The Clawback Provisions shall apply from and including the grant date until the tenth anniversary of the grant date. The Malus Provisions shall apply from and including the date on which the relevant Option is granted until and including the last day of the vesting period. The Clawback Provisions and Malus Provisions can be applied to 100% of the Options granted and BOCH Shares awarded to a participant under the Share Option Plan. The circumstances in which the Clawback Provisions and Malus Provisions will be applied include, but are not limited to, those specified in the remuneration policy (from time to time).

10.8 Reconstruction, Takeovers and Liquidation

In the event of an equity restructuring, the HRRC may, in its absolute discretion make equitable adjustments to the terms of the options. A listing will be considered to be an equity adjustment.

10.9 Change of control

In the event there is a change of control after the grant date, outstanding options held by the participants that are otherwise un-exercisable or unvested will vest and be immediately exercisable upon such change of control to the extent that the HRRC determines that any applicable performance condition has been satisfied or would have been likely to be satisfied at the end of the vesting period. The number of shares which may be acquired upon exercise will be reduced pro-rate to reflect the shortened vesting period.

10.10 Administration and amendment

The operation of the Share Option Plan is administered by the HRRC. The HRRC may at any time amend, suspend or discontinue the Share Option Plan subject to certain restrictions identified in the Share Option Plan. Prior approval of BOCH’s Shareholders is required for amendments that alter, to the material advantage or disadvantage of a participant or eligible person, the key provisions of the Share Option Plan.]

11. Listing, dealings and settlement of BOC Shares and BOCH Shares

11.1 Cancellation of BOC Shares

Prior to the Effective Date, applications will be made for the suspension of the trading of Existing Shares on the CSE Main Market and on ATHEX. The last day of dealings in BOC Shares is likely, subject to the Court Order, to be the day falling at least two business days after the announcement by BOC of the Court Order. Upon the Scheme becoming Effective, the BOC Shares will be cancelled.

11.2 Listing of BOCH Shares

Applications will be made by BOCH to the UKLA for admission of the BOCH Shares to listing on the standard listing segment of the Official List, to the LSE for admission of the BOCH Shares to trading on the LSE Main Market and to the CSE for the BOCH Shares to be admitted to listing on the CSE and to trading on the CSE Main Market. Subject to the Scheme becoming Effective and the applications to the UKLA, the LSE and the CSE being successful, it is expected that the earliest date on which the Admission of the BOCH Shares will become effective is 13 January 2017 and that dealings in the BOCH Shares will commence on the CSE and LSE at 10:30 a.m. (Cyprus time) and 8:00 a.m. (London time), respectively or as soon as practicable thereafter on that date.

At the time of Admission, BOCH is expected to have a similar market capitalisation as BOC immediately prior to the Scheme becoming Effective. As at 31 October 2016 (being the latest practicable date prior to the publication of this document) the market capitalisation of BOC was approximately €1,204 million.

Following Admission BOCH will comply with the UKLA Listing Rules and the Cyprus Stock Exchange Regulatory Decisions 379/2014 (as amended), issued pursuant to the Securities and Cyprus Stock Exchange Laws of 1993 to 2012.

11.3 Admission to CREST

Applications will be made by BOCH for the BOCH Shares to be admitted to CREST. Euroclear UK & Ireland Limited (“Euroclear”) requires BOCH to confirm to it that certain conditions imposed by the CREST rules are satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied in respect of the BOCH Shares on admission of the BOCH Shares to the standard listing segment of the Official List. As soon as practicable after satisfaction of the conditions, BOCH will confirm this to Euroclear.

11.4 Admission to the Cyprus Central Securities Depository (the CSD)

Applications will be made by BOCH for the Depository Interests to be admitted to the CSD. The CSD requires BOCH to confirm to it that certain conditions imposed by the CSD are satisfied before the CSD will admit any security to the CSD. It is expected that these conditions will be satisfied in respect of the Depository Interests on Admission. As soon as practicable after satisfaction of the conditions, BOCH will confirm this to the CSD.

11.5 Settlement on the Effective Date

Subject to the satisfaction of the Scheme Conditions, the BOC Shareholders (who are so entitled under the Scheme) will receive BOCH Shares (or Depository Interests) in the manner described in the Circular and the “*The Scheme of Arrangement*”.

For a description of the settlement arrangements relating to the BOCH Shares and the Depository Interests see “*The Scheme of Arrangement—Settlement*”.

12. Litigation and Related Matters, including Regulatory Proceedings and Investigations

Save as disclosed herein, none of BOCH, the Bank or any other subsidiary of the BOC Group (the Bank and any other subsidiary of the BOC Group is collectively and/or individually referred to within this section, as the “**BOC Group**”) is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the BOCH is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the BOCH or the BOC Group.

As a major financial institution in Cyprus, the BOC 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 Recapitalisation of the Bank in 2013 as a result of the Bail-in Decrees, the Bank 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. The extent of the impact of these matters, in which the BOC Group is or may in the future become involved, cannot be reliably measured with any certainty but may materially impact the reputation, operations, financial results, condition and prospects of the BOC Group. As at 30 June 2016, in total, the BOC Group was subject to over 3,000 claims.

The BOC Group has not disclosed an estimate of the potential financial effect on it of contingent liabilities arising from these matters where it is not practicable to do so because it is too early to do so 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 BOC Group is able to estimate probable losses (see, Note 41 of the Historical Financial Information). 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 30 June 2016 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the BOC Group.

12.1 *Investigations and litigation relating to securities issued by the Bank*

Approximately 1,200 institutional and retail customers have filed various separate actions against the Bank alleging that the Bank is guilty of misselling in relation to securities issued by the Bank between 2007 and 2011. Remedies sought include the return of the money investors paid for their investments. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Bank in related matters by CySEC and/or 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).

The Bank 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 Bank officers ‘persuaded’ them to proceed with the purchase and/or purported to offer ‘investment advice’, the Bank may face significant difficulties. To date, a small number of cases have been tried in Greece. The Bank 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. Provision has been made based on management’s best estimate of probable outcomes based on advice of legal counsel.

12.2 *The Hellenic Capital Market Commission (HCMC) Investigation*

The HCMC is currently in the process of investigating matters concerning the BOC Group’s investment in Greek government bonds from 2009 to 2011, including, *inter-alia*, related non-disclosure of material information in the Bank’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 the Bank’s non-compliance with MiFID in respect of investors’ direct investments in Greek government bonds.

12.3 *The Cyprus Securities and Exchange Commission (CySEC) Investigations*

CySEC is currently in the process of investigating:

- Matters concerning possible price manipulation attributable to the Bank for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transilvania.
- The adequacy of provisions for the impairment of loans and advances in year 2011, which is at the final stages of completion.
- The adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the AQR.

Additionally, in late 2014 CySEC completed an investigation into the value of goodwill in CB Uniastrum Bank LLC disclosed in the interim financial statements of the BOC Group in 2012. In October 2016, CySEC issued a decision, concluding that the Bank was in breach of certain laws regarding disclosure in accordance, *inter alia*, with the Market Manipulation (Market Abuse) Law of 2005 and has imposed an administrative fine upon the Bank of €25,000. CySEC also imposed higher fines upon certain former members of the Board of Directors and former management of the Bank. On 24 October 2016, the Bank filed a recourse before the Administrative Court against the decisions of CySEC and the fine imposed upon the Bank.

In 2015, CySEC completed an investigation into the reclassification of Greek Government bonds in April 2010. This investigation is currently pending with the Attorney General and CySEC. See “12.12—*General criminal investigations and proceedings*” below.

12.4 *Bail-in related litigation*

Depositors

A number of the Bank’s depositors, who allege that they were adversely affected by the bail-in, filed claims against the Bank and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, *inter alia*, the Cypriot Resolution Law and the Bail-in Decrees were in conflict with the Constitution 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. The Bank is defending these actions.

Shareholders

Numerous claims were filed by shareholders in 2013 (some of whom are current shareholders of the Bank) against the Government and the CBC before the Supreme Court of Cyprus in relation to the dilution of their shareholding as a result of the Recapitalisation pursuant to the Cypriot 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. The Bank 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 of Cyprus 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 31 October 2016, both the Cypriot Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. It is expected that actions for damages will be instituted by the shareholders in due course before the District Courts of Cyprus.

Claims based on set-off

Certain claims have been filed by customers against the Bank 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. The Bank intends to contest such claims.

Laiki Bank depositors and shareholders

The Bank 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 the Bank’s bailed-in depositors and shareholders as described above. The Bank, *inter alia*, maintains the position that it should not be a party to these proceedings.

12.5 *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, the Bank and JCC Payment Systems Ltd (“JCC”), a card-processing business currently 75% owned by the Bank.

The CPC also alleged that the Bank’s arrangements with American Express violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Bank (in common with other banks and JCC) breached relevant competition law requirements. For the time being, the proceedings before the CPC are not proceeding due to an Administrative Court decision holding that the composition of the CPC was contrary to law. This decision is subject to an appeal instituted before the Supreme Court of Cyprus by the Attorney General. The Bank intends to file a recourse before the Administrative Court for the annulment of the CPC’s decision in the event that such decision stands and if and when a fine is imposed in connection with the CPC’s decision.

12.6 *Provident fund cases*

Twenty three claims which were pending before the Cypriot Labour Disputes Tribunal by certain of the Bank’s former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Bank.

In December 2015, the Bank of Cyprus Employees Provident Fund (the “**Provident Fund**”) filed an action against the Bank claiming €70 million allegedly owed as part of the Bank’s contribution by virtue of an agreement with the union dated 31 December 2011.

12.7 *Employment litigation*

Former senior officers of the Bank have instituted a total of three claims for unfair dismissal and for Provident Fund entitlements against the Bank and Trustees of the Provident Fund. As at 31 October 2016, one case had been dismissed as filed out of time but the plaintiff has appealed against this ruling.

12.8 *Greek case*

In connection with a legal dispute (one case by the Bank against Themis Constructions (“**Themis**”) and one by Themis against the Bank) relating to the Bank’s discontinued operations in Greece (the “**Themis case**”), a provision was recognised in previous periods (30 September 2014: €39.0 million) following a court judgment of the Athens Court of Appeal (dismissing the Bank’s case and upholding Themis’ claim). This provision was reversed as at 31 December 2014 following the dismissal of the judgment by the Supreme Court of Greece in March 2015. The Supreme Court of Greece further ruled that these claims (the Bank’s claim against Themis for approximately €25 million which had been transferred to Piraeus Bank SA in March 2013, as well as Themis’ claim against the Bank for a similar amount) be reconsidered on the merits at the instigation of the affected party. Both cases are fixed to be heard in December 2016.

12.9 *Swiss Francs loans litigation in Cyprus and United Kingdom*

Three hundred and nineteen actions have been instituted against the Bank by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). Borrowers have seen their monthly loan repayments increase significantly due to the strengthening of the Swiss Franc during recent years and especially in 2015, and the interest rate and margin being charged by certain Cypriot banks (including the Bank). The central allegation in these cases is that the Bank misled borrowers and/or misrepresented matters, in violation of applicable law. The Bank intends to contest such proceedings.

12.10 *CNP Arbitration*

The French entity CNP Assurances S.A. had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in, *inter alia*, Cyprus through the formation of a local company (CNP Cyprus Insurance Holdings Ltd (a company in which the BOC Group now has a 49.9% shareholding, acquired as part of the acquisition of certain operations of Laiki Bank pursuant to Regulatory Administrative Act 104/2013)). CNP Assurances S.A. held 50.1% of the shares of CNP Cyprus Insurance Holdings Ltd and Laiki Bank held 49.9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP Assurances S.A. and Laiki Bank, a Shareholders’ Agreement and

a Distribution Agreement (to which Distribution Agreement CNP Cyprus Insurance Holdings Ltd was also a party).

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Bank was a successor to Laiki Bank in respect of both the Shareholders' and Distribution Agreements and that the said Agreements were violated by the Bank. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amounted to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The Tribunal award was issued in September 2016, rejecting all claims made by the claimants with costs in favour of the Bank.

12.11 *UK property lending claims*

The Bank is the defendant in certain proceedings alleging that the Bank is legally responsible for allegedly, *inter alia*, advancing and misselling 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.

12.12 *General criminal investigations and proceedings*

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney General and the Cypriot police (the “**Police**”) are conducting various investigations into the Bank's investment in Greek Government bonds, including their reclassification in the Bank's financial statements. The Bank is cooperating fully with the Attorney General and the Police and is providing all information requested of it. See “—*Hellenic Capital Market Commission (HCMC) investigations*” and “—*The Cyprus Securities and Exchange Commission (CySEC) Investigations*” above for more details.

The Attorney General has filed a criminal case against the Bank and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Bank in 2012. The Bank denies all allegations. The case is fixed for hearing on 2, 5, 12, 13 and 16 December 2016. The maximum penalty on the Bank, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the BOC Group.

The Attorney General has filed a separate criminal case against the Bank and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The alleged offence refers to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. The Bank denies all allegations. The next stage is that the case is fixed for argument and objections before plea on 6 December 2016. The maximum penalty on the Bank, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the BOC Group.

13. **Material contracts**

The following is a summary of each contract (not being a contract entered into in the ordinary course of business): (1) to which BOC or BOCH or any member of the BOC Group is or has been a party within the two years immediately preceding the date of this document which is, or may be, material; or (2) that has been entered into by BOC or BOCH or any member of the BOC Group which contains any provision under which BOC or BOCH or any member of the BOC Group has any obligation or entitlement which is material to BOC or BOCH or the BOC Group as at the date of this document:

13.1 *Agreements Entered into Pursuant to Resolution Authority Decrees Implementing the Restructuring of BOC and Laiki Bank*

As a result of negotiations between the Government and the Troika in relation to the EAP, BOC and Laiki Bank were restructured by the Resolution Authority in line with the MoU and the Eurogroup Statement on Cyprus in 2013. The restructuring of BOC and Laiki Bank involved, amongst other things, the transfer of certain assets and liabilities of Laiki Bank to BOC, the acquisition by Piraeus Bank of the Greek operations of BOC and the acquisition by Marfin Bank Romania of certain of the Romanian operations of BOC which were effected by operation of law through decrees issued by the Resolution Authority. As

certain of the assets and liabilities transferred were located in jurisdictions outside of Cyprus, BOC entered into sale and purchase agreements in order to fully implement these decrees in those jurisdictions. For more detail on these transfers and acquisitions implemented by Resolution Authority decrees and their impact on the Bank, see “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals*”.

13.2 EBRD Framework Agreement

The European Bank of Reconstruction and Development subscribed for 500,000,000 ordinary shares issued by BOC on 28 July 2014 and, as required of every company in which EBRD makes an equity investment, BOC has entered into a framework agreement with EBRD, pursuant to which BOC has agreed that it will apply certain environmental and social policies of EBRD.

13.3 Ukrainian Business Sale and Purchase Agreement

On 17 April 2014, BOC sold its Ukrainian business to the Alfa Group (“Alfa”), consisting of PJSC Bank of Cyprus, BOC’s Ukrainian subsidiary bank, LLC Ikos Finance, an affiliated company (together, the “**Ukrainian Subsidiaries**”) and a portfolio of loans made by the BOC Group to Ukrainian businesses (the “**Ukrainian Portfolio Loans**”). As part of the same transaction, BOC agreed to sell to Alfa three additional loans, which were transferred to BOC pursuant to the Laiki Transfer Decrees (the “**Ukrainian Additional Loans**”).

The purchase price for the entire transaction was €202.5 million, of which €100 million (the “**Deferred Payment**”) was originally payable on 31 March 2015. The Deferred Payment was subsequently amended to be paid in quarterly installments under a payment schedule that extends until 1 June 2019. The Deferred Payment is subject to an interest rate of 4.0% per annum, calculated daily on the then outstanding amount of the principal. The amount of the Deferred Payment will be adjusted downwards by any interest or principal received by the Bank from borrowers under the Ukrainian Additional Loans or from Alfa under the provisions of the sale and purchase agreement.

In the event of a default in payment of the Deferred Payment, the BOC Group would be able to claim under: (i) three stand-by letters of credit issued by PJSC Alfa Bank which cover the full amount of the Deferred Payment; (ii) a mortgage that has been taken on the head office premises of the Ukrainian Subsidiaries; and (iii) mortgages taken on other real estate collateral. The legal title of the Ukrainian Additional Loans also remains with the BOC Group until full repayment of the Deferred Payment. Following the reduction of the Deferred Payment over time and in accordance with the provisions of the Ukrainian Sale and Purchase Agreement, subject to certain ratios and covenants, Alfa may request the transfer of the Ukrainian Additional Loans and associated security to it or to a third party or the release of any collateral held by the BOC Group.

13.4 UK Loan Portfolio Agreement

On 31 October 2014, BOC sold the UK Loan Portfolio, which is largely comprised of loans, backed by residential and commercial real estate in England and Wales, which were transferred to BOC pursuant to the Laiki Transfer Decrees, to Mars Capital Finance Limited (a mortgage lender and administrator regulated by the Financial Conduct Authority of the United Kingdom) and Camael Mortgages Limited, with effect from 15 April 2014.

The nominal value of the UK Loan Portfolio, as at 15 April 2014, was £289.0 million (€361.0 million based on the pounds sterling to Euro exchange rate established by BOC as at 30 June 2014). The sale of the UK Loan Portfolio enhanced the BOC Group’s liquidity and had a small positive impact on the BOC Group’s CET 1 capital due to the release of risk weighted assets. The purchase agreement (the “**UK Loan Portfolio Agreement**”) includes a number of customary portfolio warranties given by BOC. Under the terms of the UK Loan Portfolio Agreement, the liabilities of BOC under the Agreement are limited as to time and amount. BOC will also be permitted to repurchase loans in relation to which the purchasers may have a claim against the Bank pursuant to the terms of the UK Loan Portfolio Agreement (for example, loans which are found to have breached any warranties).

13.5 Sale of Investment in Marfin Diversified Strategy Fund Plc

In April 2015, the BOC Group sold its investment in MDSF comprising of 1,142,052.6400 founder shares and 765,096.0464 US Dollar A Shares (95% of MDSF issued share capital) to Dorchester Capital Secondaries Offshore III, LP. The sale consideration was US\$92 million (approximately €84 million).

The investment in MDSF was transferred to the BOC Group from Laiki Bank, pursuant to the Laiki Transfer Decrees. MDSF was incorporated on 23 June 2006 in the Isle of Man as an open-ended investment company, with its principal activity being the investment in a diversified portfolio of collective investment schemes.

13.6 *Uniastrum Bank and Russia Sale Agreement*

In September 2015, the BOC Group completed the sale of the majority of its Russian operations to Mr. Artem Avetisyan, the majority shareholder in Bank Regional Credit, and to entities under the control of Mr. Avetisyan. The sale was completed by way of a sale and purchase agreement dated 16 July 2015 (the “**Russia Sale Agreement**”), pursuant to which the BOC Group agreed to sell (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, (ii) its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC and (iii) certain other Russian loan exposures. The Russia Sale Agreement included a number of customary warranties given by the BOC Group about the assets being sold by the BOC Group and its title and authority to sell the assets. The liability of BOC under the warranties contained in the Russia Sale Agreement are limited as to time and amount. In addition, the BOC Group agreed to guarantee the fulfillment of certain obligations under the Russia Sale Agreement. All such obligations were discharged upon completion of the sale, except for its liability under certain warranties relating to its title and authority to sell the assets.

13.7 *Kermia Hotels Ltd Sale Agreement*

In June 2016, BOC Group completed the sale of Kermia Hotels Ltd and adjacent land (together the “**Assets**”) for the agreed sale consideration of €26.5 million. The seller of the Assets was Kermia Ltd, a wholly-owned subsidiary of the Bank, and the purchaser was Aesara Investment Ltd, a company controlled by Vasilis Nicolaides and Demetris Nicolaides, shareholders of Atlantica Leisure Group Ltd.

13.8 *Introduction Agreement*

On the date hereof BOC and BOCH entered into an introduction agreement with HSBC which sets out the terms on which HSBC advised BOCH in respect of the London Listing (the “**Introduction Agreement**”). The Introduction Agreement contains, amongst other things, certain warranties given by BOCH and BOC to HSBC and an indemnity from BOCH and BOC in favour of HSBC.

13.9 *Deed Poll*

For a description of the terms of the Deed Poll see “*The Scheme of Arrangement—Settlement—Deed Poll.*”

13.10 *Depositary Agreement*

For a description of the terms of the Depositary Agreement see “*The Scheme of Arrangement—Settlement—Depositary Agreement.*”

13.11 As the BOC Group provides financial services and is not a manufacturing company, there are no patents or licenses, industrial, commercial or financial contracts or new manufacturing processes that would be of fundamental importance to the business or profitability and on which the Bank or any of its subsidiaries are dependant.

14. **Working capital**

BOCH is of the opinion that the BOC Group does not have sufficient working capital for its present requirements, that is, for the twelve months from the date of this prospectus, for the following reasons.

The capital requirements of the BOC Group are highly sensitive to the economic conditions in Cyprus. Although the Cypriot economy has been in recovery since the beginning of 2015, its continuing recovery could be negatively affected by a number of different factors and risks (see “*Risk Factors—Risks Relating to the Cypriot, European and Global Economies and the Financial Markets*”). Accordingly, there can be no assurance that the Cypriot economy will not be adversely affected within the next twelve months.

A deterioration in the Cypriot economy which precipitates a significant outflow of deposits from the Cypriot banking system (including the Bank) could result in the Bank having to rely on ELA funding of up to €2.8 billion under a reasonable worst case scenario in the Bank’s working capital assessment. This is

based on a detailed analysis of the BOC Group's projected profit and loss, capital and liquidity reserves under both a base case scenario and a reasonable worst case scenario and an assessment of the current macro-economic and regulatory position of the BOC Group. The reasonable worst case scenario was formulated using, amongst other things, macro-economic assumptions which simulate a recessionary environment in Cyprus.

As a consequence of the potential reliance on ELA funding, certain requirements may be imposed on the Bank by the CBC and/or the ECB.

The implications of the Bank's failure to obtain ELA funding or any requirements imposed by the regulators as a condition to receiving ELA will be highly dependent on the causes of such an event and could include having to dispose of a number of the BOC Group's assets, having to raise additional capital and/or the imposition of capital controls by the Government and/or other measures taken with respect to the Bank under the BRRD regime and SRM Regulation (see "*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Bank Recovery and Resolution*").

The Directors are of the opinion that ELA funding should be available to the Bank because it is available to all solvent Euro area credit institutions and the Bank is expected to remain both solvent and to have sufficient eligible collateral to meet the ELA funding eligibility requirements under both the base case and reasonable worst case scenarios. However, because ELA funding is short term in nature (typically provided for a period of two to four weeks) and its provision is subject to approval by the ECB Governing Council, the Directors do not regard it as a committed liquidity facility for the purposes of the working capital statement and, therefore, the working capital statement provided above is qualified in this respect.

However, in order to address the risk of requiring ELA funding under a reasonable worst case scenario, the Bank is actively working towards the full repayment of the existing ELA funding before the end of the first half of 2017. Subsequent to such repayment, the Bank will continue to seek to build its liquidity reserves, through increasing deposits and/or wholesale funding in order to reduce and eventually eliminate any potential future reliance on ELA under a reasonable worst case scenario. Although this is subject to the future performance of the BOC Group, BOCH is confident that the Bank will be able to build sufficient liquidity reserves.

15. No significant change

Since 11 July 2016 (the date of incorporation of BOCH) there has been no significant change in the financial or trading position of BOCH. There has been no significant change in the financial or trading position of the BOC Group since 30 September 2016, being the date to which the BOC Group's last unaudited published interim condensed consolidated financial statements were prepared.

16. Third party information

BOCH confirms that the information contained in this document sourced from any third party has been accurately reproduced and, as far as BOCH is aware and has been able to ascertain from information published by any such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third party information has been used in this prospectus the source of such information has been identified.

17. General

17.1 There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

17.2 BOCH is not currently subject to any mandatory takeover bids.

17.3 The total costs, charges and expenses payable by BOCH and BOC in connection with the Scheme and Admission are estimated to be approximately €12.5 million (exclusive of VAT). No expenses will be charged to the BOC shareholders.

18. Documents available for inspection

Copies of the following documents are available, for the life of this document, for physical inspection only, at the registered office of BOCH, Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland during normal business hours on any business day:

- the BOCH Constitution;
- the Historical Financial Information; and
- the Third Quarter Financial Information and the Q3 Review Report.

CONSENTS

- (i) The reporting accountant's Ernst & Young LLP have given and have not withdrawn their written consent presented below relating to the references to their name in the form and context in which they appear in the Prospectus.

30 November 2016

Board of Directors

Bank of Cyprus Holdings Public Limited Company

Prospectus dated 30 November 2016

Dear Sirs

Our report (the "**Accountant's Report**") on consolidated historical financial information relating to Bank of Cyprus Public Company Limited as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2015, 31 December 2014 and 31 December 2013 was prepared by us for inclusion in the Prospectus.

With this letter, we give and do not withdraw our consent for:

- a) the inclusion of the Accountant's Report within the Prospectus dated 30 November 2016 in the form and format those are presented; and
- b) for the references in our name in the form and context in which they appear in the Prospectus dated 30 November 2016, for which you as Directors are solely responsible.

Ernst & Young LLP

- (ii) The Lead Manager—Investment Firm responsible for the drawing up of the Prospectus in accordance with Article 23 of the Prospectus Law, The Cyprus Investment and Securities Corporation Limited (CISCO), has given and has not withdrawn its written consent to the references to its name in the form and context in which it appears.

30 November 2016

Board of Directors
Bank of Cyprus Public Company Ltd

Dear Sirs,

With this letter, we give and do not withdraw our consent for the references to our name in the form and context in which it appears in the Prospectus of Bank of Cyprus Holdings Public Limited Company dated 30 November 2016.

The Cyprus Investment and Securities Corporation Limited (CISCO)

(iii) BOCH Directors

The Prospectus has been presented to the BOCH Board of Directors and has been approved. The BOCH Directors, who have taken all reasonable care to ensure that such is the case, accept responsibility for the accuracy, correctness and completeness of the information contained in the Prospectus. To the best of the knowledge and belief of the BOCH Directors (who have taken all reasonable care), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

DEFINITIONS

1996 Regulations means the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996, S.I. No. 68 of 1996 of Ireland and the Companies Act, 1990 (Uncertificated Securities) (Amendment) Regulations 2005 of Ireland, including any modification thereof or any regulations in substitution therefore made under Section 1086 of the Companies Act or otherwise and for the time being in force;

2007 Capital Securities means the Capital Securities 12/2007 (ISIN: CY0140670114) issued by the Bank in December 2007 of which the outstanding principal amount as at 29 March 2013 was €22,169,560;

2008 Convertible Bonds means the Convertible Bonds 2013/2018 (ISIN: CY0140740115) issued by the Bank in July 2008 of which the outstanding principal amount as at 29 March 2013 was €27,283,632;

2009 Convertible Capital Securities means the Convertible Capital Securities (ISIN: CY0141000212) issued by the Bank in May 2009 of which the outstanding principal amount as at 29 March 2013 was €73,088,145;

2011 EUR CECS means the Convertible Enhanced Capital Securities (ISIN: CY0141890117) issued in euro by the Bank in May 2011 of which the outstanding principal amount as at 29 March 2013 was €428,521,983;

2011 USD CECS means the Convertible Enhanced Capital Securities (ISIN: CY0141900114) issued in U.S. dollars by the Bank in May 2011 of which the outstanding principal amount as at 29 March 2013 was \$39,711,653;

90+DPD means loans past-due for more than 90 days and those that are impaired. Impaired loans are loans which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery;

90+DPD Ratio means loans past-due for more than 90 days and those that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on (i) an individual basis or (ii) for which incurred losses exist at their initial recognition or (iii) for customers in Debt Recovery) divided by gross customer loans (gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired));

Accountant's Report means the accountant's report given by Ernst & Young LLP, dated 30 November 2016 and included in "*Historical Financial Information*";

Additional Metrics means the additional financial and non-financial metrics;

Administrative Decree means Administrative Decree (No. 161/2016), which came into effect on 20 May 2016, issued by the Cypriot Minister of Finance pursuant to the powers accorded to him by means of the Article 6(16) of the Assessment and Collection of Taxes Law;

Admission means the successful completion of the applications to (i) the FCA in its capacity as the UKLA for all of the ordinary share capital of BOCH to be admitted to the standard listing segment of the Official List; (ii) the LSE for such shares to be admitted to trading on the LSE Main Market; and (iii) the CSE for such shares to be admitted to listing on the CSE and to trading on the CSE Main Market;

Adviser to the London Listing means HSBC Bank plc;

ALCO means the Asset and Liabilities Committee of the BOC Group;

Alfa means the Alfa Group;

AMD Code means the CBC's "Code of Conduct on the Handling of Borrowers in Financial Difficulties";

AML means anti-money laundering;

AQR means the asset quality review carried out under the ECB's Comprehensive Assessment;

Arrears Management Directive means the Arrears Management Directive of 2015;

Assessment and Collection of Taxes Law means the Assessment and Collection of Taxes Law of 4/1978;

AT1 means additional tier 1;

ATHEX means the Athens Exchange;

ATHEX DSS means the electronic dematerialised securities system of the Hellenic Central Securities Depository;

ATHEX ISCS account means an investor share code and securities Account with ATHEX;

Bail-in Decrees means the Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013, more particularly described in “*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals—The 2013 Restructuring of the Bank and Laiki Bank*”;

Bail-in Shares means the ordinary shares issued to bailed in holders of uninsured conventional cash deposits, capital guaranteed structured deposit products, investment products and schuldschein loans;

Bank means Bank of Cyprus Public Company Limited;

Bank Board of Directors means the board of directors of the Bank as set out in “*Management and Corporate Governance*”;

Banking Law means Law 21(I)/2016 amending the business of credit institutions law (Law 66(I)/1997, as amended), which transposes all the relevant provisions of the BRRD relating to the business of credit institutions;

Basel III means the Basel III capital and liquidity reform package, more particularly described in “*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*”;

Blocked Shares means those BOC Shares (held by BOC Shareholders) in a CSE ISCS account or an ATHEX ISCS account which are subject to any security arrangements and/or charges and in relation to which the Cyprus Court orders the pledging and/or charging and/or the allocation by the CDCR into the special (blocked) account within such BOC Shareholder’s CSE ISCS accounts (or otherwise registered under a ‘blocked’ status) of the Depository Interests representing BOCH Shares offered in consideration for their cancellation;

BOC means Bank of Cyprus Public Company Limited;

BOC Articles means the articles of association of BOC;

BOC CI means Bank of Cyprus (Channel Islands) Ltd;

BOC Directors means the directors of BOC;

BOC Group means before the Effective Date, BOC and its subsidiaries and subsidiary undertakings, and, where the context requires, its associated undertakings and, after the Effective Date, BOCH and its subsidiaries and subsidiary undertakings and, where the context requires, its associated undertakings;

BOC Shares means the shares of the Bank prior to the Scheme becoming Effective;

BOC Shareholders means the shareholders of the Bank;

BOC UK means Bank of Cyprus UK Ltd;

BOCH means Bank of Cyprus Holdings Public Limited Company;

BOCH Articles means the articles of association of BOCH;

BOCH Board of Directors means the board of directors of BOCH;

BOCH Constitution means the constitution of BOCH, such document comprising the BOCH Memorandum and the BOCH Articles;

BOCH Cyprus means Bank of Cyprus (Holdings) Limited;

BOCH Deed Poll means the deed poll dated 15 November 2016, issued and executed by BOCH in favour of the DI Holders granting certain rights to the DI Holders;

BOCH Directors means the directors of BOCH whose names appear in this document;

BOCH Memorandum means the memorandum of association of BOCH;

BOCH Shareholders means the holders of the BOCH Shares;

BOCH Shares means the ordinary shares of €0.10 each in the capital of BOCH and also, where the context requires, includes Depository Interests that represent BOCH Shares;

BoE means the Bank of England;

BRRD means Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 on the establishment of a framework for the recovery and resolution of credit institutions and investment firms;

BRRD Regime has the meaning set out in “*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Bank Recovery and Resolution—Implementation of the BRRD in Cyprus*”;

BRRO2 means the UK’s Bank Recovery and Resolution (No.2) Order 2014 (SI 2014/3348);

BTL means buy-to-let;

Capital Raising means the Placing and the Open Offer when referred to together;

Capital Securities means the 2007 Capital Securities, the 2008 Convertible Bonds, the 2009 Convertible Capital Securities, the 2011 EUR CECS and the 2011 USD CECS;

CBC means the Central Bank of Cyprus;

CBC Governance Directive means the Directive on Governance and Management Arrangements in Credit Institutions issued by the CBC;

CBTL means a consumer buy-to-let;

CCA means the UK’s Consumer Credit Act 1974 and its related secondary legislation;

CCB means the Cooperative Central Bank Limited;

CCPs means central counterparties, as more particularly described at “*Financial Services Regulation and Supervision—Main Banking/Financial Services Regulatory Requirements—Regulatory Capital Requirements—EU Capital Requirements Directive/Regulation*”;

CCyB means the Countercyclical Capital buffer set by the CBC on a quarterly basis in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015;

CDCR means the Central Depository and Central Registry of the CSE;

CECS means the 2011 EUR CECS and the 2011 USD CECS;

CET 1 means Common Equity Tier 1;

CFC means a controlled foreign corporation;

CGCO means the Corporate Governance and Compliance Officer;

CGT means Irish tax on chargeable gains;

CISCO means The Cyprus Investment and Securities Corporation Limited;

Circular means the shareholder’s circular issued to BOC Shareholders of BOC on 21 November 2016 in connection with the convening of the EGM;

Clawback Provisions means the provisions in the Share Option Plan relating to any BOCH shares and/or cash amounts acquired by the relevant participant upon exercise of an Option;

CMA means the UK’s Competition and Markets Authority;

CNP means Cyprus Insurance Holdings Ltd;

Code means the Internal Revenue Code of 1986;

Commission’s Proposal means the proposal published by the European Commission on 14 February 2013 for a Directive for a common financial transactions tax in the participating Member States;

Common Reporting Standard means the in-principle agreement dated 6 May 2014 between the 47 members of the OECD to share information on residents’ assets and incomes automatically;

Companies Act means the Irish Companies Act 2014;

Consolidation Basis means the basis for calculating the exchange ratio between BOC Shares and BOCH Shares under the Scheme, as more fully described at “*The Scheme of Arrangement—Principal features of the Scheme—Consolidation Basis*”;

Court Order means the court order of the Cyprus Court sanctioning the Scheme;

CPC means the Cypriot Commission for the Protection of Competition;

CRA means the Credit Risk Assessment department;

CRA 2015 means the UK’s Consumer Rights Act 2015;

CRD IV means Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms;

CRD IV/CRR means the CRD IV and the CRR together;

CRD IV Firms means credit institutions and investment firms as regulated by CRD IV/CRR;

Credit Granting Directive means the CBC Directive on Credit Granting and Review Process of 2016;

CREST means the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST regulations;

CREST participant means a person who is, in relation to CREST, a system-participant (as defined in the 1996 Regulations);

CRP means the Credit Risk Policy department;

CRR means the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms;

CRR&C means the Credit Risk Reporting & Control department;

CRSA means the Credit Risk Systems & Analytics department;

CSD means the Cyprus Central Securities Depository;

CSE means the Cyprus Stock Exchange;

CSE Corporate Governance Code means the CSE’s Fourth Edition (Amended) Code of Corporate Governance issued in April 2014;

CSE ISCS account means an investor share code and securities Account with the CSE;

CSE Main Market means the Main Market of the CSE;

CSMAD means the EU Criminal Sanctions for Market Abuse Directive (Directive 2014/57/EU);

Custodian means the custodian or custodians or any nominee of such custodian appointed by the Depository to hold the BOCH Shares on the Depository’s behalf;

Cypriot Resolution Law means the Resolution of Credit and Other Institutions Law of 2013;

Cyprus means the Republic of Cyprus;

Cyprus Companies Law means the Companies Law of the Republic of Cyprus (Cap. 113) as may be amended or replaced from time to time;

Cyprus Court means the District Court of Nicosia;

Cyprus Government Bond has the meaning given to such term in “*Operating and Financial Review—Financial Segmentation of the BOC Group—Explanation of Certain Income Statement Line Items—Net interest income*”;

CySEC means the Cyprus Securities and Exchange Commission;

DAC2 means the Directive on Administrative Cooperation, as amended by ECOFIN on 9 December 2014;

Deed Poll means the Deed Poll to be issued and executed by the Depository in favour of the DI Holders creating the Depository Interests and granting certain rights to the DI Holders;

Deferred Payment means the €100 million payment originally expressed to be payable upon completion of the sale of BOC’s Ukrainian business, the Ukrainian Portfolio Loans and the Ukrainian Additional Loans and then amended to be paid in quarterly installments under a payment schedule that extends until 1 June 2019;

Deposit Protection Scheme means the Cypriot deposit protection scheme established pursuant to the Recast DGSD;

Depository means Capita IRG Trustees Limited;

Depository Agreement means the Depository Agreement to be entered into between BOCH and the Depository prior to the Effective Date;

Depository Interests means the uncertificated depository interests representing the BOCH Shares;

DGFB means the Deposit Guarantee Fund for banks established pursuant to the DGS Law;

DGS Law means Law 5(I)/2016 regarding the deposit guarantee scheme and resolution of credit institutions and other institutions;

DI means a Depository Interest;

DI Holder means a Depository Interest holder;

Diluted Shares means the diluted Existing Shares and ordinary shares issued to the bailed in holders of Capital Securities;

Disposals has the meaning set out in “*Operating and Financial Review—Overview—Key Factors Affecting Financial Condition and Results of Operations—Transformational Events during the Periods under Review—BOC Group Restructuring and Discontinued Operations—Disposals*”;

DSS means the central registry and computerised system for the settlement of sales and purchases of securities on a dematerialised basis and the holding of securities in uncertificated form operated by the CDCR (also known as Sistima Ailon Titlon (SAT));

EAP means the Cyprus Economic Adjustment Programme;

EBA means the European Banking Authority;

EBRD means the European Bank for Reconstruction and Development;

EC means the European Commission;

ECB means the European Central Bank;

ECB Regulation means Regulation (EU) No 1024/2013;

EDIS means the European Deposit Insurance Scheme to be established pursuant to a proposal for a regulation to amend Regulation (EU) No 806/2014;

EEA means the European Economic Area;

Effective means the Scheme having taken legal effect in accordance with its terms;

Effective Date means the date on which the Scheme becomes Effective which shall occur upon: (a) a copy of the Court Order having been duly delivered to the Registrar of Companies in Cyprus for registration; and (b) the Reduction of Capital having been registered by the Registrar of Companies;

EGM means the extraordinary general meeting of the Bank to be held for the purposes of considering and, if thought fit, approving the Scheme Resolutions in connection with the Scheme (each as defined herein and described in full in the Circular);

EIB means the European Investment Bank;

ELA means Emergency Liquidity Assistance;

Eligible Person means any employee of the BOC Group who is employed in Cyprus or the United Kingdom and meets certain eligibility criteria;

EMIR means the European Market Infrastructure Regulation (Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012);

EMTN means euro medium term note;

ERISA means the U.S. Employee Retirement Income Security Act of 1974, as amended;

ESM means the European Stability Mechanism;

EU IFR means the Regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions (Regulation (EU) 2015/751);

EU Member State means a member state of the European Union;

Euroclear means Euroclear UK & Ireland Limited;

Eurogroup Statement on Cyprus means the agreement dated 25 March 2013 between the Government and the Eurogroup on the key elements and principles necessary for a future macroeconomic adjustment programme;

EuroLife means EuroLife Ltd;

Examinership has the meaning given to such term in “*Financial Services Regulation and Supervision—Additional Cypriot Regulatory Requirements Applicable to the Bank—Insolvency Framework Laws*”;

Executive Managers means each of Michalis Athanasiou and Eliza Livadiotou;

Existing Shares means the ordinary shares of the Bank in issue as at 29 March 2013;

FATCA means the U.S. Foreign Account Tax Compliance Act of 2010;

FATF means the Financial Action Task Force;

FCA means the Financial Conduct Authority;

FCA Handbook means the FCA Handbook of Rules and Guidance;

FCs means financial counterparties;

FFIs means foreign financial institutions;

Fitch means Fitch Ratings Limited;

Fitness and Probity Directive means the CBC’s Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions;

Form of Proxy means the form of proxy attached to the Circular;

FSA means the UK’s Financial Services Authority, the predecessor to the FCA;

FSMA means the Financial Services and Markets Act 2000, as amended;

FTT means the financial transactions tax;

GCD means the BOC Group Compliance Division;

GCEO means the BOC Group Chief Executive Officer;

GCRO means the BOC Group Chief Risk Officer;

GDP means gross domestic product;

GDPR means the EU General Data Protection Regulation;

GHEs means Grand Hotel Enterprises Society Ltd;

GIA means the BOC Group Internal Audit Division;

GIAD means the BOC Group Internal Audit Director;

GIC means General Insurance of Cyprus Ltd;

GIIN means global intermediary identification number;

GLRA means the group-level resolution authority, which, in the case of the BOC Group, is the Single Resolution Board;

GORM means BOC Group’s operational risk management department;

Government means the government of Cyprus;

Greek Operations Decree means the Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013, issued by the Resolution Authority on 26 March 2013;

GVA means gross value added;

HCMC means the Hellenic Capital Markets Commission;

Hellenic Bank means Hellenic Bank Public Company Limited;

Historical Financial Information means the consolidated audited historical financial information as at and for the six months ended 30 June 2016 and as at and for the years ended 31 December 2013, 2014 and 2015 and the consolidated unaudited historical financial information as at and for the six months ended 30 June 2015, as set out in “*Historical Financial Information*”;

HMRC means Her Majesty’s Revenue and Customs;

HRRC means the human resources and remuneration committee;

HSBC means HSBC Bank plc;

IBS means the International Banking Services division;

ICB means the International Corporate Banking Unit;

ICFB means the Investor Compensation Fund for Clients of Banks;

ICFI means the Investor Compensation Fund for investment firms;

IF Law means the Cypriot Investment Firms Law, which implemented EU Directive 97/9/EC into domestic Cypriot law;

IFRS means the International Financial Reporting Standards issued by the International Accounting Standards Board and as adopted by the EU;

IGA means the Model 1 IGA that the Government signed with the United States on 2 December 2014;

IIA means the Institute of Internal Auditors;

IMF means International Monetary Fund;

Insolvency Framework Laws means the Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Orders) Law (No. 65(I)) of 2015, the Bankruptcy Law (Amending) (No. 61(I)) Law of 2015, the Company Law (Amending) (No. 63(I)) Law of 2015, the Company Law (Amending) (No. 62(I)) Law of 2015, and the Insolvency Practitioners Law (No. 64(I)) of 2015, collectively and with the underlying laws as amended as appropriate;

Interest Rate Law means an amendment to the Liberalisation of Interest Rate and Related Matters Law of 1999;

Introducers means corporate service providers;

Introduction Agreement means the introduction agreement entered into on the date hereof between BOC, BOCH and HSBC;

IPPF means the International Professional Practices Framework of the IIA;

Irish Takeover Rules means the Irish Takeover Panel Act 1997, Takeover Rules, 2013;

Irish Transparency Regulations means the Transparency (Directive 2004/109/EC) Regulations 2007 of Ireland (SI No. 277 of 2007) (as amended);

IRS means the U.S. Internal Revenue Service;

ISIN means International Securities Identification Number;

ITS means the Commission Implementing Regulation (EU) 2015/227 of 9 January 2015;

JCC means JCC Payment Systems Ltd;

KID means a key information document provided to retail investors under the PRIIPS Regulation;

KPI means key performance indicator;

Laiki Bank means Cyprus Popular Bank Public Co Ltd;

Laiki Shares means the ordinary shares issued to Laiki Bank in compensation for the assets and liabilities of Laiki Bank transferred to the Bank pursuant to the Laiki Transfer Decrees;

Laiki Transfer Decrees means the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013, the Sale of Certain Operations of Cyprus Popular Bank Public Co Ltd (Supplementary) Decree of 2013, the Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013 and the Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013;

LCR means liquidity coverage ratio;

LFS means Laiki Financial Services Ltd;

Loan Provisioning Directive means the CBC's Directive on Loan Impairment and Provisioning Procedures of 2014;

London Listing means the application to: (i) the FCA in its capacity as the UKLA for all of the ordinary share capital of BOCH to be admitted to the standard listing segment of the Official List; and (ii) the LSE for such shares to be admitted to trading on the LSE Main Market;

Long Stop Date means 31 March 2017 (being the latest date by which the Scheme may become Effective, unless the Bank and BOCH agree a later date and (if appropriate) the Court so allows);

LSE Main Market means the LSE's main market for listed securities;

LSE means the London Stock Exchange;

Macroprudential Supervision Law means the Macroprudential Supervision of Institutions Law of 2015;

Malus Provisions means the provisions in the Share Option Plan relating to the reduction or cancellation of any Options granted prior to the exercise or vesting of the Options;

MAR means the EU Market Abuse Regulation (Regulation (EU) No 596/2014);

MCD Order means the UK's Mortgage Credit Directive Order 2015, which implements the Mortgage Credit Directive (2014/17/EU) in the UK;

MCOB means the Mortgage and Home Finance: Conduct of Business Sourcebook, which is part of the FCA Handbook;

MDSF means Marfin Diversified Strategy Fund Plc;

Member State means a member state of the European Union;

MiFID II means the proposed Directive 2014/65/EU to amend and replace MiFID;

MiFID means Directive 2004/39 on markets in financial instruments (as supplemented by Directive 2006/73 and Commission Regulation 1287/2006)

MiFIR means the proposed Regulation (EU) No 600/2014 to amend and replace MiFID;

MLD4 means the Fourth Money Laundering Directive (EU) 2015/849;

Model 1 IGA means a "Model 1" intergovernmental agreement with the United States;

Mokas means the Cypriot Unit for Combating Money Laundering;

Money Laundering Activities Law means the Prevention and Suppression of Money Laundering Activities Law of 2007;

Moody's means Moody's Investor's Service Ltd.;

Moody's Cyprus means Moody's Investor's Service Cyprus Limited;

Mortgage Credit Directive means Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010;

MoU means the Memorandum of Understanding between Cyprus and the Troika;

MR means the Market Risk Department of the RMD;

MREL means minimum requirements for own funds and eligible liabilities;

MRO means the ECB's Main Refinancing Operations;

NCAs means national competent authorities;

Net Exposure means, in relation to a country, loans to entities incorporated or resident in such country, minus liabilities to entities incorporated or resident in such country, plus any off-balance sheet exposures to entities incorporated or resident in such country and properties in such country;

New BOC Shares means the new fully paid-up shares in BOC to be held by BOCH from the Effective Date;

New Deposits has the meaning set out in "*History of the BOC Group, the Restructuring, the Recapitalisation and Disposals—The 2013 Restructuring of the Bank and Laiki Bank—Recapitalisation of the Bank—Holders of deposits and other products of the Bank as at 26 March 2013*";

New Foreclosure Laws means the Immovable Property (Transfer and Mortgage) Law—9/1965, as amended by Law 142(I)/2014, as amended;

Notice of Meeting means the notice of meeting for the EGM made available on the website of BOC on 21 November 2016;

NPE(s) means non-performing exposures, which is not an accounting term, but a term used to comply with a reporting standard calculated on the basis of forbearance and the related definitions and policies communicated in July 2014 in the EBA Final Draft Implementing Technical Standards (ITS);

NPLs means non-performing loans which were reported in accordance with the Directive on Loan Impairment and Provisioning Procedures of 2014 as published by the CBC in February 2014 and, from 31 December 2014, NPLs and provisions were reported in accordance with the EBA reporting standards and the Loan Provisioning Directive;

OECD means the Organisation for Economic Co-operation and Development;

Official List means the Official List of the FCA;

OFT means the UK's Office of Fair Trading;

Ombudsman means the UK's Financial Ombudsman Service established under the FSMA;

on a dematerialised basis means in relation to a share or other security in uncertificated form, the transfer of title otherwise than by written instrument (for example, electronically through CREST or the DSS);

Open Offer means the second phase of the Capital Raising which involved an invitation to eligible existing shareholders of the Bank to subscribe for up to a total of 833,333,333 new ordinary shares (approximately 20% of the total number of 4,166,666,667 new ordinary shares placed by the Bank on 28 July 2014) at the price per share of €0.24 (for a total of €200.0 million);

Operator means a broker/custodian authorised by the CSE;

Options means the right to acquire one registered ordinary share of BOCH with a nominal value of EUR 0.10 each at an exercise price of EUR 5.00 pursuant to the rules of the Share Option Plan;

ORD means overseas run-down;

O-SIIs means other systematically important institutions as designated by the CBC;

OTC means over-the-counter;

Overseas Shareholders means holders of BOC Shares resident in, or citizens or nationals of, jurisdictions in which BOCH has not taken any action to permit a public offering of the ordinary shares in BOCH or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials relating to the BOCH Shares);

Participating Jurisdictions means jurisdictions that are signatories to the Common Reporting Standard;

Payment Accounts Directive means Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features;

Personal Repayment Schemes means the consensual and non-consensual debt repayment schemes for natural persons provided for under the Insolvency of Natural Persons (Personal Repayment Schemes and Debt Relief Orders) Law (No. 65(I)) of 2015;

PCI DSS means payment card industry data security standard;

PFIC means passive foreign investment corporation;

Placing means the placing by the Bank on 28 July 2014 of 4,166,666,667 new ordinary shares at a price per share of €0.24 (for a total of €1,000 million) to certain investors in accordance with the terms and conditions of the Placing as set out in the information memorandum dated 4 July 2014 issued by the Bank in connection with the Placing;

PRA means the Prudential Regulation Authority of the Bank of England;

PRIIPS means Packaged Retail and Insurance-based Investment Products;

PRIIPS Regulation means Regulation (EU) No 1286/2014;

Prospectus Directive means Council Directive 2003/71/EC of 4 November 2003 (as amended) of the European Union;

Prospectus Law means the Public Offer and Prospectus Law of 2005 (as amended) of Cyprus;

Protected Guarantors means guarantors who are natural persons and provided guarantees, except where the borrower is a company and the guarantor was a director of the company at the time he provided the guarantee, and who receive additional protections under the Protection of a Certain Category of Guarantors Law of 2003;

Provident Fund means the Bank of Cyprus Employees Provident Fund;

PSD means Directive 2007/64/EC on payment services;

PSD2 means the European Commission's proposal for a new payment services directive to incorporate and repeal the PSD dated 24 July 2013;

PSP means a payment service provider;

PSRs means the UK's Payment Services Regulations 2009 which implemented the Payment Services Directive (2007/64/EC) in the UK;

PTCEs means prohibited transaction class exemptions;

Q3 Review Report means the independent auditor's review report on the Third Quarter Financial Information;

Qualifying CCP means a CCP which has been authorised or recognised in accordance with EMIR;

RBS means the Royal Bank of Scotland Group;

RCB means RCB Bank Ltd;

RCIF means the Resolution of Credit and Other Institutions Fund established pursuant to the DGS Law;

Recapitalisation means the recapitalisation of the Bank effected by the Resolution Authority pursuant to the Bail-in Decrees;

Recast DGSD means the recast EU Deposit Guarantee Schemes Directive 2014/49/EU;

Record Date means 5 December 2016;

Recovery Law means Law 20(I)/2016 regarding the recovery of investment firms and other entities under the supervision of CySEC;

Reduction of Capital means the reduction of the share capital of BOC;

Relevant Member State means each Member State which has implemented the Prospectus Directive;

REMU means Real Estate Management Unit;

Resolute means Resolute Asset Management (Cyprus) Limited;

Resolution Authority means the Cyprus resolution authority (comprised at the time of the Governor of the CBC, together with the appointed executive directors of the CBC);

Resolution Law means Law 22(I)/2016 regarding the resolution of credit institutions and investment firms;

Restructuring Plan means the restructuring plan in relation to BOC that was approved by the CBC in November 2013;

RMD means the Risk Management Division;

RRD means the Restructuring and Recoveries Division;

RSCO means the Regulatory/Supervisory Coordination Office;

RSG means the Regulatory Steering Group;

RTS means the regulatory technical standards;

Russia Sale Agreement means the sale and purchase agreement dated 16 July 2015 pursuant to which the BOC Group agreed to sell (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, (ii) its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC and (iii) certain other Russian loan exposures;

Russian QIs means any persons in the Russian Federation who are “qualified investors” within the meaning of Article 51.2 of the Russian Federal Law no. 39-FZ “On the Securities Market” dated 22 April 1996, as amended;

RWAs means risk-weighted assets;

S&P means Standard and Poor’s Credit Market Services Europe Limited;

Sale of Credit Facilities Law means the Law Regulating the Sale of Credit Facilities and Related Matters;

Scheme means the scheme of arrangement proposed to be made under sections 198 to 200 of the Cyprus Companies Law between BOC and the BOC Shareholders, to be presented for approval to the Cyprus Court on 21 December 2016;

Scheme Conditions means the conditions subject to which the Scheme becomes Effective, more particularly described at “*The Scheme of Arrangement—Principal features of the Scheme*”;

Scheme Record Time means the record time for determining the entitlement to BOCH Shares under the Scheme, likely, subject to the Court Order, to be 5:30 p.m. on the day falling at least two business days after the announcement by BOC of the issuance of the Court Order;

Scheme Resolutions means the special resolution covering the Reduction of Capital and subsequent issue of shares to BOCH and the ordinary resolution approving the Scheme and authorising the BOC Directors to take all such actions as they consider necessary or appropriate for carrying the Scheme into effect;

SDC means the Special Contribution for the Defence Fund of the Republic Law;

SDRT means stamp duty and stamp duty reserve tax;

SEC means the U.S. Securities and Exchange Commission;

Section 3(a)(10) Exemption means the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) of the U.S. Securities Act;

Section 1062 Notice means the notice delivered pursuant to Section 1062 of the Companies Act in which the BOCH Board of Directors may request, amongst other things, that a member declare to BOCH his interest in any given BOCH shares;

Senior Managers means the members of the management body and managers of authorised credit institutions;

SEPA means the Single Euro Payments Area;

Share Election Form means the share election form, a copy of which is set out in Part XII of the Circular;

Share Option Plan means the share option plan introduced in accordance with a resolution by the shareholder of BOCH on 15 November 2016;

SLC means the Student Loan Corporation;

SME means small and medium size enterprise;

Solvency II means the directive on the taking-up and pursuit of the business of insurance and reinsurance (Directive 2009/138/EC) of 25 November 2009, which provides the framework for a new solvency and supervisory regime for the insurance sector in the European Economic Area;

SRB means the Single Resolution Board;

SREP means the Supervisory Review and Evaluation Process under the SSM Regulation;

SREP 2015 means the SREP completed during 2015 and the related decision establishing prudential requirements pursuant to the SSM Regulation applicable for the year 2016;

SREP 2016 means the SREP completed during 2016 and the related decision establishing prudential requirements pursuant to the SSM Regulation applicable for the year 2017;

SRF means the single resolution fund;

SRM means the single resolution mechanism;

SRM Regulation means the Single Resolution Mechanism Regulation No 806/2014;

SRR means the special resolution regime introduced in the UK under the Banking Act 2009;

SSM means the single supervisory mechanism;

SSM Regulation means the EU Single Supervisory Mechanism Regulation No 1024/2013;

Subscriber Share means the one ordinary share of €1.00, with which BOCH was incorporated.

TAP means the triennial audit plan prepared by GIA;

Themis means Themis Constructions;

Third Quarter Financial Information means the interim condensed consolidated financial statements of the BOC Group for the nine month period ended 30 September 2016;

TLTROs means targeted long term refinancing operations;

Transfer Fees Law means the Transfer Fees Law, Cap. 219 of the Department of Lands and Survey (as amended);

Troika means the EC, the ECB and the IMF;

UCITS means the European Union Directive 2009/65/EC for Undertakings for Collective Investment in Transferable Securities.

UCTCCL means the Unfair Contract Terms in Consumer Contracts Law of 1996;

UK Corporate Governance Code means the April 2016 Financial Review Council corporate governance code;

UKLA means the FCA in its capacity as the UK Listing Authority;

UKLA Listing Rules means the rules and regulations made by the FCA under part VI of the FSMA, and contained in the UKLA's publication of the same name;

UK Loan Portfolio means the UK loan portfolio sold by the BOC Group on 31 October 2014;

UK Loan Portfolio Agreement means the purchase agreement in respect of the UK Loan Portfolio;

Ukrainian Additional Loans means the three additional loans BOC agreed to sell to Alfa;

Ukrainian Portfolio Loans means the portfolio of loans sold by BOC to Alfa on 17 April 2014;

Ukrainian Sale and Purchase Agreement means the sale and purchase agreement for the disposal by BOC of its Ukrainian business consisting of the Ukrainian Subsidiaries, the Ukrainian Portfolio Loans and the Ukrainian Additional Loans to Alfa;

Ukrainian Subsidiaries means PJSC Bank of Cyprus and LLC Ikos Finance;

UK Referendum means the referendum held in the UK on its continued membership of the EU on 23 June 2016;

US-Cyprus Tax Treaty means the income tax treaty between the United States and Cyprus;

U.S. Holder has the meaning given to such term in "*Taxation—United States Taxation—General*";

U.S. Securities Act means the U.S. Securities Act of 1933, as amended;

Union means the Cyprus Union of Bank Employees;

VAT means Value Added Tax;

VEP means a voluntary exit plan; and

WBAM means the wealth, brokerage and asset management division.

Dated: 30 November 2016

FINANCIAL PAGES

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE BOC GROUP AS
AT AND FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2016**



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Report of the statutory auditor to the Board of Directors of Bank of Cyprus Public Company Ltd on the review of the interim condensed consolidated financial statements as of 30 September 2016 and for the nine-month period then ended

Introduction

We have reviewed the interim condensed consolidated financial statements of Bank of Cyprus Public Company Ltd (the ‘Company’) and its subsidiaries (together with the Company the ‘Group’) on pages F-5 to F-85, which comprise the interim consolidated balance sheet as at 30 September 2016, the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended, the interim consolidated statements of income and comprehensive income for the three-month period then ended and explanatory notes. These statements show a consolidated balance sheet with total equity of €3.103 million and with total assets of €22.382 million as at 30 September 2016 and a consolidated net profit for the nine-month period then ended of €65.178 thousand. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the International Financial Reporting Standards applicable to interim financial reporting, IAS 34 Interim Financial Reporting (“IAS 34”) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” applicable to review engagements. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing and, consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 ‘Interim Financial Reporting’.

Emphasis of matter

We draw your attention to note 5 “Going concern” to the interim condensed consolidated financial statements which discusses management’s assessment as to the ability of the Group to continue as a going concern and the fact that the Group is currently in breach of the regulatory liquidity ratios in Cyprus, which indicates the existence of a material uncertainty of the Group’s ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors
Nicosia
14 November 2016

Bank of Cyprus Holdings



Interim Condensed Consolidated Financial Statements
for the nine months ended

30 September 2016

**Interim Condensed Consolidated Financial Statements
for the nine months ended 30 September 2016**

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Interim Consolidated Income Statement

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2016 €000	2015 €000	2016 €000	2015 €000
Continuing operations					
Turnover		928.621	1.108.090	287.799	342.654
Interest income		680.323	863.416	212.665	272.301
Interest expense		(155.836)	(219.068)	(48.640)	(66.539)
Net interest income		524.487	644.348	164.025	205.762
Fee and commission income		118.908	121.783	40.496	38.525
Fee and commission expense		(6.877)	(6.746)	(2.333)	(2.605)
Net foreign exchange gains		27.904	30.963	11.591	7.671
Net gains/(losses) on financial instrument transactions	9	65.727	28.254	8.338	(463)
Insurance income net of claims and commissions		34.672	31.818	10.039	11.549
Gains/(losses) from revaluation and disposal of investment properties		5.649	(36.128)	(157)	(12.744)
(Losses)/gains on disposal of stock of property		(3.042)	647	491	404
Other income		10.421	12.045	2.844	3.199
		777.849	826.984	235.334	251.298
Staff costs	10	(233.558)	(176.599)	(54.279)	(58.582)
Other operating expenses	10	(163.747)	(146.585)	(54.191)	(49.184)
		380.544	503.800	126.864	143.532
Gain on derecognition of loans and advances to customers and changes in expected cash flows	11	37.994	263.392	15.828	33.353
Provisions for impairment of loans and advances to customers and other customer credit losses	11	(304.876)	(592.764)	(124.951)	(128.838)
(Impairment)/reversal of impairment of other financial instruments	11	(11.822)	(37.105)	406	(5.937)
Impairment of non-financial instruments	11	(22.012)	—	(12.650)	—
Profit before share of profit from associates and joint ventures		79.828	137.323	5.497	42.110
Share of profit from associates and joint ventures		3.189	3.641	1.583	203
Profit before tax from continuing operations		83.017	140.964	7.080	42.313
Income tax	12	(17.839)	(17.631)	(4.144)	(7.156)
Profit after tax from continuing operations		65.178	123.333	2.936	35.157
Discontinued operations					
Loss after tax from discontinued operations	8	—	(65.107)	—	(28.840)
Profit for the period		65.178	58.226	2.936	6.317
Attributable to:					
Owners of the Company—continuing operations	8	61.627	129.048	5.255	39.723
Owners of the Company—discontinued operations	8	—	(55.839)	—	(26.734)
Total profit attributable to the owners of the Company		61.627	73.209	5.255	12.989
Non-controlling interests—continuing operations	8	3.551	(5.715)	(2.319)	(4.566)
Non-controlling interests—discontinued operations	8	—	(9.268)	—	(2.106)
Total profit/(loss) attributable to non-controlling interests		3.551	(14.983)	(2.319)	(6.672)
Profit for the period		65.178	58.226	2.936	6.317
Basic and diluted earnings per share (cent)					
attributable to the owners of the Company—continuing operations	13	0,7	1,4	0,1	0,4
Basic and diluted earnings per share (cent) attributable to the owners of the Company	13	0,7	0,8	0,1	0,1

Interim Consolidated Statement of Comprehensive Income

	Nine months ended 30 September		Three months ended 30 September	
	2016	2015	2016	2015
	€000	€000	€000	€000
Profit for the period	65.178	58.226	2.936	6.317
Other comprehensive income (OCI)				
<i>OCI to be reclassified in the consolidated income statement in subsequent periods</i>				
Foreign currency translation reserve				
(Loss)/profit on translation of net investment in foreign branches and subsidiaries	(42.262)	6.894	(8.269)	19.536
Profit/(loss) on hedging of net investments in foreign branches and subsidiaries	44.352	(9.227)	8.066	(16.998)
Transfer to the consolidated income statement on dissolution/disposal of foreign operations	1.049	21.020	—	31.082
	3.139	18.687	(203)	33.620
Available-for-sale investments				
Net gains/(losses) from fair value changes before tax . . .	1.427	(2.445)	2.608	(795)
Share of net gains from fair value changes of associates .	1.652	—	990	—
Transfer to the consolidated income statement on impairment	498	2.656	(32)	404
Transfer to the consolidated income statement on sale . .	(47.239)	(3.814)	4.025	(1.147)
	(43.662)	(3.603)	7.591	(1.538)
	(40.523)	15.084	7.388	32.082
<i>OCI not to be reclassified in the consolidated income statement in subsequent periods</i>				
Property revaluation				
Tax	159	(255)	180	(433)
Actuarial losses for the defined benefit plans				
Remeasurement losses on defined benefit plans	(18.975)	—	(3.832)	—
	(18.816)	(255)	(3.652)	(433)
Other comprehensive (loss)/income after tax	(59.339)	14.829	3.736	31.649
Total comprehensive income for the period	5.839	73.055	6.672	37.966
Attributable to:				
Owners of the Company	6.907	84.729	8.911	37.314
Non-controlling interests	(1.068)	(11.674)	(2.239)	652
Total comprehensive income for the period	5.839	73.055	6.672	37.966

Interim Consolidated Balance Sheet

	Notes	30 September 2016	31 December 2015
		€000	€000
<i>Assets</i>			
Cash and balances with central banks	25	1.587.386	1.422.602
Loans and advances to banks	25	1.183.579	1.314.380
Derivative financial assets	15	11.965	14.023
Investments	14	193.308	588.255
Investments pledged as collateral	14	401.914	421.032
Loans and advances to customers	17	15.939.593	17.191.632
Life insurance business assets attributable to policyholders		490.503	475.403
Prepayments, accrued income and other assets	19	232.731	281.780
Stock of property	18	1.304.628	515.858
Investment properties		37.519	34.628
Property and equipment		282.127	264.333
Intangible assets		142.297	133.788
Investments in associates and joint ventures	34	112.582	107.753
Deferred tax assets		450.397	456.531
Non-current assets and disposal group held for sale	20	11.569	48.503
Total assets		22.382.098	23.270.501
<i>Liabilities</i>			
Deposits by banks		371.378	242.137
Funding from central banks	21	1.950.045	4.452.850
Repurchase agreements		329.325	368.151
Derivative financial liabilities	15	50.460	54.399
Customer deposits	22	15.642.924	14.180.681
Insurance liabilities		574.586	566.925
Accruals, deferred income and other liabilities	23	315.576	282.831
Debt securities in issue		—	712
Deferred tax liabilities		45.140	40.807
Non-current liabilities and disposal group held for sale	20	—	3.677
Total liabilities		19.279.434	20.193.170
<i>Equity</i>			
Share capital	24	892.294	892.294
Share premium	24	552.618	552.618
Capital reduction reserve	24	1.952.486	1.952.486
Revaluation and other reserves		240.647	258.709
Accumulated losses		(575.442)	(601.152)
Equity attributable to the owners of the Company		3.062.603	3.054.955
Non-controlling interests		40.061	22.376
Total equity		3.102.664	3.077.331
Total liabilities and equity		22.382.098	23.270.501

Prof. Dr. J. Ackermann Chairman
Mr. I. Zographakis Director

Mr. J. P. Hourican Chief Executive Officer
Mrs. E. Livadiotou Finance Director

Interim Consolidated Statement of Changes in Equity

Attributable to the owners of the Company

	Share capital (Note 24)	Share premium (Note 24)	Capital reduction reserve (Note 24)	Treasury shares (Note 24)	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale (Note 20)	Total	Non-controlling interests	Total equity
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2016	892.294	552.618	1.952.486	(41.301)	(601.152)	99.218	47.125	6.059	99.050	30.939	17.619	3.054.955	22.376	3.077.331
Profit for the period	—	—	—	—	61.627	—	—	—	—	—	—	61.627	3.551	65.178
Other comprehensive (loss)/income after tax for the period	—	—	—	—	(18.975)	159	(39.043)	—	—	3.139	—	(54.720)	(4.619)	(59.339)
Total comprehensive income /(loss) for the period	—	—	—	—	42.652	159	(39.043)	—	—	3.139	—	6.907	(1.068)	5.839
Increase in value of in-force life insurance business	—	—	—	—	(2.520)	—	—	—	2.520	—	—	—	—	—
Tax on increase in value of in-force life insurance business	—	—	—	—	209	—	—	—	(209)	—	—	—	—	—
Transfer of realised profits on sale of properties	—	—	—	—	8.310	(8.310)	—	—	—	—	—	—	—	—
Disposal of subsidiary (Note 33.2.1)	—	—	—	—	17.619	—	—	—	—	—	(17.619)	—	—	—
Acquisition of subsidiary (Note 33.1.1)	—	—	—	—	—	—	—	—	—	—	—	—	18.753	18.753
Disposals of treasury shares	—	—	—	41.301	(40.560)	—	—	—	—	—	—	741	—	741
30 September 2016	892.294	552.618	1.952.486	—	(575.442)	91.067	8.082	6.059	101.361	34.078	—	3.062.603	40.061	3.102.664

Interim Consolidated Statement of Changes in Equity (Continued)

Attributable to the owners of the Company

	Share capital	Share premium	Capital reduction reserve	Shares subject to interim orders	Treasury shares	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale	Total	Non-controlling interests	Total equity
	(Note 24)	(Note 24)	(Note 24)		(Note 24)							(Note 20)			
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January 2015	892.238	552.539	1.952.486	441	(88.051)	(79.021)	115.830	2.226	6.059	97.698	22.929	(9.882)	3.465.492	15.555	3.481.047
Profit/(loss) for the period	—	—	—	—	—	73.209	—	—	—	—	—	—	73.209	(14.983)	58.226
Other comprehensive (loss)/ income after tax for the period	—	—	—	—	—	—	(255)	(2.510)	—	—	(14.374)	28.659	11.520	3.309	14.829
Total comprehensive income/ (loss) for the period	—	—	—	—	—	73.209	(255)	(2.510)	—	—	(14.374)	28.659	84.729	(11.674)	73.055
Issue of share capital	56	79	—	—	—	—	—	—	—	—	—	—	135	—	135
Transfer of realised losses on sale of properties	—	—	—	—	—	(1.565)	1.641	—	—	—	—	(76)	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	(68)	—	—	—	—	—	—	(68)	68	—
Disposal of subsidiaries	—	—	—	—	—	6.805	—	—	—	—	—	(6.805)	—	(18.112)	(18.112)
Increase in shareholding of subsidiaries	—	—	—	—	—	(37.094)	—	—	—	—	11.693	—	(25.401)	25.401	—
Debt capitalisation for subsidiary non-controlling interests	—	—	—	—	—	(9.293)	—	—	—	—	—	—	(9.293)	9.293	—
Increase in value of in-force life insurance business	—	—	—	—	—	(1.323)	—	—	—	1.323	—	—	—	—	—
Tax on increase in value of in-force life insurance business	—	—	—	—	—	121	—	—	—	(121)	—	—	—	—	—
Dividend paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	—	—	(918)	(918)
Disposals of treasury shares	—	—	—	(441)	42.242	(38.934)	—	—	—	—	—	—	2.867	—	2.867
Reclassification from assets held-for-sale	—	—	—	—	—	—	272	—	—	—	11.624	(11.896)	—	—	—
30 September 2015	892.294	552.618	1.952.486	—	(45.809)	(87.163)	117.488	(284)	6.059	98.900	31.872	—	3.518.461	19.613	3.538.074

Interim Consolidated Statement of Cash Flows

	Note	Nine months ended 30 September	
		2016 €000	2015 €000
Net cash flows from operating activities			
Profit before tax from continuing operations	8	83.017	140.964
Loss before tax from discontinued operations	8	—	(65.062)
Profit for the period before tax		83.017	75.902
Share of profit from associates and joint ventures		(3.189)	(3.641)
Gain on derecognition, changes in expected cash flows and provisions for impairment of loans and advances to customer and other customer credit losses		266.882	372.037
Depreciation of property and equipment and amortisation of intangible assets		13.958	15.411
Increase in value of in-force life insurance policies		(2.520)	(1.323)
Impairment upon re-measurement of disposal group at fair value less costs to sell		—	3.288
Impairment of other financial instruments		11.822	37.105
(Profit)/loss upon disposal of disposal groups held for sale and discontinued operations		(2.545)	17.392
Amortisation of discounts/premiums, catch-up adjustment and interest on debt securities		(18.258)	(56.677)
Dividend income		(247)	—
Net gains on disposal of available-for-sale investments in equity securities and available-for-sale investments and investments classified as loans and receivables in debt securities		(67.204)	(959)
Interest on funding from central banks		27.337	63.821
Impairment of non-financial instruments	11	22.012	—
Gain on disposal of joint ventures		—	(10.005)
Loss on dissolution of subsidiaries		1.049	—
Losses/(gains) on disposal of stock of property		3.042	(581)
Losses from investments and disposals of investment properties, equipment and intangible assets		4.142	43.721
		339.298	555.491
Net decrease in loans and advances to customers and other accounts		233.451	249.939
Net increase in customer deposits and other accounts		1.578.817	835.105
		2.151.566	1.640.535
Tax received/(paid)		258	(1.310)
Net cash flow from operating activities		2.151.824	1.639.225
Cash flows from investing activities			
Purchases of debt securities, treasury bills and equity securities		(67.855)	(28.473)
Proceeds on disposal/redemption of investments		458.493	991.684
Interest received from debt securities and treasury bills		19.632	30.536
Dividend income from equity securities		247	629
Proceeds on disposal of subsidiaries and operations		26.500	3.396
Proceeds on disposal of joint ventures		—	89.011
Purchases of property and equipment		(9.554)	(6.676)
Proceeds on disposal of property and equipment		152	305
Purchases of intangible assets		(11.446)	(10.669)
Proceeds on disposal of intangible assets		12	—
Proceeds on disposal of investment property		13.634	18.098
Net cash flow from investing activities		429.815	1.087.841
Cash flows from financing activities			
Proceeds from the issue of shares		—	135
Net repayment of funding from central banks		(2.502.805)	(2.881.172)
Redemption of debt securities in issue		(712)	(1.733)
Interest on subordinated loan stock		—	(25)
Proceeds from disposal of treasury shares		741	2.867
Interest on funding from central banks		(27.337)	(63.821)
Dividend paid by subsidiaries to non-controlling interests		—	(918)
Net cash flow used in financing activities		(2.530.113)	(2.944.667)
Net increase/(decrease) in cash and cash equivalents for the period		51.526	(217.601)
Cash and cash equivalents			
1 January		2.406.344	2.238.601
Foreign exchange adjustments		6.687	18.373
Net increase/(decrease) in cash and cash equivalents for the period		51.526	(217.601)
30 September	25	2.464.557	2.039.373

Interim Consolidated Statement of Cash Flows (Continued)

Non-cash transactions

Nine months ended 30 September 2016

Acquisition of S.Z. Eliades Leisure Ltd

During the nine months ended 30 September 2016, the Group acquired a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of the majority of the borrowing due from S.Z. Eliades Leisure Ltd to the Company, as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 33.1.1.

Sale of shares held in Visa Europe Ltd

During the nine months ended 30 September 2016, the Group sold its shares in Visa Europe Ltd following the purchase of Visa Europe Ltd by Visa Inc. The transaction, in addition to the cash paid, involved the granting of preferred stock in Visa Inc. with a fair value of approximately €8 million and a deferred cash component of a fair value of approximately €4 million at the date of the transaction.

Repossession of collaterals

During the nine months ended 30 September 2016, the Group acquired stock of property by taking possession of collaterals held as security for customer loans and advances and held by the Group as at 30 September 2016 of €845.256 thousand (Note 18).

Nine months ended 30 September 2015

Disposal of the majority of the Group's Russian operations

In September 2015 the Group completed the disposal of the majority of its Russian operations. As part of the sales agreement, the parties agreed to an asset swap arrangement which involved the exchange of certain assets between them that resulted in a €41.849 thousand receivable for the Group (Note 33.3.1).

Notes to the Interim Condensed Consolidated Financial Statements

1. Corporate information

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiary companies during the period continued to be the provision of banking, financial, insurance services and management and disposal of property.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Company has a primary listing on the Cyprus Stock Exchange and a secondary listing on the Athens Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws.

Interim Condensed Consolidated Financial Statements

The Interim Condensed Consolidated Financial Statements include the financial statements of the Company and its subsidiaries. They were approved and authorised for issue by a resolution of the Board of Directors on 14 November 2016.

2. Unaudited financial statements

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2016 have not been audited by the Group's external auditors.

The Group's external auditors have conducted a review in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'.

3. Basis of preparation

The Interim Condensed Consolidated Financial Statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

3.1 Statement of compliance

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2016 have been prepared in accordance with the International Accounting Standard (IAS) applicable to interim financial reporting as adopted by the EU ('IAS 34').

The Interim Condensed Consolidated Financial Statements do not include all the information and disclosures required for the annual financial statements and should be read in conjunction with the Annual Consolidated Financial Statements for the year ended 31 December 2015.

3.2 Comparative information

Comparatives have been reclassified to reflect the change in presentation of '(Losses)/gains on disposal of stock of property' within the consolidated income statement.

This change in presentation did not have an impact on the profit of the period.

4. Accounting policies

New and amended standards and interpretations

The accounting policies adopted for the preparation of the Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2016 are consistent with those followed for the preparation of the Annual Consolidated Financial Statements for the year ended 31 December 2015. In addition, the Group has adopted the following new standards, amendments and interpretations, which did not have a material impact on these Interim Condensed Consolidated Financial Statements:

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortisation
- IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

4. Accounting policies (continued)

New and amended standards and interpretations (continued)

- IAS 27 Separate Financial Statements (Amendment)
- IAS 1: Disclosure Initiative (Amendment)
- Annual Improvements IFRSs 2012–2014 Cycle issued by the International Accounting Standards Board (IASB), which is a collection of amendments to IFRS. These improvements include:
 - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations—Amendments
 - IFRS 7 Financial Instruments: Disclosures—Amendments
 - IAS 19 Employee Benefits—Amendments
 - IAS 34 Interim Financial Reporting—Amendments
- IAS 19 Employee benefits (Amended): Employee contributions
- Annual Improvements IFRSs 2010–2012 Cycle issued by the IASB, which is a collection of amendments to IFRSs. These improvements include:
 - IFRS 2 Share-based Payment
 - IFRS 3 Business Combinations
 - IFRS 8 Operating Segments
 - IFRS 13 Fair Value Measurement
 - IAS 16 Property, Plant & Equipment
 - IAS 24 Related Party Disclosures
 - IAS 38 Intangible Assets

5. Going concern

Management has made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during the nine months ended 30 September 2016 and the developments up to the date of approval of these Interim Condensed Consolidated Financial Statements that have been considered in management's going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 6).

The Group's management believes that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

The Group's management, taking into consideration the factors described below and the uncertainties that existed at the reporting date, is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out below, despite the fact that, as disclosed in Notes 6.2.3 and 29, it is currently in breach of the regulatory liquidity ratios in Cyprus, which can be considered as a material uncertainty as to its ability to continue as a going concern.

- The Group's Common Equity Tier 1 (CET1) ratio at 30 September 2016 stands at 14,6% (transitional), higher than the minimum required ratio of 11,75% and total capital at 14,7% (Note 6.2.1).
- The improved funding structure of the Group as a result of the continuing positive customer flows in Cyprus.
- The significant decrease of its reliance on Emergency Liquidity Assistance (ELA) funding, which on 14 November 2016 stands at €0,8 billion, compared to €3,8 billion at 31 December 2015 and €11,4 billion at its peak level in April 2013 (Note 6.2.3).

5. Going concern (continued)

- The improved ratings of both the Company (Fitch Ratings upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit rate from Caa3 with stable outlook to Caa3 with positive outlook in June 2016) and the Republic of Cyprus (Fitch Ratings upgrade by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB- with a positive outlook in September 2015 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015). In September 2016, S&P Global Rating improved their rating on the Republic of Cyprus to BB with a positive outlook. In October 2016 Fitch Ratings improved their rating on the Republic of Cyprus to BB- with a positive outlook. In November 2016 Moody's Investors Service improved the outlook on the Republic of Cyprus from stable to positive.

6. Operating environment

6.1 Cyprus

Cyprus exited its economic adjustment programme at the end of March 2016 after a successful return to markets and having utilised only about 70% of the €10 billion funding resources made available by the European Union (EU) and the International Monetary Fund (IMF). Based on the Ministry of Finance Stability Programme 2016–2019 (May 2016), in the area of public finances, the government carried out a strong fiscal adjustment and the budget returned to near balance, public spending was reduced and tax collection was made more efficient.

Unemployment dropped to 13,1% in the first quarter of the year on a seasonally adjusted basis, and further to 12,4% in the second quarter compared to an average unemployment rate of 14,9% for 2015 as a whole and a peak of 16,5% in the fourth quarter of 2014 as per Eurostat.

Real GDP rose by 2,7% in the first half of 2016 year-on-year in a seasonally adjusted basis according to the Cyprus Statistical Service.

Consumer prices continued to decline for the fourth consecutive year, down by 1,6% year-on-year in the first nine months of 2016, (comparative year-on-year drop:2,1%). In the last three months to September 2016 the index dropped by 0,4% year-on-year, as per the Cyprus Statistical service.

Tourist arrivals increased significantly in the first eight months of 2016, up by 19,2% year-on-year. Industrial activity as measured by the index of industrial production continued to expand, up by 9,4% in the seven months to July, as per the Cyprus Statistical service.

Downside risks to the growth projections are associated with still high levels of non-performing loans, prolonged uncertainties in property markets and the credibility of the government. Downside risks may also be associated with a deterioration of the external environment for Cyprus. This would involve continuation of the recession in Russia in conditions of protracted declines in oil prices, weaker than expected growth in the euro area as a result of worsening global economic conditions and slower growth in the United Kingdom (UK) with a weakening of the pound following the Brexit referendum. Political uncertainty in Europe triggered by a British exit or by the refugee crisis and the escalation of regional military activity including tensions between the US and Russia and the Ukraine could also lead to increased economic uncertainty and undermine economic confidence.

Upside risks to the outlook relate to a longer period of low oil prices, better growth performance in the EU and investment decisions in tourism and energy and in public projects.

The international credit rating agencies have upgraded the rating of the country. Fitch Ratings upgraded the rating of the Republic of Cyprus by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB- with a positive outlook in September 2015 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015. In September 2016, S&P Global Rating improved their rating on the Republic of Cyprus to BB with a positive outlook. In October 2016 Fitch Ratings improved their rating on the Republic of Cyprus to BB- with a positive outlook. In November 2016 Moody's Investors Service improved the outlook on the Republic of Cyprus from stable to positive.

6. Operating environment (continued)

6.1 Cyprus (continued)

In July 2016 the Cyprus government accessed international capital markets for the third time since the start of the economic adjustment programme to date, issuing a seven year Eurobond of €1 billion at a yield of 3,8%.

6.2 The Group

6.2.1 Regulatory capital ratios

The Common Equity Tier 1 (CET1) ratio of the Group at 30 September 2016 stands at 14,6% (transitional) and total capital at 14,7%.

Since June 2016, the Pillar I CET1 minimum capital requirement applicable to the Group is 4,5%. 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 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). The Pillar II total minimum CET1 capital was determined by the European Central Bank (ECB) at 11,75% in November 2015. The Group's capital position at 30 September 2016 exceeds its Pillar I and its Pillar II add-on capital requirements. However, the Group's Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2016, based on the pre-notification received in September 2016, the Group's minimum phased-in CET1 capital ratio was set at 10,75%, comprising of a 4,5% Pillar I requirement, a 3,75% Pillar II requirement and the capital conservation buffer (CCB) which stands at 2,5% fully phased-in (in accordance with the prevailing Capital Requirement Directive IV (CRD IV) legislation in Cyprus). The ECB has also provided non public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Requirement has been set at 14,25%, comprising of a Pillar I requirement of 8% (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 3,75% (in the form of CET1), as well as the CCB of 2,5% fully phased in, which has been set for all credit institutions through the requirements of Capital Requirements Regulation (CRR)/CRD IV.

The new SREP requirements will be effective as from 1 January 2017 and as at the date of the publication of these Interim Condensed Consolidated Financial Statements, these requirements remain subject to ECB final confirmation, which is expected by end of 2016.

6.2.2 Asset quality

The Group's loans that are individually impaired or past due for more than 90 days (90+ DPD) have decreased by 23% during the nine months ended 30 September 2016 and totalled €8.768 million at 30 September 2016, representing 42,6% of gross loans (Note 27). The provisioning coverage ratio improved to 54% compared to 48% at 31 December 2015. The Group's non-performing exposures (NPEs), as defined by the European Banking Authority (EBA), totalled €11.901 million at 30 September 2016 and accounted for 58% of gross loans. The provisioning coverage ratio of NPEs totalled 40% at 30 September 2016.

The Group is currently addressing the asset quality challenge through the operation of independent, centralised and specialised restructuring and recovery units to manage large or distressed exposures. As a result of these efforts, 90+ DPD have decreased by 31% over the past six quarters since the peak of €12.789 million as at 31 March 2015. NPEs have decreased by 22% over the past six quarters since their peak of €15.175 million as at 31 March 2015. NPEs adhere to the technical reporting requirements of the EBA standards and the Loan Provisioning Directive.

The foreclosure and insolvency framework and the law governing the sale of loans provide the Group with additional tools and power to address its asset quality challenges.

6. Operating environment (continued)

6.2 The Group (continued)

6.2.3 Liquidity

The Group's funding position continues to improve with customer deposits increasing by €1.462 million or 10% in the nine months ended 30 September 2016.

Group customer deposits totalled €15.643 million at 30 September 2016 compared to €14.181 million at 31 December 2015. Customer deposits in Cyprus reached €14.210 million at 30 September 2016 and €12.691 million at 31 December 2015. Customer deposits accounted for 70% of total assets as at 30 September 2016 (compared to 61% at 31 December 2015 and a low of 48% at 31 March 2014).

The level of ELA funding at 30 September 2016 amounted to €1,3 billion (Note 21), down from €3,8 billion at 31 December 2015 and its peak level of €11,4 billion in April 2013. As at 14 November 2016, the level of ELA funding has been further reduced by €500 million to €0,8 billion represented a 93% reduction since peak. The Group intends to continue with further ELA repayments, the pace of which will be dependent on both the pace of increase in customer deposits and the prevailing market conditions which affect the Company's ability to raise wholesale funding. In this context, the Company successfully accessed the international markets for financing in May 2016 for the first time since the events of March 2013, completing a secured financing transaction (in the form of a repurchase agreement transaction) with a major international bank. This was partially repaid in August 2016 and fully terminated by the Company in October 2016.

It is noted that the Group's Restructuring Plan approved in 2013 by the Central Bank of Cyprus (CBC) included ELA funding throughout the Restructuring Plan period (2013–2017).

The Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus and therefore dependent on continuing regulatory forbearance. Additional information on liquidity and details on certain regulatory liquidity ratios are disclosed in Note 29.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cyprus Government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). However, any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

Although the Company has received no specific assurances, management expects that it will continue to have access to the central bank liquidity facilities, in line with applicable rules. In January 2014, the House of Representatives of Cyprus approved the issuance of up to €2,9 billion of guarantees. The European Commission announced in June 2016 the eighth extension of the bank guarantee scheme, which will see the scheme continue until 31 December 2016. At present, the Company does not expect to utilise the Government's guarantee scheme.

ELA is available to solvent Euro area credit institutions, and is therefore expected to remain available to the Company (subsequent to its repayment of existing ELA funds) if it were to face a 'stress event' that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Company would seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

6. Operating environment (continued)

6.2 The Group (continued)

6.2.4 Pending litigation and claims

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

Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the 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 (Note 23).

7. Significant 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.

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 in the Annual Consolidated Financial Statements for the year ended 31 December 2015.

The critical judgements, estimates and assumptions are set out below.

7.1 Provision for impairment of loans and advances to customers

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.

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 of collaterals which mainly comprise land and buildings.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. 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. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases for which, based on specific facts and circumstances, a different period has been used and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

7. Significant judgements, estimates and assumptions (continued)

7.1 Provision for impairment of loans and advances to customers (continued)

future change in property values during the year has been capped to zero. The average liquidity haircut and selling expenses used in the provisions calculation is 10% of the current market value of the property for those collaterals for which their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop.

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 (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). 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.

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.

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

7. Significant judgements, estimates and assumptions (continued)

7.1 Provision for impairment of loans and advances to customers (continued)

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 27.

7.2 Tax

The Group operates 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.

7.3 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 land and buildings held with an intention to be disposed of. This principally relates to repossessed properties and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, which as a result of the formation of the 'Real Estate Management Unit (REMU) and Overseas Rundown' by the Group in 2015, are being managed with an intention to be disposed of.

7.4 Stock of property—estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The estimated sales price is determined with reference to the fair value of properties adjusted for any impact of specific circumstances on the sale process of each property. 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 18.

7.5 Provisions

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 or regulatory 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

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

7. Significant judgements, estimates and assumptions (continued)

7.5 Provisions (continued)

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 and claims refer to Note 23.

7.6 Exercise of significant influence

The Group determines whether it exercises significant influence on companies in which it has shareholdings of less 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.

8. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit. The main geographical location where the Group operates is Cyprus.

In addition, the Cyprus segment is further organised into operating segments based on the line of business.

The remaining Group's activities in Greece, United Kingdom, Romania and Russia 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 'Other countries'.

The Group's activities in Cyprus and other countries include mainly the provision of banking, financial and insurance services, as well as management of properties either held as stock or as investment property.

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.

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.

The disposal of the majority of the Russian operations was completed in September 2015 and the results of the Russian operations which have been disposed of are presented as discontinued operations in the comparative period. The results of the remaining Russian operations, being the management of a distressed loan portfolio, are presented within continuing operations of the 'Other countries' segment.

In September 2015, the Group completed the disposal of its 65% shareholding in the Aphrodite group. The results of the Aphrodite group acquired in November 2014 and disposed of in September 2015 are presented as discontinued operations in the comparative period.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Continuing operations

	Cyprus €000	Other countries €000	Total continuing operations €000
Nine months ended 30 September 2016			
Net interest income	490.746	33.741	524.487
Net fee and commission income	106.851	5.180	112.031
Net foreign exchange gains	15.200	12.704	27.904
Net gains on financial instrument transactions	65.423	304	65.727
Insurance income net of claims and commissions	34.393	279	34.672
Gains/(losses) from revaluation and disposal of investment properties . .	5.991	(342)	5.649
Losses on disposal of stock of property	(2.715)	(327)	(3.042)
Other income	8.867	1.554	10.421
	<u>724.756</u>	<u>53.093</u>	<u>777.849</u>
Staff costs (excluding voluntary exit plan) (Note 10)	(158.398)	(12.734)	(171.132)
Staff costs—voluntary exit plan (Note 10)	(62.426)	—	(62.426)
Other operating expenses (excluding advisory and other restructuring costs) (Note 10)	(108.476)	(19.420)	(127.896)
Other operating expenses—advisory and other restructuring costs (Note 10)	(34.020)	(1.831)	(35.851)
	<u>361.436</u>	<u>19.108</u>	<u>380.544</u>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	37.949	45	37.994
Provisions for impairment of loans and advances to customers and other customer credit losses	(263.813)	(41.063)	(304.876)
(Impairment)/reversal of impairment of other financial instruments . . .	(12.800)	978	(11.822)
Impairment of non-financial instruments	(12.566)	(9.446)	(22.012)
Share of profit from associates and joint ventures	3.189	—	3.189
Profit/(loss) before tax	113.395	(30.378)	83.017
Income tax	(15.820)	(2.019)	(17.839)
Profit/(loss) after tax	97.575	(32.397)	65.178
Non-controlling interests—profit	(3.551)	—	(3.551)
Profit/(loss) after tax attributable to the owners of the Company	94.024	(32.397)	61.627

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Continuing operations (continued)

	Cyprus	Other countries	Total continuing operations
	€000	€000	€000
Nine months ended 30 September 2015			
Net interest income	602.782	41.566	644.348
Net fee and commission income	110.144	4.893	115.037
Net foreign exchange gains/(losses)	32.719	(1.756)	30.963
Net gains/(losses) on financial instrument transactions	29.403	(1.149)	28.254
Insurance income net of claims and commissions	31.104	714	31.818
Losses from revaluation and disposal of investment properties	(15.865)	(20.263)	(36.128)
Gains/(losses) on disposal of stock of property	803	(156)	647
Other income/(expenses)	15.805	(3.760)	12.045
	<u>806.895</u>	<u>20.089</u>	<u>826.984</u>
Staff costs (Note 10)	(163.907)	(12.692)	(176.599)
Other operating expenses (excluding advisory and other restructuring costs) (Note 10)	(106.379)	(13.395)	(119.774)
Other operating expenses—advisory and other restructuring costs (Note 10)	(22.495)	(4.316)	(26.811)
	<u>514.114</u>	<u>(10.314)</u>	<u>503.800</u>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	257.113	6.279	263.392
Provisions for impairment of loans and advances to customers and other customer credit losses	(511.249)	(81.515)	(592.764)
Impairment of other financial instruments	(25.943)	(11.162)	(37.105)
Share of profit from associates and joint ventures	3.641	—	3.641
	<u>237.676</u>	<u>(96.712)</u>	<u>140.964</u>
Profit/(loss) before tax	237.676	(96.712)	140.964
Income tax	(16.428)	(1.203)	(17.631)
	<u>221.248</u>	<u>(97.915)</u>	<u>123.333</u>
Profit/(loss) after tax	221.248	(97.915)	123.333
Non-controlling interests—(profit)/loss	(173)	5.888	5.715
	<u>221.075</u>	<u>(92.027)</u>	<u>129.048</u>
Profit/(loss) after tax attributable to the owners of the Company	221.075	(92.027)	129.048

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Discontinued operations

	Russia	Subsidiary acquired with the view to sale	Total discontinued operations
	€000	€000	€000
Nine months ended 30 September 2015			
Net interest income	16.353	—	16.353
Net fee and commission income	8.108	—	8.108
Net foreign exchange gains	1.537	—	1.537
Losses from revaluation and disposal of investment properties	(160)	—	(160)
Losses on disposal of stock of property	(66)	—	(66)
Other income	1.222	18.833	20.055
	<u>26.994</u>	<u>18.833</u>	<u>45.827</u>
Staff costs	(17.010)	(5.433)	(22.443)
Other operating expenses	(17.147)	(7.954)	(25.101)
	<u>(7.163)</u>	<u>5.446</u>	<u>(1.717)</u>
Provisions for impairment of loans and advances to customers and other customer credit losses	(42.665)	—	(42.665)
Impairment upon remeasurement of disposal group at fair value less costs to sell	(3.288)	—	(3.288)
(Loss)/profit on disposal of discontinued operations	(23.032)	5.640	(17.392)
(Loss)/profit before tax	(76.148)	11.086	(65.062)
Income tax	(45)	—	(45)
(Loss)/profit after tax	(76.193)	11.086	(65.107)
Non-controlling interests—loss/(profit)	10.630	(1.362)	9.268
(Loss)/profit after tax attributable to the owners of the Company . .	(65.563)	9.724	(55.839)

Analysis of total revenue

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

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Analysis of total revenue (continued)

Continuing operations

	Cyprus €000	Other countries €000	Total continuing operations €000
Nine months ended 30 September 2016			
Banking and financial services	677.587	63.630	741.217
Insurance services	32.283	390	32.673
Property and hotel business	3.960	(1)	3.959
Total revenue from third parties	713.830	64.019	777.849
Inter-segment revenue/(expense)	10.926	(10.926)	—
Total revenue	<u>724.756</u>	<u>53.093</u>	<u>777.849</u>
Nine months ended 30 September 2015			
Banking and financial services	762.467	29.978	792.445
Insurance services	30.261	965	31.226
Property and hotel business	2.330	(38)	2.292
Total revenue from third parties	795.058	30.905	825.963
Inter-segment revenue/(expense)	11.837	(10.816)	1.021
Total revenue	<u>806.895</u>	<u>20.089</u>	<u>826.984</u>

Discontinued operations

	Russia €000	Subsidiary acquired with the view to sale €000	Total discontinued operations €000
Nine months ended 30 September 2015			
Banking and financial services	28.015	—	28.015
Property and hotel business	—	18.833	18.833
Total revenue from third parties	28.015	18.833	46.848
Inter-segment expense	(1.021)	—	(1.021)
Total revenue	<u>26.994</u>	<u>18.833</u>	<u>45.827</u>

Analysis of assets

	Cyprus €000	Other countries €000	Total €000
30 September 2016			
Assets	<u>20.996.485</u>	<u>2.555.394</u>	23.551.879
Inter-segment assets			(1.169.781)
Total assets			<u>22.382.098</u>
31 December 2015			
Assets	<u>21.666.656</u>	<u>2.746.202</u>	24.412.858
Inter-segment assets			(1.142.357)
Total assets			<u>23.270.501</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Analysis of liabilities

	Cyprus	Other countries	Total
	€000	€000	€000
30 September 2016			
Liabilities	<u>17.894.687</u>	<u>2.556.627</u>	20.451.314
Inter-segment liabilities			(1.171.880)
Total liabilities			<u>19.279.434</u>
31 December 2015			
Liabilities	<u>18.665.209</u>	<u>2.672.612</u>	21.337.821
Inter-segment liabilities			(1.144.651)
Total liabilities			<u>20.193.170</u>

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 22 and 27, respectively.

Analysis by business line

In addition to monitoring operations by geographical location, management also monitors the operating results of each business line for the Cyprus segment of the Group, and such information is 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/(expense) includes net foreign exchange gains, net gains/(losses) on financial instrument transactions, insurance income net of claims and commissions, gains/(losses) from revaluation and disposal of investment properties, (losses)/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. Indirect other operating income and indirect other operating expenses are allocated to the head office function. Notional tax at the 12,5% Cyprus tax rate is charged/credited on profit or loss before tax of each business line.

The business line 'Other' includes Group and head office functions such as treasury, finance, risk management, compliance, legal, corporate affairs and human resources. Head office functions provide services to the operating segments. From 2016 onwards, following the establishment of REMU in December 2015 real estate management results are also presented as a separate business line, as REMU is considered a separate operating segment and reported as such to management. No comparative information has been disclosed for the results of this new business line as this was only set up in December 2015.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Nine months ended 30 September 2016										
Net interest income/(expense)	60.247	47.695	186.658	159.750	46.349	6.372	(8.813)	308	(7.820)	490.746
Net fee and commission income/(expense)	7.037	6.249	34.047	9.068	37.914	1.365	—	(3.079)	14.250	106.851
Total other operating income/(expense)	408	444	3.407	414	5.322	3.152	(1.938)	35.054	80.896	127.159
	<u>67.692</u>	<u>54.388</u>	<u>224.112</u>	<u>169.232</u>	<u>89.585</u>	<u>10.889</u>	<u>(10.751)</u>	<u>32.283</u>	<u>87.326</u>	724.756
Staff costs and other operating expenses	(8.133)	(8.709)	(87.471)	(25.256)	(19.076)	(3.427)	(6.604)	(10.378)	(97.820)	(266.874)
Restructuring costs—voluntary exit plan	(968)	(1.139)	(22.930)	(8.237)	(4.468)	(224)	(97)	(3.269)	(21.094)	(62.426)
Restructuring costs—other operating expenses	(17)	(6)	(74)	(7.282)	(64)	(7)	(2.809)	—	(23.761)	(34.020)
	<u>58.574</u>	<u>44.534</u>	<u>113.637</u>	<u>128.457</u>	<u>65.977</u>	<u>7.231</u>	<u>(20.261)</u>	<u>18.636</u>	<u>(55.349)</u>	361.436
Gain/(loss) on derecognition of loans and advances to customers and changes in expected cash flows	3.747	3.243	8.501	21.536	1.749	909	—	—	(1.736)	37.949
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	15.760	(16.942)	23.532	(284.547)	(1.571)	(554)	—	—	509	(263.813)
Impairment of other financial instruments	—	—	—	—	—	—	—	—	(12.800)	(12.800)
Impairment of non-financial instruments	—	—	—	—	—	—	(10.335)	—	(2.231)	(12.566)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	—	3.189	3.189
	<u>78.081</u>	<u>30.835</u>	<u>145.670</u>	<u>(134.554)</u>	<u>66.155</u>	<u>7.586</u>	<u>(30.596)</u>	<u>18.636</u>	<u>(68.418)</u>	113.395
Profit/(loss) before tax	<u>78.081</u>	<u>30.835</u>	<u>145.670</u>	<u>(134.554)</u>	<u>66.155</u>	<u>7.586</u>	<u>(30.596)</u>	<u>18.636</u>	<u>(68.418)</u>	113.395
Income tax	(9.760)	(3.854)	(18.209)	16.819	(8.269)	(948)	3.824	(2.205)	6.782	(15.820)
	<u>68.321</u>	<u>26.981</u>	<u>127.461</u>	<u>(117.735)</u>	<u>57.886</u>	<u>6.638</u>	<u>(26.772)</u>	<u>16.431</u>	<u>(61.636)</u>	97.575
Profit/(loss) after tax	<u>68.321</u>	<u>26.981</u>	<u>127.461</u>	<u>(117.735)</u>	<u>57.886</u>	<u>6.638</u>	<u>(26.772)</u>	<u>16.431</u>	<u>(61.636)</u>	97.575
Non-controlling interests—profit	—	—	—	—	—	—	—	—	(3.551)	(3.551)
	<u>68.321</u>	<u>26.981</u>	<u>127.461</u>	<u>(117.735)</u>	<u>57.886</u>	<u>6.638</u>	<u>(26.772)</u>	<u>16.431</u>	<u>(65.187)</u>	94.024
Profit/(loss) after tax attributable to the owners of the Company	<u>68.321</u>	<u>26.981</u>	<u>127.461</u>	<u>(117.735)</u>	<u>57.886</u>	<u>6.638</u>	<u>(26.772)</u>	<u>16.431</u>	<u>(65.187)</u>	94.024

In addition loans and advances to customers and customer deposits of the above business lines are reported to the Group Executive Committee. Such an analysis is disclosed in Notes 17 and 22 respectively.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

8. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus
Nine months ended 30 September 2015	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income	51.726	51.702	187.196	221.105	45.612	4.900	504	40.037	602.782
Net fee and commission income/(expense)	5.726	6.686	40.971	10.884	36.257	1.209	(1.992)	10.403	110.144
Total other operating income	476	453	3.434	236	5.358	2.835	31.749	49.428	93.969
	57.928	58.841	231.601	232.225	87.227	8.944	30.261	99.868	806.895
Staff costs and other operating expenses	(7.847)	(9.162)	(89.204)	(24.006)	(16.101)	(3.764)	(11.479)	(108.723)	(270.286)
Restructuring costs	—	—	(385)	(16.564)	(3)	(168)	—	(5.375)	(22.495)
	50.081	49.679	142.012	191.655	71.123	5.012	18.782	(14.230)	514.114
Gain on derecognition of loans and advances to customers and changes in expected cash flows	31.134	26.755	58.180	127.238	2.332	1.546	—	9.928	257.113
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(4.250)	6.797	(37.503)	(466.959)	(3.280)	(6.225)	—	171	(511.249)
Impairment of other financial instruments	—	—	—	—	—	—	—	(25.943)	(25.943)
Share of profit from associates and joint ventures	—	—	—	—	—	—	—	3.641	3.641
Profit/(loss) before tax	76.965	83.231	162.689	(148.066)	70.175	333	18.782	(26.433)	237.676
Income tax	(9.621)	(10.404)	(20.384)	16.438	(8.772)	(63)	(2.131)	18.509	(16.428)
Profit/(loss) after tax	67.344	72.827	142.305	(131.628)	61.403	270	16.651	(7.924)	221.248
Non-controlling interests—profit	—	—	—	—	—	—	—	(173)	(173)
Profit/(loss) after tax attributable to the owners of the Company	67.344	72.827	142.305	(131.628)	61.403	270	16.651	(8.097)	221.075

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

9. Net gains/(losses) on financial instrument transactions

	Nine months ended 30 September		Three months ended 30 September	
	2016 €000	2015 €000	2016 €000	2015 €000
Trading portfolio:				
—equity securities	(419)	310	(103)	(366)
—debt securities	23	11	16	—
—derivative financial instruments	975	(13.324)	105	198
Other investments at fair value through profit or loss:				
—debt securities	(314)	379	(78)	(22)
—equity securities	(133)	157	(510)	275
Net gains/(losses) on disposal of available-for-sale investments:				
—equity securities	58.373	971	43	27
—debt securities	18	(12)	—	—
Net gains on disposal/repayment of loans and receivables:				
—debt securities	8.813	30.820	8.770	—
Realised gains on disposal of loans	106	35	796	35
Revaluation of financial instruments designated as fair value hedges:				
—hedging instruments	(2.655)	8.948	1.163	345
—hedged items	1.989	(10.046)	(1.864)	(898)
Loss on dissolution of subsidiaries	(1.049)	—	—	—
Gain/(loss) on disposal of joint ventures	—	10.005	—	(57)
	<u>65.727</u>	<u>28.254</u>	<u>8.338</u>	<u>(463)</u>

The gain on disposal of available-for-sale equity securities relates mainly to gain on sale of shares held in Visa Europe Ltd following the approved purchase of Visa Europe Limited by Visa Inc.

In the comparative period, the gain on disposal of joint ventures related mainly to the disposal of Marfin Diversified Strategy Fund Plc (MDSF) in April 2015 and represented the recycling of the related foreign currency reserves into the consolidated income statement. In addition, the gain on disposal of debt securities classified as loans and receivables related to the earlier than expected partial repayment of a Cyprus Government Bond.

10. Staff costs and other operating expenses

Staff costs

	Nine months ended 30 September		Three months ended 30 September	
	2016 €000	2015 €000	2016 €000	2015 €000
Salaries	139.824	140.676	44.731	46.932
Employer's contributions to state social insurance and pension funds	19.863	19.826	5.878	7.236
Retirement benefit plan costs	11.445	16.097	3.657	4.414
	<u>171.132</u>	<u>176.599</u>	<u>54.266</u>	<u>58.582</u>
Restructuring costs—voluntary exit plan	62.426	—	13	—
	<u>233.558</u>	<u>176.599</u>	<u>54.279</u>	<u>58.582</u>

The number of persons employed by the Group as at 30 September 2016 was 4.229 (31 December 2015: 4.605, 30 September 2015: 4.610). In February and June 2016 the Group proceeded with voluntary exit plans for its employees in Cyprus, the cost of which is included in staff costs and amounted to €62.426 thousand. In total, 429 employees accepted the voluntary exit plan and during the nine months ended 30 September 2016, 419 employees left the Group under the plan.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

10. Staff costs and other operating expenses (continued)

Other operating expenses

	Nine months ended 30 September		Three months ended 30 September	
	2016	2015	2016	2015
	€000	€000	€000	€000
Repairs and maintenance of property and equipment	20.115	16.257	6.115	5.688
Other property-related costs	10.195	10.078	4.013	4.776
Operating lease rentals for property and equipment	7.558	7.770	2.721	2.551
Special levy on deposits of credit institutions in Cyprus	14.603	12.761	5.022	4.253
Consultancy and other professional services fees	7.456	11.966	3.130	4.438
Insurance	8.195	11.067	2.463	3.804
Advertising and marketing	11.948	8.585	3.844	5.591
Depreciation of property and equipment	8.638	9.259	2.850	3.100
Amortisation of intangible assets	5.320	5.259	1.814	1.833
Communication expenses	5.631	5.586	2.080	2.071
(Reversal of provision)/provision and settlements of litigations or claims (Note 23)	(90)	1.630	101	(374)
Printing and stationery	2.551	3.137	861	1.181
Local cash transfer expenses	2.030	1.992	624	669
Contribution to depositor protection scheme	161	274	137	29
Other operating expenses	23.585	14.153	7.524	4.216
	127.896	119.774	43.299	43.826
Advisory and other restructuring costs	35.851	26.811	10.892	5.358
	163.747	146.585	54.191	49.184

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 contemplated listing on the London stock exchange and (iii) disposal of operations and non-core assets.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

11. Impairment of financial and non-financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows

	Nine months ended 30 September		Three months ended 30 September	
	2016	2015	2016	2015
	€000	€000	€000	€000
Gain on derecognition of loans and advances to customers and changes in expected cash flows	(37.994)	(263.392)	(15.828)	(33.353)
<i>Provisions net of reversals of provisions for impairment of loans and advances to customers and other customer credit losses</i>				
Loans and advances to customers (Note 27)	302.576	628.801	122.818	161.692
Financial guarantees and commitments	2.300	(36.037)	2.133	(32.854)
	304.876	592.764	124.951	128.838
<i>Impairment/(reversal of impairment) of other financial instruments</i>				
Available-for-sale equity securities	498	1.616	(32)	388
Available-for-sale mutual funds	56	810	—	15
Loans and receivables debt securities	—	(167)	—	—
Loans and advances to banks	13.820	13.270	—	(200)
Other receivables	(2.999)	21.576	(374)	5.734
Deposits by banks	447	—	—	—
	11.822	37.105	(406)	5.937
<i>Impairment of non-financial instruments</i>				
Stock of property (Note 18)	22.012	—	12.650	—

12. Income tax

	Nine months ended 30 September		Three months ended 30 September	
	2016	2015	2016	2015
	€000	€000	€000	€000
Current tax:				
—Cyprus	2.824	1.867	761	512
—overseas	1.989	2.119	885	1.362
Cyprus special defence contribution	44	113	13	23
Deferred tax	6.414	12.687	844	5.226
Prior year tax adjustments	3.008	845	15	33
Other tax charges	3.560	—	1.626	—
	17.839	17.631	4.144	7.156

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

13. Earnings per share

	Nine months ended 30 September		Three months ended 30 September	
	2016	2015	2016	2015
Basic and diluted earnings per share attributable to the owners of the Company				
Profit for the period attributable to the owners of the Company (€ thousand)	<u>61.627</u>	<u>73.209</u>	<u>5.255</u>	<u>12.989</u>
Weighted average number of shares in issue during the period, excluding treasury shares (thousand) . .	<u>8.920.437</u>	<u>8.909.583</u>	<u>8.922.945</u>	<u>8.909.583</u>
Basic and diluted earnings per share (€ cent)	<u>0,7</u>	<u>0,8</u>	<u>0,1</u>	<u>0,1</u>
Basic and diluted earnings per share attributable to the owners of the Company—continuing operations				
Profit for the period attributable to the owners of the Company—continuing operations (€ thousand) . . .	<u>61.627</u>	<u>129.048</u>	<u>5.255</u>	<u>39.723</u>
Weighted average number of shares in issue during the period, excluding treasury shares (thousand) . .	<u>8.920.437</u>	<u>8.909.583</u>	<u>8.922.945</u>	<u>8.909.583</u>
Basic and diluted earnings per share—continuing operations (€ cent)	<u>0,7</u>	<u>1,4</u>	<u>0,1</u>	<u>0,4</u>
Basic and diluted losses per share attributable to the owners of the Company—discontinued operations				
Loss for the period attributable to the owners of the Company—discontinued operations (€ thousand) . .	<u>—</u>	<u>(55.839)</u>	<u>—</u>	<u>(26.734)</u>
Weighted average number of shares in issue during the period, excluding treasury shares (thousand) . .	<u>8.920.437</u>	<u>8.909.583</u>	<u>8.922.945</u>	<u>8.909.583</u>
Basic and diluted losses per share—discontinued operations (€ cent)	<u>—</u>	<u>(0,6)</u>	<u>—</u>	<u>(0,3)</u>

14. Investments

	30 September 2016	31 December 2015
	€000	€000
Investments		
Investments at fair value through profit or loss	<u>46.013</u>	<u>50.785</u>
Investments available-for-sale	<u>113.947</u>	<u>100.535</u>
Investments classified as loans and receivables	<u>33.348</u>	<u>436.935</u>
	<u>193.308</u>	<u>588.255</u>

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	30 September 2016	31 December 2015
	€000	€000
Investments pledged as collateral		
Investments available-for-sale	<u>352.889</u>	<u>421.032</u>
Investments classified as loans and receivables	<u>49.025</u>	<u>—</u>
	<u>401.914</u>	<u>421.032</u>

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

Loans and receivables at 30 September 2016 include €49.129 thousand (31 December 2015: €146.444 thousand) of debt securities issued by the Cyprus government and listed on the Cyprus Stock Exchange which have been determined to be individually impaired, in prior years.

There were no reclassifications of investments between categories in the current period or in 2015.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

14. Investments (continued)

Reclassification of investments

The table below presents the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date €000	30 September 2016		31 December 2015		Nine months ended 30 September 2016		Effective interest rate on reclassification date
			Carrying value €000	Fair value €000	Carrying value €000	Fair value €000	Additional profit in the income statement had the debt securities not been reclassified €000	Additional gain in other comprehensive income had the debt securities not been reclassified €000	
Reclassification of available-for-sale investments to:									
—loans and receivables	1 October 2008	49.800	49.129	49.852	48.021	50.232	—	723	4,6%–4,7%

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

14. Investments (continued)

Reclassification of investments (continued)

	Reclassification date	Carrying and fair value on reclassification date €000	30 September 2015		31 December 2014		Nine months ended 30 September 2015		Effective interest rate on reclassification date
			Carrying value €000	Fair value €000	Carrying value €000	Fair value €000	Additional loss in the income statement had the debt securities not been reclassified €000	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified €000	
Reclassification of trading investments to:									
—loans and receivables	1 April 2010	34.810	35.261	34.934	36.722	35.056	(122)	—	1,2%–4,4%
Reclassification of available-for-sale investments to:									
—loans and receivables	1 October 2008	129.497	129.214	140.954	130.500	130.520	—	11.740	4,6%–4,7%
—loans and receivables	30 June 2011	151.967	167.959	165.306	166.724	157.918	—	(2.653)	2,8%–6,3%
Reclassification of held-to-maturity investments to:									
—available-for-sale	1 November 2012	42.151	41.773	41.773	43.358	43.358	—	—	0,4%–3,1%

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

15. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	30 September 2016			31 December 2015		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	21.206	129	157	90.870	1.113	2.103
Currency swaps	1.560.525	6.846	3.768	1.484.763	12.235	5.720
Interest rate swaps	262.982	793	2.077	34.511	141	2.305
Currency options	9.038	193	383	175	8	167
Equity options	—	—	—	1.515	477	441
Interest rate caps/floors	—	—	—	6.562	—	53
	<u>1.853.751</u>	<u>7.961</u>	<u>6.385</u>	<u>1.618.396</u>	<u>13.974</u>	<u>10.789</u>
Derivatives qualifying for hedge accounting						
Fair value hedges—interest rate swaps . .	392.400	—	44.045	425.900	45	39.570
Net investments—forward exchange rate contracts	167.951	4.004	30	151.246	4	4.040
	<u>560.351</u>	<u>4.004</u>	<u>44.075</u>	<u>577.146</u>	<u>49</u>	<u>43.610</u>
Total	<u>2.414.102</u>	<u>11.965</u>	<u>50.460</u>	<u>2.195.542</u>	<u>14.023</u>	<u>54.399</u>

Hedge accounting

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 30 September 2016, deposits and forward exchange rate contracts amounting to €162.092 thousand and €167.951 thousand respectively (31 December 2015: €178.101 thousand and €151.246 thousand respectively) have been designated as hedging instruments and have given rise to a gain of €44.352 thousand (corresponding period of 2015: loss of €9.227 thousand; year ended 31 December 2015: loss of €22.860 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.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

16. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	30 September 2016		31 December 2015	
	Carrying value €000	Fair value €000	Carrying value €000	Fair value €000
Financial assets				
Cash and balances with central banks	1.587.386	1.587.386	1.422.602	1.422.602
Loans and advances to banks	1.183.579	1.208.950	1.314.380	1.303.414
Investments at fair value through profit or loss	46.013	46.013	50.785	50.785
Investments available-for-sale	466.836	466.836	521.567	521.567
Investments classified as loans and receivables	82.373	83.513	436.935	445.521
Derivative financial assets	11.965	11.965	14.023	14.023
Loans and advances to customers	15.939.593	17.329.397	17.191.632	18.150.401
Life insurance business assets attributable to policyholders	476.602	476.602	462.613	462.613
Other assets	132.798	132.798	179.661	179.661
	<u>19.927.145</u>	<u>21.343.460</u>	<u>21.594.198</u>	<u>22.550.587</u>
Financial liabilities				
Obligations to central banks and deposits by banks .	2.321.423	2.321.423	4.694.987	4.694.987
Repurchase agreements	329.325	369.968	368.151	406.014
Derivative financial liabilities	50.460	50.460	54.399	54.399
Customer deposits	15.642.924	15.628.250	14.180.681	14.185.996
Debt securities in issue	—	—	712	712
Other liabilities	151.666	151.666	141.357	141.357
	<u>18.495.798</u>	<u>18.521.767</u>	<u>19.440.287</u>	<u>19.483.465</u>

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.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments 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 the Company's own credit quality respectively.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

16. Fair value measurement (continued)

Derivative financial instruments (continued)

The Group calculates the CVA by applying the probability of default (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 loss given default (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 available-for-sale and other investments at fair value through profit or loss

Available-for-sale investments and investments at fair value through profit or loss 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.

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 funding cost and the cost of capital.

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 the Company. The fair values 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.

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.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

16. Fair value measurement (continued)

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.

The following table presents the fair value measurement hierarchy of the Group's assets and liabilities recorded at fair value, by level of the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
30 September 2016				
Financial assets				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	129	—	129
Currency swaps	—	6.846	—	6.846
Interest rate swaps	—	793	—	793
Currency options	—	193	—	193
	<u>—</u>	<u>7.961</u>	<u>—</u>	<u>7.961</u>
<i>Derivatives qualifying for hedge accounting</i>				
Net investments-forward exchange rate contracts	—	4.004	—	4.004
<i>Investments at fair value through profit or loss</i>				
Trading investments	11.916	—	672	12.588
Other investments at fair value through profit or loss	19.107	14.057	261	33.425
	<u>31.023</u>	<u>14.057</u>	<u>933</u>	<u>46.013</u>
<i>Investments available-for-sale</i>	456.090	41	10.705	466.836
	<u>487.113</u>	<u>26.063</u>	<u>11.638</u>	<u>524.814</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

16. Fair value measurement (continued)

Model inputs for valuation (continued)

For available-for-sale equity securities categorised as Level 3, for an amount €8.730 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €873 thousand.

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
30 September 2016				
Financial liabilities				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	157	—	157
Currency swaps	—	3.768	—	3.768
Interest rate swaps	—	2.077	—	2.077
Currency options	—	383	—	383
	<u>—</u>	<u>6.385</u>	<u>—</u>	<u>6.385</u>
<i>Derivatives qualifying for hedge accounting</i>				
Net investments—forward exchange rate contracts	—	30	—	30
Fair value hedges—interest rate swaps	—	44.045	—	44.045
	<u>—</u>	<u>44.075</u>	<u>—</u>	<u>44.075</u>
	<u>—</u>	<u>50.460</u>	<u>—</u>	<u>50.460</u>
31 December 2015				
Financial assets				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	1.113	—	1.113
Currency swaps	—	12.235	—	12.235
Interest rate swaps	—	141	—	141
Currency options	—	8	—	8
Equity options	—	477	—	477
	<u>—</u>	<u>13.974</u>	<u>—</u>	<u>13.974</u>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges—interest rate swaps	—	45	—	45
Net investments—forward exchange rate contracts	—	4	—	4
	<u>—</u>	<u>49</u>	<u>—</u>	<u>49</u>
<i>Investments at fair value through profit or loss</i>				
Trading investments	12.865	—	489	13.354
Other investments at fair value through profit or loss	19.293	17.905	233	37.431
	<u>32.158</u>	<u>17.905</u>	<u>722</u>	<u>50.785</u>
<i>Investments available-for-sale</i>	466.995	41	54.531	521.567
	<u>499.153</u>	<u>31.969</u>	<u>55.253</u>	<u>586.375</u>

For available-for-sale equity securities categorised as Level 3, for an amount €51.263 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €750 thousand.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

16. Fair value measurement (continued)

Model inputs for valuation (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	€000	€000	€000	€000
31 December 2015				
Liabilities measured at fair value				
<i>Trading derivatives</i>				
Forward exchange rate contracts	—	2.103	—	2.103
Currency swaps	—	5.720	—	5.720
Interest rate swaps	—	2.305	—	2.305
Currency options	—	167	—	167
Equity options	—	441	—	441
Interest rate caps/floors	—	53	—	53
	<u>—</u>	<u>10.789</u>	<u>—</u>	<u>10.789</u>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges—interest rate swaps	—	39.570	—	39.570
Net investments—forward exchange rate contracts	—	4.040	—	4.040
	<u>—</u>	<u>43.610</u>	<u>—</u>	<u>43.610</u>
	<u>—</u>	<u>54.399</u>	<u>—</u>	<u>54.399</u>

During the nine months ended 30 September 2016 and during the year 2015 there were no significant transfers between Level 1 and Level 2.

The movement in Level 3 financial instruments which are measured at fair value is presented below:

	<u>2016</u>	<u>2015</u>
	€000	€000
1 January	55.253	3.688
Additions	7.850	339
Disposals and write offs	(90.808)	(45)
Transfers from Levels 1 and 2	—	321
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	495	50.695
Realised gains recognised in the consolidated income statement	39.047	—
Foreign exchange adjustments	(199)	255
30 September/31 December	<u>11.638</u>	<u>55.253</u>

17. Loans and advances to customers

	<u>30 September</u>	<u>31 December</u>
	2016	2015
	€000	€000
Gross loans and advances to customers	19.606.830	21.385.065
Provisions for impairment of loans and advances to customers (Note 27) . . .	(3.667.237)	(4.193.433)
	<u>15.939.593</u>	<u>17.191.632</u>

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 27.

18. Stock of property

The carrying value of stock of property 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 the nine months ended 30 September 2016 an impairment loss of €22.012 thousand was recognised in

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

18. Stock of property (continued)

‘Impairment of non-financial instruments’ in the consolidated income statement arising from measuring items at lower of cost and net realisable value. At 30 September 2016, stock of €623.464 thousand (31 December 2015: €496.594 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. The stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA amounts to €21.375 thousand (31 December 2015: €21.875 thousand).

The carrying value of the stock of property is analysed in the tables below.

	2016	2015
	€000	€000
Net book value at 1 January	515.858	12.662
Acquisition of subsidiary (Note 33.1.1)	48.632	—
Additions	845.256	32.216
Disposals	(83.649)	(4.298)
Transfer from investment properties	—	492.927
Transfer from own use properties	—	541
Transfer from disposal group held for sale	—	247
Impairment (Note 11)	(22.012)	(17.792)
Foreign exchange adjustments	543	(645)
Net book value 30 September/31 December	1.304.628	515.858

	Cyprus	Greece	Romania	Total
	€000	€000	€000	€000
Analysis by type and country				
30 September 2016				
Residential properties	85.510	37.069	10.921	133.500
Offices and other commercial properties	188.621	59.615	12.820	261.056
Manufacturing and industrial properties	62.296	55.981	521	118.798
Hotels	65.848	2.161	—	68.009
Land (fields and plots)	706.545	5.766	10.606	722.917
Properties under construction	348	—	—	348
Total	1.109.168	160.592	34.868	1.304.628

	Cyprus	Greece	Romania	Total
	€000	€000	€000	€000
Analysis by type and country				
31 December 2015				
Residential properties	17.664	39.222	13.030	69.916
Offices and other commercial properties	122.885	63.934	13.553	200.372
Manufacturing and industrial properties	18.174	59.279	513	77.966
Hotels	73.630	2.221	—	75.851
Land (fields and plots)	75.494	6.347	9.547	91.388
Properties under construction	365	—	—	365
Total	308.212	171.003	36.643	515.858

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

19. Prepayments, accrued income and other assets

	30 September 2016	31 December 2015
	€000	€000
Receivables relating to disposal of operations	56.952	98.454
Reinsurers' share of insurance contract liabilities	50.070	56.763
Taxes refundable	33.906	38.204
Debtors	23.723	23.020
Prepaid expenses	1.048	1.411
Retirement benefit plan assets	816	1.203
Other assets	66.216	62.725
	232.731	281.780

As at 30 September 2016, the receivables relating to the disposal of operations relate to the disposal of the Ukrainian operations, whereas at 31 December 2015 they related to the disposal of the Ukrainian and Russian operations.

During the nine months ended 30 September 2016, a reversal of impairment of €2.999 thousand was recognised in relation to other assets (corresponding period of 2015: impairment of €21.576 thousand) (Note 11).

20. Non-current assets and disposal group held for sale

Non-current assets and disposal group held for sale

	30 September 2016	31 December 2015
	€000	€000
Disposal group held for sale	—	26.168
Investment properties held for sale	11.569	22.335
	11.569	48.503

Non-current liabilities and disposal group held for sale

Disposal group held for sale	—	3.677
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The following non-current assets and disposal group were classified as held for sale as at 30 September 2016 and 31 December 2015:

Non-current assets held for sale

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 'Gains/(losses) from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment for investment properties in Cyprus and in the Other countries operating segment for Greek, UK and Romanian investment properties.

Disposal group held for sale

As at 31 December 2015, the disposal group held for sale relates to the Kermia Hotel business of the Group. In June 2016, the Group completed the sale of Kermia Hotel Ltd and adjacent land for a consideration of €26.500 thousand (Note 33.2.1).

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

21. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations and ELA from the CBC, as set out in the table below:

	30 September 2016	31 December 2015
	€000	€000
Emergency Liquidity Assistance (ELA)	1.300.045	3.802.058
Main Refinancing Operations (MRO)	650.000	150.000
Targeted Long Term Refinancing Operations (TLTRO)	—	500.792
	<u>1.950.045</u>	<u>4.452.850</u>

The funding under the main refinancing operations bears interest at the ruling rate of the Eurosystem. The Company repaid in full its outstanding MRO funding during the first quarter of 2016. In May 2016, the Company raised new funding from ECB's MRO using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

In 2014 the Group participated in the TLTRO of the ECB. The interest rate on the TLTRO was fixed over its life at 15 bps (being a fixed spread of 10 bps over the MRO level prevailing at the time of allotment). The Company repaid the amount borrowed through the TLTRO of €500 million on 29 June 2016 and borrowed the same amount from the MRO. Since the end of June 2016 all the Company's funding from the ECB is through its MRO.

The Company's ELA funding bears interest at a rate equal to the ruling marginal lending facility rate (MLF rate) of the Eurosystem, plus a margin.

Details on encumbered assets related to the above funding facilities are disclosed in Note 29.

22. Customer deposits

	30 September 2016	31 December 2015
	€000	€000
<i>By type of deposit</i>		
Demand	5.696.677	4.987.078
Savings	1.012.162	1.033.991
Time or notice	8.934.085	8.159.612
	<u>15.642.924</u>	<u>14.180.681</u>
<i>By geographical area</i>		
Cyprus	14.210.208	12.691.090
United Kingdom	1.430.965	1.486.551
Romania	1.751	3.040
	<u>15.642.924</u>	<u>14.180.681</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

22. Customer deposits (continued)

<i>By customer sector</i>	Cyprus	United Kingdom	Romania	Total
	€000	€000	€000	€000
30 September 2016				
Corporate	1.110.219	44.487	1.398	1.156.104
SMEs	515.575	204.254	192	720.021
Retail	7.449.112	1.138.960	161	8.588.233
Restructuring				
—Corporate	222.875	—	—	222.875
—SMEs	27.302	—	—	27.302
Recoveries				
—Corporate	8.725	—	—	8.725
International banking services	4.141.240	—	—	4.141.240
Wealth management	735.160	43.264	—	778.424
	<u>14.210.208</u>	<u>1.430.965</u>	<u>1.751</u>	<u>15.642.924</u>
31 December 2015				
Corporate	978.672	40.425	2.242	1.021.339
SMEs	455.133	236.616	461	692.210
Retail	6.995.757	1.134.334	337	8.130.428
Restructuring				
—Corporate	189.196	—	—	189.196
—SMEs	35.363	—	—	35.363
Recoveries				
—Corporate	7.865	—	—	7.865
International banking services	3.710.742	—	—	3.710.742
Wealth management	318.362	75.176	—	393.538
	<u>12.691.090</u>	<u>1.486.551</u>	<u>3.040</u>	<u>14.180.681</u>

Deposits by geographical area are based on the originator country of the deposit.

23. Accruals, deferred income and other liabilities

Other liabilities at 30 September 2016 include retirement benefit plan liabilities of €26.449 thousand (31 December 2015: €12.588 thousand) and provisions for pending litigations and claims of €31.805 thousand (31 December 2015: €34.749 thousand) for which the movement is presented below.

Provisions for pending litigation and claims

The movement for the period/year in the provisions for pending litigation and claims is as follows:

	2016	2015
	€000	€000
1 January	34.749	27.329
Increase of provisions during the period/year-continuing operations (Note 10)	9.760	11.904
Utilisation of provisions	(7.858)	(225)
Release of provisions during the period/year-continuing operations (Note 10)	(4.724)	(4.300)
Foreign exchange adjustments	(122)	41
30 September/31 December	<u>31.805</u>	<u>34.749</u>

The increase of provisions during the period of €9.760 thousand includes an amount of €5.126 thousand which is classified in advisory and other restructuring costs in other operating expenses (Note 10).

The recognition of provisions for pending litigation and claims is determined in accordance with the accounting policies set out in Note 3.30.1 of the Annual Consolidated Financial Statements for the year ended 31 December 2015.

Pending litigation and claims

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,

23. Accruals, deferred income and other liabilities (continued)

Pending litigation and claims (continued)

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 the Company in 2013 as a result of the Bail-in Decrees, the Company 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 30 September 2016 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

Investigations and litigation relating to securities issued by the Company

A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of mis-selling in relation to securities issued by the Company 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 the Company 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 Convertible Enhanced Capital Securities (CECS).

The Company 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 Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties. To date, a small number of cases have been tried in Greece. The Company 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. Provision has been made based on management's best estimate of probable outflows based on advice of counsel.

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 the Company'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 the Company'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.

23. Accruals, deferred income and other liabilities (continued)

Pending litigation and claims (continued)

The Cyprus Securities and Exchange Commission (CySEC) Investigations

CySEC is currently in the process of investigating:

- Matters concerning possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania.
- The adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the Asset Quality Review.

Additionally, in late 2014 CySEC completed an investigation into the value of goodwill in CB Uniastrum Bank LLC disclosed in the interim financial statements of the Group in 2012. In October 2016, CySEC issued a decision, concluding that the Company was in breach of certain laws regarding disclosure in accordance, inter alia, with the Market Manipulation (Market Abuse) Law of 2005 and has imposed an administrative fine upon the Company of €25 thousand. CySEC also imposed higher fines upon certain former members of the Board of Directors and former management of the Company. The Company intends to file a recourse before the Administrative Court against the decisions of CySEC and the fine imposed upon the Company.

In 2015, CySEC completed an investigation into the reclassification of Greek Government bonds in April 2010. This investigation is currently pending with the Attorney General and CySEC Board. The CySEC investigation on the adequacy of provisions for the impairment of loans and advances in year 2011 is at the final stages of completion.

As the above investigations are in progress or decisions have been reserved, it is not practical at this stage for the Group to estimate reliably the possible consequences thereof, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

Bail-in related litigation

Depositors

A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company 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. The Company is defending these actions.

Shareholders

Numerous claims were filed by shareholders in 2013 (some of whom are current shareholders of the Company) 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. The Company 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. It is expected that actions for damages will be instituted by the shareholders in due course before the District Courts of Cyprus.

23. Accruals, deferred income and other liabilities (continued)

Pending litigation and claims (continued)

Bail-in related litigation (continued)

Claims based on set-off

Certain claims have been filed by customers against the Company 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. The Company intends to contest such claims.

Laiki Bank depositors and shareholders

The Company 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 the Company's bailed-in depositors and shareholders as described above. The Company, inter alia, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees

Occasionally, other claims are brought against the Company 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.

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, the Company and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by the Company.

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. For the time being, the proceedings before the CPC are not proceeding due to an Administrative Court decision holding that the composition of the CPC was contrary to law. This decision is subject to an appeal instituted before the Supreme Court by the Attorney General. The Company intends to file a recourse before the Administrative Court for the annulment of the CPC's decision in the event that such decision stands and if and when a fine is imposed in reliance thereof. At this stage it is not possible to predict the amount of the fine that may be imposed upon the Company, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

23. Accruals, deferred income and other liabilities (continued)

Pending litigation and claims (continued)

CNP Arbitration

The French entity CNP Assurances S.A. had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in, inter alia, Cyprus through the formation of a local company (CNP Cyprus Insurance Holdings Ltd (a company in which the Group now has a 49,9% shareholding, acquired as part of the acquisition of certain operations of Laiki Bank pursuant to Regulatory Administrative Act 104/2013)). CNP Assurances S.A. held 50,1% of the shares of CNP Cyprus Insurance Holdings Ltd and Laiki Bank held 49,9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP Assurances S.A. and Laiki Bank, a Shareholders' Agreement and a Distribution Agreement (to which Distribution Agreement CNP Cyprus Insurance Holdings Ltd was also a party).

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Company was a successor to Laiki Bank in respect of both the Shareholders' and Distribution Agreements and that the said Agreements were violated by the Company. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amounted to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The Tribunal award was issued in September 2016, rejecting all claims made by the Claimants with costs in favour of the Company.

Provident fund cases

A number of claims which were pending before the Cypriot Labour Disputes Tribunal by certain of the Company's former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Company, utilising part of the provisions for pending litigation in place.

In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against the Company claiming €70 million allegedly owed as part of the Company'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 the Company to predict the resolution of this matter, including the timing or any possible impact on the Company, however at this stage the Group does not expect a material impact on its financial position.

Employment litigation

Former senior officers of the Company have instituted a total of three claims for unfair dismissal and for Provident Fund entitlements against the Company 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 appealed against this ruling. The Group does not consider that these cases will have a material impact upon its financial position.

Greek case

In connection with a legal dispute (one case by the Company against Themis and one by Themis against the Company) relating to the Company's discontinued operations in Greece (Themis case), a provision was recognised in previous periods (30 September 2014: €38.950 thousand) following a court judgment of the Athens Court of Appeal (dismissing the Company's case and upholding the Themis case). This provision was reversed as at 31 December 2014 following the dismissal of the judgment by the Greek Supreme Court in March 2015. The Supreme Court further ruled that these claims (the Company's claim against Themis for approximately €25 million which had been transferred to Piraeus Bank SA in March 2013, as well as Themis' claim against the Company for a similar amount) be reconsidered by the Supreme Court on the merits at the instigation of the affected party. Both cases are fixed to be heard in December 2016. The Group does not consider that this case will have a material impact upon its financial position.

23. Accruals, deferred income and other liabilities (continued)

Pending litigation and claims (continued)

Swiss Francs loans litigation in Cyprus and UK

A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company intends to contest such proceedings. The Group does not expect that these actions will have a material impact upon its financial position.

UK property lending claims

The Company is the defendant in certain proceedings alleging that the Company 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

As part of the investigations and inquiries following and relating to the financial crisis which culminated in March 2013, the Attorney General and the Cypriot police (the Police) are conducting various investigations into the Company's investment in Greek Government bonds, including their reclassification in the Company's financial statements. The Company 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 has filed a criminal case against the Company and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. The Company denies all allegations. The case is fixed for hearing on 21–23 November and 1–2 December 2016. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

The Attorney General has filed a separate criminal case against the Company and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The alleged offence refers to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. The Company denies all allegations. The next stage is that the case is fixed for plea on 22 November 2016. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

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.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

24. Share capital

	30 September 2016		31 December 2015	
	Shares (thousand)	€000	Shares (thousand)	€000
<i>Authorised</i>				
Ordinary shares of €0,10 each	<u>47.677.593</u>	<u>4.767.759</u>	<u>47.677.593</u>	<u>4.767.759</u>
<i>Issued</i>				
1 January	8.922.945	892.294	8.922.378	892.238
Issue of shares	—	—	567	56
30 September 2016/31 December 2015	<u>8.922.945</u>	<u>892.294</u>	<u>8.922.945</u>	<u>892.294</u>

Issued share capital

There were no changes to the issued share capital during the period ended 30 September 2016.

All issued ordinary shares carry the same rights.

Share premium reserve

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

The share premium was created in 2014 and 2015 by the issuance of 4.167.234 thousand shares of a nominal value of €0,10 each of a subscription price of €0,24 each, and was reduced by the relevant transaction costs of €30.794 thousand.

Capital reduction reserve

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

The capital reduction reserve was created upon the reduction of the nominal value of ordinary shares from €1,00 each to €0,10 each in 2014. The reduction in capital amounted to €4.280.140 thousand, of which an amount of €2.327.654 thousand was applied against accumulated losses and an amount of €1.952.486 thousand was credited to the capital reduction reserve.

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. During the nine months ended 30 September 2016 all treasury shares were disposed, therefore there were no treasury shares as at 30 September 2016 (31 December 2015: 5.136 thousand of a nominal value of €0,10 each. The total cost of acquisition of treasury shares at 31 December 2015 was €41.301 thousand).

In addition, the life insurance subsidiary of the Group held, as at 30 September 2016, a total of 2.889 thousand (31 December 2015: 2.889 thousand) shares of the Company, as part of its financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €25.333 thousand (31 December 2015: €25.333 thousand).

Share-based payments-share options

On 24 November 2015, the Annual General Meeting of the Company's shareholders authorised the Board to establish and implement a Long Term Incentive Plan and allowed the Company the flexibility to increase the ratio of variable remuneration relative to fixed remuneration up to a maximum of 100% of fixed remuneration for members of senior management ('Shareholder Resolution'). The authorised Long

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

24. Share capital (continued)

Share-based payments-share options (continued)

Term Incentive Plan involved the granting of options for the acquisition of shares to a defined group of employees of the Group and under the current terms of the Shareholder Resolution:

- (i) the total amount of shares that may be issued and allotted under the Long Term Incentive Plan shall not exceed 178.458.891 ordinary shares of nominal value of €0,10 each,
- (ii) the exercise price shall be set at €0,25 per share,
- (iii) the vested share options will only be able to be exercised three years after the grant date, and
- (iv) any share options not exercised by 31 March 2026 will lapse.

The options will be designed to vest only if certain key performance conditions are met, including amongst other things, the full repayment of ELA, the lifting of dividend restrictions, the cancellation of government guarantee and the performance of eligible employees.

The Long Term Incentive Plan is currently under regulatory review. Therefore, the original proposed grant date under the Shareholder Resolution of 31 March 2016 was postponed until such time that all relevant regulatory approvals have been obtained for the Long Term Incentive Plan.

No share options were issued until the date of issuance of these Interim Condensed Consolidated Financial Statements.

25. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 September 2016	30 September 2015
	€000	€000
Cash and non-obligatory balances with central banks	1.454.029	870.059
Treasury bills repayable within three months	—	21.846
Loans and advances to banks with original maturity less than three months	1.010.528	1.147.468
	2.464.557	2.039.373

Analysis of cash and balances with central banks and loans and advances to banks

	30 September 2016	31 December 2015
	€000	€000
Cash and non-obligatory balances with central banks	1.454.029	1.299.795
Obligatory balances with central banks	133.357	122.807
Total cash and balances with central banks	1.587.386	1.422.602
Loans and advances to banks with original maturity less than three months	1.010.528	1.085.098
Other restricted loans and advances to banks	82.825	82.123
Other loans and advances to banks	90.226	147.159
Total loans and advances to banks	1.183.579	1.314.380

Other restricted loans and advances to banks relate to collateral under derivative transactions of €82.825 thousand (31 December 2015: €82.123 thousand) which is not immediately available for use by the Group, but is released once the transactions are terminated.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

26. Analysis of assets and liabilities by expected maturity

	30 September 2016			31 December 2015		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
	€000	€000	€000	€000	€000	€000
Assets						
Cash and balances with central banks	1.455.382	132.004	1.587.386	1.300.846	121.756	1.422.602
Loans and advances to banks	1.027.676	155.903	1.183.579	1.212.418	101.962	1.314.380
Derivative financial assets	11.591	374	11.965	13.939	84	14.023
Investments	127.787	467.435	595.222	348.596	660.691	1.009.287
Loans and advances to customers	5.494.918	10.444.675	15.939.593	5.147.878	12.043.754	17.191.632
Life insurance business assets attributable to policyholders	12.388	478.115	490.503	17.243	458.160	475.403
Prepayments, accrued income and other assets	105.070	127.661	232.731	87.690	194.090	281.780
Property, equipment and intangible assets	—	424.424	424.424	485	397.636	398.121
Investment properties	—	37.519	37.519	—	34.628	34.628
Investments in associates and joint ventures	—	112.582	112.582	—	107.753	107.753
Deferred tax assets	4.800	445.597	450.397	8.828	447.703	456.531
Stock of property	352.242	952.386	1.304.628	90.115	425.743	515.858
Non-current assets and disposal group held for sale	11.569	—	11.569	48.503	—	48.503
	8.603.423	13.778.675	22.382.098	8.276.541	14.993.960	23.270.501
Liabilities						
Deposits by banks	289.257	82.121	371.378	206.997	35.140	242.137
Funding from central banks	1.300.045	650.000	1.950.045	2.744.764	1.708.086	4.452.850
Repurchase agreements	45.022	284.303	329.325	111.605	256.546	368.151
Derivative financial liabilities	5.444	45.016	50.460	16.032	38.367	54.399
Customer deposits	5.145.415	10.497.509	15.642.924	4.981.609	9.199.072	14.180.681
Insurance liabilities	81.211	493.375	574.586	80.118	486.807	566.925
Accruals, deferred income and other liabilities	240.728	74.848	315.576	219.346	63.485	282.831
Debt securities in issue	—	—	—	712	—	712
Deferred tax liabilities	428	44.712	45.140	415	40.392	40.807
Non-current liabilities and disposal group held for sale	—	—	—	3.677	—	3.677
	7.107.550	12.171.884	19.279.434	8.365.275	11.827.895	20.193.170

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

The ELA funding which forms part of the funding from central banks has been included in the less than one year time band, since it is expected to be repaid within the year. The MRO funding which forms part of the funding from central banks has been included in the over one year time band since it is expected that it will continue to be required and available. It is noted, however, that funding under both ELA and MRO has a contractual maturity of less than one year.

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.

26. Analysis of assets and liabilities by expected maturity (continued)

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 impaired loans as defined in Note 27, net of specific and collective provisions, and the loans which are past due for more than 90 days, 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.

A percentage of customer deposits in Cyprus maturing within one year is transferred in the over one year time band, based on the observed behavioural analysis. In the United Kingdom, Romania and Channel Islands deposits are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year column.

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.

27. 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 department sets the Group's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line and monitors 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 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 modern 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 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 7 'Significant judgements, estimates and assumptions' of the Interim Condensed Consolidated Financial Statement for the nine months ended 30 September 2016.

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 recommendations for limits to be set for banks and countries to the Assets and Liabilities Committee (ALCO) for approval.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements

The table below presents the maximum exposure to credit risk before taking into account the tangible and measurable collateral and other credit enhancements held.

	30 September 2016	31 December 2015
	€000	€000
Balances with central banks	1,456,172	1,268,585
Loans and advances to banks	1,183,579	1,314,380
Trading investments—debt securities	487	317
Debt securities at fair value through profit or loss	13,557	17,430
Debt securities classified as available-for-sale and loans and receivables	532,337	898,869
Derivative financial instruments (Note 15)	11,965	14,023
Loans and advances to customers (Note 17)	15,939,593	17,191,632
Debtors (Note 19)	23,723	23,020
Reinsurers' share of insurance contract liabilities (Note 19)	50,070	56,763
Other assets and receivables relating to disposal of operations	109,075	156,641
On-balance sheet total	19,320,558	20,941,660
<i>Contingent liabilities</i>		
Acceptances and endorsements	7,472	8,385
Guarantees	806,078	793,111
<i>Commitments</i>		
Documentary credits	24,611	18,441
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,992,726	2,088,619
Off-balance sheet total	2,830,887	2,908,556
Total credit risk exposure	22,151,445	23,850,216

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

	30 September 2016	31 December 2015
	€000	€000
On-balance sheet		
Cyprus	17,435,548	18,851,208
Greece	55,141	57,032
Russia	43,872	93,432
United Kingdom	1,607,997	1,673,293
Romania	178,000	266,695
	<u>19,320,558</u>	<u>20,941,660</u>
Off-balance sheet		
Cyprus	2,697,904	2,736,014
Greece	115,305	131,172
Russia	—	20,000
United Kingdom	17,253	21,063
Romania	425	307
	<u>2,830,887</u>	<u>2,908,556</u>
Total on and off-balance sheet		
Cyprus	20,133,452	21,587,222
Greece	170,446	188,204
Russia	43,872	113,432
United Kingdom	1,625,250	1,694,356
Romania	178,425	267,002
	<u>22,151,445</u>	<u>23,850,216</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.

27. Risk management—Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

Other financial instruments (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.

Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Group's risk appetite statement 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.

In addition to the above, the Group's overseas subsidiaries must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

Fair value adjustment on initial recognition

The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originated credit impaired loans. In accordance with the provisions of IFRS 3 and IAS 39 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.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

Geographical and industry concentrations of Group loans and advances to customers are presented below:

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000
30 September 2016								
By economic activity								
Trade	2,103,311	—	13,955	12,223	58,022	2,187,511	(98,086)	2,089,425
Manufacturing	675,217	—	6,171	7,645	16,407	705,440	(28,991)	676,449
Hotels and catering	1,322,524	—	94,409	5,600	—	1,422,533	(61,928)	1,360,605
Construction	3,120,004	—	17,091	75,307	11,309	3,223,711	(230,243)	2,993,468
Real estate	2,080,775	19,344	989,626	207,486	6,532	3,303,763	(129,101)	3,174,662
Private individuals	7,072,328	216	31,764	3,225	—	7,107,533	(236,273)	6,871,260
Professional and other services	1,297,846	—	67,975	12,874	99,856	1,478,551	(75,763)	1,402,788
Other sectors	1,100,874	24,843	11,474	29,281	—	1,166,472	(128,299)	1,038,173
	18,772,879	44,403	1,232,465	353,641	192,126	20,595,514	(988,684)	19,606,830
By customer sector								
Corporate	7,848,668	44,187	953,031	340,082	175,258	9,361,226	(510,435)	8,850,791
SMEs	4,195,305	—	248,412	13,279	10,336	4,467,332	(224,286)	4,243,046
Retail								
—housing	4,227,114	—	14,050	101	—	4,241,265	(103,165)	4,138,100
—consumer, credit cards and other	2,083,372	216	16,972	179	6,532	2,107,271	(141,139)	1,966,132
International banking services	356,058	—	—	—	—	356,058	(4,207)	351,851
Wealth management	62,362	—	—	—	—	62,362	(5,452)	56,910
	18,772,879	44,403	1,232,465	353,641	192,126	20,595,514	(988,684)	19,606,830
By business line (represented)								
Corporate	2,493,134	44,187	953,031	239,040	161,562	3,890,954	(65,007)	3,825,947
SMEs	1,438,331	—	248,412	13,080	10,336	1,710,159	(38,075)	1,672,084
Retail								
—housing	3,565,293	—	14,050	101	—	3,579,444	(42,811)	3,536,633
—consumer, credit cards and other	1,341,433	216	16,972	179	—	1,358,800	(29,180)	1,329,620
Restructuring								
—major corporate	2,302,437	—	—	33,944	—	2,336,381	(163,941)	2,172,440
—corporate	1,098,015	—	—	—	—	1,098,015	(30,078)	1,067,937
—SMEs	1,260,684	—	—	—	—	1,260,684	(54,921)	1,205,763
Recoveries								
—corporate	1,955,082	—	—	67,098	13,696	2,035,876	(251,409)	1,784,467
—SMEs	1,496,290	—	—	199	—	1,496,489	(131,290)	1,365,199
—retail housing	661,821	—	—	—	—	661,821	(60,354)	601,467
—retail other	741,939	—	—	—	6,532	748,471	(111,959)	636,512
International banking services	356,058	—	—	—	—	356,058	(4,207)	351,851
Wealth management	62,362	—	—	—	—	62,362	(5,452)	56,910
	18,772,879	44,403	1,232,465	353,641	192,126	20,595,514	(988,684)	19,606,830

Restructuring major corporate business line includes customers with exposures over €100,000 thousand, whereas restructuring corporate business line includes customers with exposures between €6,000 thousand and €100,000 thousand.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000
31 December 2015								
By economic activity								
Trade	2.267.092	—	23.138	12.360	57.704	2.360.294	(121.192)	2.239.102
Manufacturing	801.536	—	9.214	7.604	15.066	833.420	(31.596)	801.824
Hotels and catering	1.463.129	—	98.871	6.209	—	1.568.209	(77.444)	1.490.765
Construction	3.976.254	—	27.119	56.830	10.457	4.070.660	(335.803)	3.734.857
Real estate	2.130.028	43.443	927.423	250.956	69.132	3.420.982	(137.185)	3.283.797
Private individuals	7.282.322	216	44.627	5.684	—	7.332.849	(268.496)	7.064.353
Professional and other services	1.595.010	—	64.398	38.834	96.542	1.794.784	(101.913)	1.692.871
Other sectors	1.145.327	24.866	12.325	28.759	—	1.211.277	(133.781)	1.077.496
	20.660.698	68.525	1.207.115	407.236	248.901	22.592.475	(1.207.410)	21.385.065
By customer sector								
Corporate	9.222.429	68.309	918.423	386.973	232.733	10.828.867	(666.631)	10.162.236
SMEs	4.408.096	—	248.647	17.523	9.520	4.683.786	(263.630)	4.420.156
Retail								
—housing	4.285.156	—	17.336	1.306	—	4.303.798	(108.267)	4.195.531
—consumer, credit cards and other	2.152.950	216	22.709	1.434	6.648	2.183.957	(154.174)	2.029.783
International banking services	528.795	—	—	—	—	528.795	(8.056)	520.739
Wealth management	63.272	—	—	—	—	63.272	(6.652)	56.620
	20.660.698	68.525	1.207.115	407.236	248.901	22.592.475	(1.207.410)	21.385.065
By business line								
Corporate	2.188.777	68.309	918.423	305.980	219.040	3.700.529	(83.695)	3.616.834
SMEs	1.502.261	—	248.647	17.523	9.520	1.777.951	(46.973)	1.730.978
Retail								
—housing	3.657.181	—	17.336	1.306	—	3.675.823	(45.585)	3.630.238
—consumer, credit cards and other	1.409.855	216	22.709	1.434	—	1.434.214	(36.834)	1.397.380
Restructuring								
—major corporate	2.877.985	—	—	35.736	—	2.913.721	(175.920)	2.737.801
—corporate	1.814.518	—	—	—	—	1.814.518	(75.945)	1.738.573
—SMEs	1.376.635	—	—	—	—	1.376.635	(67.758)	1.308.877
Recoveries								
—corporate	2.341.149	—	—	45.257	13.693	2.400.099	(331.071)	2.069.028
—SMEs	1.529.200	—	—	—	—	1.529.200	(148.899)	1.380.301
—retail housing	627.975	—	—	—	—	627.975	(62.682)	565.293
—retail other	743.095	—	—	—	6.648	749.743	(117.340)	632.403
International banking services	528.795	—	—	—	—	528.795	(8.056)	520.739
Wealth management	63.272	—	—	—	—	63.272	(6.652)	56.620
	20.660.698	68.525	1.207.115	407.236	248.901	22.592.475	(1.207.410)	21.385.065

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value of €79.674 thousand (31 December 2015: €81.078 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €144.575 thousand (31 December 2015: €69.983 thousand).

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Currency concentration of loans and advances to customers

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000
30 September 2016								
Euro	17,652,641	44,403	26,126	352,220	16,075	18,091,465	(929,454)	17,162,011
US Dollar	202,403	—	475	20	75,662	278,560	(10,409)	268,151
British Pound	67,709	—	1,186,076	85	—	1,253,870	(7,651)	1,246,219
Russian Rouble	2	—	—	—	100,389	100,391	(2)	100,389
Romanian Lei	1	—	—	1,316	—	1,317	—	1,317
Swiss Franc	751,731	—	7,524	—	—	759,255	(32,719)	726,536
Other currencies	98,392	—	12,264	—	—	110,656	(8,449)	102,207
	18,772,879	44,403	1,232,465	353,641	192,126	20,595,514	(988,684)	19,606,830
31 December 2015								
Euro	19,261,905	68,525	28,423	405,998	16,099	19,780,950	(1,128,137)	18,652,813
US Dollar	250,757	—	507	22	137,204	388,490	(11,540)	376,950
British Pound	49,052	—	1,154,110	93	—	1,203,255	(10,121)	1,193,134
Russian Rouble	108	—	—	—	95,598	95,706	(1)	95,705
Romanian Lei	1	—	—	1,123	—	1,124	—	1,124
Swiss Franc	1,028,865	—	13,492	—	—	1,042,357	(51,761)	990,596
Other currencies	70,010	—	10,583	—	—	80,593	(5,850)	74,743
	20,660,698	68,525	1,207,115	407,236	248,901	22,592,475	(1,207,410)	21,385,065

Credit quality of loans and advances to customers

The following table presents the credit quality of the Group's loans and advances to customers:

	30 September 2016			31 December 2015		
	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	10,896,147	(168,573)	10,727,574	10,442,903	(173,260)	10,269,643
Past due but not impaired	2,488,188	(46,701)	2,441,487	3,048,929	(60,803)	2,988,126
Impaired	7,211,179	(773,410)	6,437,769	9,100,643	(973,347)	8,127,296
	20,595,514	(988,684)	19,606,830	22,592,475	(1,207,410)	21,385,065

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

During the nine months ended 30 September 2016 the total non-contractual write-offs recorded by the Group amounted to €425,043 thousand (year 2015: €172,670 thousand). The remaining gross loan balance of these customers as at 30 September 2016 was €264,052 thousand, of which €11,076 thousand were past due for more than 90 days but not impaired and €103,083 thousand were impaired.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are past due but not impaired

	30 September 2016	31 December 2015
	€000	€000
Past due analysis:		
—up to 30 days	587.149	468.791
—31 to 90 days	344.092	351.450
—91 to 180 days	145.994	144.362
—181 to 365 days	144.279	258.920
—over one year	1.266.674	1.825.406
	<u>2.488.188</u>	<u>3.048.929</u>

The fair value of the collateral that the Group holds (to the extent that it mitigates credit risk) in respect of loans and advances to customers that are past due but not impaired as at 30 September 2016 is €1.993.242 thousand (31 December 2015: €2.466.960 thousand). The fair value of the collateral is capped to the gross carrying value of the loans and advances to customers.

Impaired loans and advances to customers

	30 September 2016		31 December 2015	
	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral
	€000	€000	€000	€000
Cyprus	6.648.897	4.122.263	8.414.868	5.596.169
Greece	44.187	17.930	68.309	17.945
Russia	190.377	86.456	247.319	94.417
United Kingdom	35.005	15.699	56.584	10.821
Romania	292.713	67.368	313.563	170.080
	<u>7.211.179</u>	<u>4.309.716</u>	<u>9.100.643</u>	<u>5.889.432</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.

	30 September 2016	31 December 2015
	€000	€000
Impaired:		
—no arrears	514.188	875.488
—up to 30 days	22.286	78.176
—31 to 90 days	52.006	24.353
—91 to 180 days	14.519	65.382
—181 to 365 days	106.016	310.167
—over one year	6.502.164	7.747.077
	<u>7.211.179</u>	<u>9.100.643</u>

Interest income on impaired loans

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances to customers amounting to €157.713 thousand (corresponding period of 2015: €179.657 thousand).

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale

The movement in provisions for impairment of loans and advances, including the loans and advances to customers held for sale, is as follows:

	Cyprus	Greece	Russia	Other countries	Total
	€000	€000	€000	€000	€000
30 September 2016					
1 January	3,731,750	33,833	195,017	232,833	4,193,433
Dissolution of subsidiaries	—	—	—	(6,154)	(6,154)
Acquisition of subsidiary	(8,577)	—	—	—	(8,577)
Foreign exchange and other adjustments	96,666	—	2,850	(3,627)	95,889
Applied in writing off impaired loans and advances	(718,967)	—	(62,228)	(18,186)	(799,381)
Interest accrued on impaired loans and advances	(110,353)	(518)	(468)	(529)	(111,868)
Collection of loans and advances previously written off	1,285	—	—	34	1,319
Charge for the period (Note 11)	266,130	2,617	16,014	17,815	302,576
30 September	<u>3,257,934</u>	<u>35,932</u>	<u>151,185</u>	<u>222,186</u>	<u>3,667,237</u>
Individual impairment	<u>2,848,643</u>	<u>31,556</u>	<u>150,246</u>	<u>217,839</u>	<u>3,248,284</u>
Collective impairment	<u>409,291</u>	<u>4,376</u>	<u>939</u>	<u>4,347</u>	<u>418,953</u>
30 September 2015					
1 January	2,867,345	9,275	415,894	195,334	3,487,848
Disposal of Russian operations	—	—	(238,012)	—	(238,012)
Foreign exchange and other adjustments	66,423	—	4,729	2,028	73,180
Transfer between geographical areas	(83,378)	6,329	—	77,049	—
Applied in writing off impaired loans and advances	(87,527)	(16,700)	(60,723)	(59,583)	(224,533)
Interest accrued on impaired loans and advances	(158,407)	(1,100)	—	(40)	(159,547)
Collection of loans and advances previously written off	2,561	—	—	3,916	6,477
Charge for the period—continuing operations (Note 11)	550,786	13,230	33,400	31,385	628,801
Charge for the period—discontinued operations (Note 8)	—	—	42,665	—	42,665
30 September	<u>3,157,803</u>	<u>11,034</u>	<u>197,953</u>	<u>250,089</u>	<u>3,616,879</u>
Individual impairment	<u>2,555,450</u>	<u>11,034</u>	<u>197,732</u>	<u>242,941</u>	<u>3,007,157</u>
Collective impairment	<u>602,353</u>	<u>—</u>	<u>221</u>	<u>7,148</u>	<u>609,722</u>

There are no loans and advances to customers held for sale as at 30 September 2016 and 30 September 2015. The above table does not include the provisions for impairment on financial guarantees and commitments which are part of 'Accruals, deferred income and other liabilities' (Note 23).

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows, including the cash flows which may arise from guarantees and tangible collateral.

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

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)

recovery of the provisioned amount. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the agreement and satisfactory performance.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. 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. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases for which, based on specific facts and circumstances, a different period has been used and for customers in Debt Recovery where an average 6 year period has been used. 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 average liquidity haircut and selling expenses used in the provisions calculation is 10% of the current market value of the property for those collaterals for which their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop.

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.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)

Sensitivity analysis

The Group has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 30 September 2016. 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
<i>Change in provisions assumptions:</i>	
Increase the timing of recovery from collaterals by 1 year (to an average of 4 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	27.557
Decrease the timing of recovery from collaterals by 1 year (to an average of 2 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	(25.170)
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	108.175
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	217.377
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	(106.829)
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	(211.926)
Extend the timing of recovery from collaterals by 1 year and decrease the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	70.061
Decrease the timing of recovery from collaterals by 1 year and increase the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	(67.161)

Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

27. Risk management—Credit risk (continued)

Forbearance (continued)

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

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

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

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

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

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 to the principal; that is forbearance of the arrears and addition 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.
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

Long-term restructuring solutions can include the following:

- 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.

27. Risk management—Credit risk (continued)

Forbearance (continued)

- 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.

Rescheduled loans and advances to customers

The below tables present the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

	Cyprus €000	Greece €000	Russia €000	United Kingdom €000	Romania €000	Total €000
30 September 2016						
1 January	8,391,624	24,865	138,376	116,232	119,185	8,790,282
New loans and advances rescheduled in the period	847,572	—	—	50,106	18,216	915,894
Assets no longer classified as rescheduled (including repayments)	(1,116,866)	(46)	(73,479)	(44,860)	(1,409)	(1,236,660)
Applied in writing off rescheduled loans and advances	(557,524)	—	—	(273)	(188)	(557,985)
Interest accrued on rescheduled loans and advances	257,443	24	879	509	981	259,836
Foreign exchange adjustments	723	—	13,658	(14,184)	1,596	1,793
30 September	<u>7,822,972</u>	<u>24,843</u>	<u>79,434</u>	<u>107,530</u>	<u>138,381</u>	<u>8,173,160</u>
31 December 2015						
1 January	7,024,847	75,778	234,659	136,421	184,585	7,656,290
Disposal of Russian operations	—	—	(118,313)	—	—	(118,313)
New loans and advances rescheduled in the year	2,189,524	—	24,097	32,695	—	2,246,316
Assets no longer classified as rescheduled (including repayments)	(1,125,219)	(35,927)	—	(66,606)	(32,396)	(1,260,148)
Applied in writing off rescheduled loans and advances	(80,896)	(16,700)	—	—	(33,888)	(131,484)
Interest accrued on rescheduled loans and advances	337,231	1,714	10,424	5,538	1,687	356,594
Foreign exchange adjustments	46,137	—	(12,491)	8,184	(803)	41,027
31 December	<u>8,391,624</u>	<u>24,865</u>	<u>138,376</u>	<u>116,232</u>	<u>119,185</u>	<u>8,790,282</u>

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.

Credit quality

	Cyprus €000	Greece €000	Russia €000	United Kingdom €000	Romania €000	Total €000
30 September 2016						
Neither past due nor impaired	4,201,642	—	—	88,523	57,143	4,347,308
Past due but not impaired	1,338,359	—	763	16,307	1,193	1,356,622
Impaired	2,282,971	24,843	78,671	2,700	80,045	2,469,230
	<u>7,822,972</u>	<u>24,843</u>	<u>79,434</u>	<u>107,530</u>	<u>138,381</u>	<u>8,173,160</u>
31 December 2015						
Neither past due nor impaired	3,636,868	—	—	84,829	60,182	3,781,879
Past due but not impaired	1,591,934	—	699	29,229	297	1,622,159
Impaired	3,162,822	24,865	137,677	2,174	58,706	3,386,244
	<u>8,391,624</u>	<u>24,865</u>	<u>138,376</u>	<u>116,232</u>	<u>119,185</u>	<u>8,790,282</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Fair value of collateral

	Cyprus	Russia	United Kingdom	Romania	Total
	€000	€000	€000	€000	€000
30 September 2016					
Neither past due nor impaired	3,939,511	—	78,385	55,585	4,073,481
Past due but not impaired	1,132,586	763	5,948	1,193	1,140,490
Impaired	1,910,007	48,233	2,582	23,077	1,983,899
	<u>6,982,104</u>	<u>48,996</u>	<u>86,915</u>	<u>79,855</u>	<u>7,197,870</u>
31 December 2015					
Neither past due nor impaired	3,360,868	—	84,722	59,930	3,505,520
Past due but not impaired	1,407,575	696	29,182	178	1,437,631
Impaired	2,709,602	49,297	1,668	39,696	2,800,263
	<u>7,478,045</u>	<u>49,993</u>	<u>115,572</u>	<u>99,804</u>	<u>7,743,414</u>

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
	€000	€000	€000	€000	€000	€000
30 September 2016						
By economic activity						
Trade	687.798	—	32.926	263	2.749	723.736
Manufacturing	215.966	—	15.154	—	1.263	232.383
Hotels and catering	641.591	—	—	10.354	5.586	657.531
Construction	1.715.863	—	8.558	10.641	24.826	1.759.888
Real estate	1.117.031	—	—	63.375	103.335	1.283.741
Private individuals	2.636.370	—	—	1.164	59	2.637.593
Professional and other services	462.285	—	22.796	11.661	—	496.742
Other sectors	346.068	24.843	—	10.072	563	381.546
	<u>7.822.972</u>	<u>24.843</u>	<u>79.434</u>	<u>107.530</u>	<u>138.381</u>	<u>8.173.160</u>
By customer sector						
Corporate	3.688.889	24.843	74.349	90.803	136.892	4.015.776
SMEs	1.714.074	—	5.085	15.633	1.430	1.736.222
Retail						
—housing	1.762.968	—	—	—	—	1.762.968
—consumer, credit cards and other	575.808	—	—	1.094	59	576.961
International banking services	73.372	—	—	—	—	73.372
Wealth management	7.861	—	—	—	—	7.861
	<u>7.822.972</u>	<u>24.843</u>	<u>79.434</u>	<u>107.530</u>	<u>138.381</u>	<u>8.173.160</u>
By business line						
Corporate	680.604	24.843	74.349	90.803	136.710	1.007.309
SMEs	504.087	—	5.085	15.633	1.430	526.235
Retail						
—housing	1.608.603	—	—	—	—	1.608.603
—consumer, credit cards and other	464.934	—	—	1.094	59	466.087
Restructuring						
—major corporate	1.550.820	—	—	—	182	1.551.002
—corporate	892.412	—	—	—	—	892.412
—SMEs	814.471	—	—	—	—	814.471
Recoveries						
—corporate	565.053	—	—	—	—	565.053
—SMEs	395.516	—	—	—	—	395.516
—retail housing	154.365	—	—	—	—	154.365
—retail other	110.874	—	—	—	—	110.874
International banking services	73.372	—	—	—	—	73.372
Wealth management	7.861	—	—	—	—	7.861
	<u>7.822.972</u>	<u>24.843</u>	<u>79.434</u>	<u>107.530</u>	<u>138.381</u>	<u>8.173.160</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
	€000	€000	€000	€000	€000	€000
31 December 2015						
By economic activity						
Trade	707.105	—	31.580	—	2.936	741.621
Manufacturing	282.449	—	14.207	136	1.258	298.050
Hotels and catering	743.585	—	—	7.072	6.196	756.853
Construction	2.155.778	—	8.081	14.862	2.444	2.181.165
Real estate	1.069.156	—	—	59.190	82.739	1.211.085
Private individuals	2.526.554	—	—	4.393	153	2.531.100
Professional and other services	584.836	—	84.508	19.517	22.697	711.558
Other sectors	322.161	24.865	—	11.062	762	358.850
	<u>8.391.624</u>	<u>24.865</u>	<u>138.376</u>	<u>116.232</u>	<u>119.185</u>	<u>8.790.282</u>
By customer sector						
Corporate	4.368.307	24.865	133.932	99.603	116.385	4.743.092
SMEs	1.720.453	—	4.444	12.519	2.647	1.740.063
Retail						
—housing	1.685.668	—	—	—	—	1.685.668
—consumer, credit cards and other	568.986	—	—	4.110	153	573.249
International banking services	42.481	—	—	—	—	42.481
Wealth management	5.729	—	—	—	—	5.729
	<u>8.391.624</u>	<u>24.865</u>	<u>138.376</u>	<u>116.232</u>	<u>119.185</u>	<u>8.790.282</u>
31 December 2015 (represented)						
By business line						
Corporate	647.785	24.865	133.932	99.603	115.639	1.021.824
SMEs	550.664	—	4.444	12.519	2.647	570.274
Retail						
—housing	1.562.149	—	—	—	—	1.562.149
—consumer, credit cards and other	468.368	—	—	4.110	153	472.631
Restructuring						
—major corporate	1.768.782	—	—	—	626	1.769.408
—corporate	1.272.086	—	—	—	—	1.272.086
—SMEs	798.010	—	—	—	—	798.010
Recoveries						
—corporate	679.654	—	—	—	120	679.774
—SMEs	371.779	—	—	—	—	371.779
—retail housing	123.519	—	—	—	—	123.519
—retail other	100.618	—	—	—	—	100.618
International banking services	42.481	—	—	—	—	42.481
Wealth management	5.729	—	—	—	—	5.729
	<u>8.391.624</u>	<u>24.865</u>	<u>138.376</u>	<u>116.232</u>	<u>119.185</u>	<u>8.790.282</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

27. Risk management—Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
	€000	€000	€000	€000	€000	€000
30 September 2016						
Individual impairment	952.015	24.843	60.041	1.852	56.235	1.094.986
Collective impairment	202.206	—	378	303	1.613	204.500
	<u>1.154.221</u>	<u>24.843</u>	<u>60.419</u>	<u>2.155</u>	<u>57.848</u>	<u>1.299.486</u>
31 December 2015						
Individual impairment	1.144.475	22.966	113.177	1.396	35.694	1.317.708
Collective impairment	207.106	—	49	266	1.813	209.234
	<u>1.351.581</u>	<u>22.966</u>	<u>113.226</u>	<u>1.662</u>	<u>37.507</u>	<u>1.526.942</u>

28. 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 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.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. It arises mainly as a result of timing differences on the repricing of assets, liabilities and off-balance sheet items.

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.

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.

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 and banks.

The Group considers that the profile of its market risk has remained similar to the one prevailing at 31 December 2015 as presented in Note 45 of the Annual Consolidated Financial Statements for the year 2015.

29. 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.

29. Risk management—Liquidity risk and funding (continued)

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. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Management and structure

The Board 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. Information on inflows/outflows is also provided.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. Bank of Cyprus UK Ltd ALCO is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies. Given the current liquidity position of the Company, the ALCO considers the monitoring of liquid assets and the cash inflows/outflows of the Company in Cyprus, to be of utmost importance.

Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each country banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Every unit is responsible for managing its liquidity and targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

Liquidity is also monitored daily by Market Risk, which is an independent department responsible to monitor compliance at the level of individual units, as well as at Group level, with both internal policies and limits, and with the limits set by the regulatory authorities in the countries where the Group operates. Market Risk reports to ALCO the regulatory liquidity position of the various units of the Group, at least monthly. It also provides the results of various stress tests to ALCO 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 and limits.
- (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 market 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) Contingency Funding Plan: maintenance of a Contingency Funding Plan (CFP) which is designed to provide a framework where a liquidity stress could be effectively managed. The CFP provides a communication plan and includes management actions to respond to liquidity stresses.

29. Risk management—Liquidity risk and funding (continued)

Management and structure (continued)

- (vi) Recovery Plan: the Group has developed a Recovery Plan. The key objectives are to provide the Group with a range of options to ensure its viability in a stress, to set consistent Early Warning and Recovery Indicators and to enable the Group to be adequately prepared to respond to stressed conditions.

Monitoring process

Daily

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market Risk prepares a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash. Also, Group Treasury monitors daily and intraday the inflows and outflows in the main currencies used by the Group.

Since May 2016, Market Risk also prepares stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

The liquidity buffer is made up of: bank notes, 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 liquid eligible unencumbered/available 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.

Weekly

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

Monthly

Market Risk prepares reports indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates and deposits by tenor are also presented to the ALCO.

Market Risk reports the Liquidity Coverage Ratio (LCR) and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

Group Treasury prepares a liquidity report which is submitted to the ALCO and the Executive Committee on a monthly basis. The report indicates the liquidity position of the Company, data on monthly customer flows, as well as other important developments related to liquidity. Moreover, Group Treasury prepares a cash flows projection report covering a one month and two month periods, which is sent to ECB/SSM/CBC.

Quarterly

The results of the stress testing scenarios prepared daily are reported to ALCO and Board Risk Committee quarterly. Moreover, Market Risk reports the Net Stable Funding Ratio (NSFR), Leverage

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

29. Risk management—Liquidity risk and funding (continued)

Monitoring process (continued)

Quarterly (continued)

Ratio to the CBC/ECB quarterly and 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). The report for the year 2015 was approved by the Board and was submitted to the CBC and the ECB within the deadline which was 30 April 2016.

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

Liquidity ratios

The ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by Market Risk and monitored by ALCO. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit/liabilities due to be paid in the next twelve months.

The Group's liquidity ratio was as follows:

	30 September 2016	31 December 2015
	%	%
End of reporting period/year	15,79	18,25
Average monthly ratio	16,24	18,31
Highest monthly ratio	17,22	21,62
Lowest monthly ratio	14,48	15,64

The minimum liquidity ratios for the operations in Cyprus are set at the levels required by the CBC: 20% for Euro and 70% for foreign currencies. It is noted that in the calculation of the above ratios, as well as for CBC regulatory reports, ELA is treated as a long term liability. The Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus and is dependent on continuing regulatory forbearance.

As at 30 September 2016 and 31 December 2015 the other banking units of the Group were in compliance with their liquidity regulatory ratios.

The ratio of loans and advances to customer deposits is presented below:

	30 September 2016	31 December 2015
	%	%
End of reporting period/year	101,60	120,92
Average quarterly ratio	112,79	133,57
Highest quarterly ratio	120,92	141,48
Lowest quarterly ratio	101,60	120,92

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

29. Risk management—Liquidity risk and funding (continued)

Sources of funding

Currently the Group's main sources of liquidity are its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through ELA.

Reliance on ELA funding was reduced from its peak of €11,4 billion in April 2013. As at 30 September 2016, the funding from ELA amounted to €1,3 billion (31 December 2015: €3,8 billion) (Note 21).

The liquidity received from central banks is subject to the relevant regulations and requires qualifying assets as collateral.

The funding provided to the Group through ELA is short term, usually 2–4 weeks. The funding via Eurosystem monetary policy operations ranges from short term to long term. Currently, the Group borrows short-term, through one-week liquidity operations (MRO).

In May 2016, the Company raised new funding from ECB's MRO using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

Additionally, in May 2016 the Company has also concluded a repurchase transaction which is its first wholesale funding transaction since 2013. This was partially repaid in August 2016 and fully terminated by the Company in October 2016.

In 2014, the Group participated in the TLTRO of the ECB for an amount of €500 million. On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount from the MRO.

Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for the final repayment. The Company's subsidiaries Bank of Cyprus UK Ltd and Bank of Cyprus (Channel Islands) Ltd, cannot place funds with the Group in excess of maximum limits set by the local regulator.

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 the Company, 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 30 September 2016 and 31 December 2015 are summarised below:

	30 September 2016	31 December 2015
	€000	€000
Cash and other liquid assets	176.724	154.896
Investments	477.220	892.728
Loans and advances	9.322.569	12.882.139
Property	92.698	93.500
	<u>10.069.211</u>	<u>14.023.263</u>

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions, (ii) trade finance transactions and guarantees issued and (iii) the covered bond.

29. Risk management—Liquidity risk and funding (continued)

Collateral requirements (continued)

Investments are mainly used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond.

Loans and advances indicated as encumbered as at 30 September 2016 and 31 December 2015 are mainly used as collateral for funding from the CBC, the covered bond and the ECB.

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

In August 2016, the Company cancelled two own-issued bonds guaranteed by the Republic of Cyprus of €500 million each. The bonds bore an annual fixed interest rate at 5%. The bonds were guaranteed by the Republic of Cyprus and were issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds was presented in debt securities in issue in the consolidated balance sheet as all the bonds were held by the Company. The bonds were listed on the Cyprus Stock Exchange and were pledged as collateral for obtaining funding from central banks. One of the bonds has been released in June 2016 from the ELA pool of collateralised assets. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC.

Under the Programme, the Company issued in December 2011 covered bonds of €1.000 million. The covered bonds issued had a maturity of three years with a potential extension of their repayment by one year, bore interest at the three month Euribor plus 1,25% on a quarterly basis and were traded on the Luxemburg Bourse.

The terms of the €1.000 million covered bond secured by residential mortgage loans originated in Cyprus were amended in June 2014 and the maturity date changed to 12 June 2017 with a potential extension of one year and the interest rate to three month Euribor plus 3,25% on a quarterly basis. All the bonds issued are held by the Company.

On 29 September 2015 the terms of the Covered Bond Programme and the outstanding €1.000 million covered bond were amended to a Conditional Pass-Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650 million with a new maturity date of 12 December 2018. The credit rating of the covered bond 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 the covered bond has been placed as collateral for accessing funding from the ECB. Through this transaction, the Company has raised €550 million of ECB funding. Prior to the rating upgrade, the covered bond was used as collateral for ELA.

The assets used as collateral for the covered bond are already included in the table above.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

29. Risk management—Liquidity risk and funding (continued)

Collateral requirements (continued)

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). However, any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

In August 2016 the CBC has released loans and advances with contractual value of €2 billion held as collateral for ELA and in October 2016 it has released additional loans and advances with contractual value of €2,5 billion.

30. 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 shareholder value.

The capital adequacy regulations which govern the Group's operations are established by the CBC/ECB.

The Group complies with the minimum capital requirements (Pillar I and Pillar II).

In addition, the Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

Additional information on regulatory capital is disclosed in the Additional Risk and Capital Management Disclosures (unaudited) which are available on the Group's Website www.bankofcyprus.com (Investor Relations).

31. Related party transactions

	30 September 2016	31 December 2015
	€000	€000
Loans and advances:		
—members of the Board of Directors and other key management personnel .	2.866	3.354
—connected persons	429	886
	<u>3.295</u>	<u>4.240</u>
Deposits:		
—members of the Board of Directors and other key management personnel .	2.730	3.366
—connected persons	3.108	3.147
	<u>5.838</u>	<u>6.513</u>

The above table does not include period/year-end balances i.e. 30 September 2016 and 31 December 2015 respectively, for members of the Board of Directors and their connected persons who resigned during the period/year.

Interest income and expense from members of the Board of Directors and connected persons and other key management personnel and connected persons from loans and advances and deposits for the nine months ended 30 September 2016 amounted to €75 thousand and €54 thousand respectively

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

31. Related party transactions (continued)

(corresponding period of 2015: €106 thousand and €164 thousand respectively). The interest income and expense are disclosed from the date of their appointment.

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 €47 thousand (31 December 2015: €135 thousand). There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €382 thousand (31 December 2015: €856 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 30 September 2016 amounted to €663 thousand (31 December 2015: €1.094 thousand).

At 30 September 2016 the Group has an investment in Invesco Euro Short Term Bond Fund, in which Mr Wilbur L. Ross Jr. is an executive Director. The fair value of the investment at 30 September 2016 amounts to €4.050 thousand.

At 30 September 2016 the Group has a deposit of €534 thousand with Piraeus Bank SA, in which Mr. Arne Berggren is a non-executive Director.

There were no transactions during the nine months ended 30 September 2015 with the current members of the Board of Directors, or with any members who resigned during the period, or with their connected persons.

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.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

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

	Nine months ended 30 September	
	2016 €000	2015 €000
Director emoluments		
<i>Executives</i>		
Salaries and other short term benefits	1.397	732
Employer's contributions	68	44
Retirement benefit plan costs	124	95
	<u>1.589</u>	<u>871</u>
<i>Non-executives</i>		
Fees	635	194
Total directors' emoluments	<u>2.224</u>	<u>1.065</u>
Other key management personnel emoluments		
Salaries and other short term benefits	2.368	2.570
Termination benefits	397	—
Employer's contributions	147	116
Retirement benefit plan costs	119	136
Total other key management personnel emoluments	<u>3.031</u>	<u>2.822</u>
Total	<u>5.255</u>	<u>3.887</u>

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

31. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

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.

The termination benefits relate to compensation paid to members of the Executive Committee who left the Group under the voluntary exit plan.

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 CEO.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

32. Group companies

The main subsidiary companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities, and the percentage held by the Company (directly or indirectly) as at 30 September 2016 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd.	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd . . .	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	54
Finerose Properties Ltd	Cyprus	Financing services	100
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd . . .	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	N/A
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	N/A
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	N/A
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA . . .	Romania	Leasing	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100
Fortuna Astrum Ltd	Serbia	Problem asset management company	100

32. Group companies (continued)

In addition to the above companies, at 30 September 2016 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Lgisimo Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon 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, Vameron Properties Ltd, Thryan Properties Ltd, Otopa Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmom Properties Ltd, Petrassimo 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, Canemia Properties Ltd, Pariza Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Renalandia Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Browneye Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Valiro Properties Ltd, Avolo Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Vidalaco Properties Ltd, Jemina Properties Ltd, Hovita Properties Ltd, Flitous Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Glodas Properties Ltd, Belzeco Properties Ltd, Bothwick Properties Ltd, Fireford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Sylvesta Properties Ltd, Camela Properties Ltd, Nerofarm Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introsolve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Landeed Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Nabela Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Cavadino Properties Ltd, Jasele Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Singleserve Properties Ltd, Consento Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Bonsova Properties Ltd, Givolo Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozy Properties Ltd, Orasmo Properties Ltd, Palmco Properties Ltd, Crolandia Properties Ltd, Benely Properties Ltd, Arcozil Properties Ltd, Denmor Properties Ltd, Coramono Properties Ltd, Galozy Properties Ltd, Primantela Properties Ltd, Varony Properties Ltd and Thermano Properties Ltd.

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

Further, at 30 September 2016 the Company had 100% shareholding in Iperi Properties Ltd, Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd whose main activities are the holding of shares and other investments and they are registered in Cyprus.

32. Group companies (continued)

At 30 September 2016 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Warmbaths Properties Ltd, Tavoni Properties Ltd, Tezia Properties Ltd, Carnota Properties Ltd, Demoro Properties Ltd, Venicous Properties Ltd, Primaco Properties Ltd, Amary Properties Ltd, Hamura Properties Ltd, Gileco Properties Ltd, Meriaco Properties Ltd, Caruzoco Properties Ltd, Consoly Properties Ltd, Venetolio Properties Ltd, Flymoon Properties Ltd, Senadaco Properties Ltd, Lasmame Properties Ltd, Lorman Properties Ltd, Desogus Properties Ltd, Intelamon Properties Ltd, Weinar Properties Ltd, Holstone Properties Ltd, Balasec Properties Ltd, Eracor Properties Ltd, Nouralia Properties Ltd, Mazima Properties Ltd, Alomnia Properties Ltd, Diafor Properties Ltd, Prosilia Properties Ltd and Rulemon Properties Ltd.

Romania: Mirodi Properties SRL, Nallora Properties SRL and Selilar Properties SRL.

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

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

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

Cyprus: Laiki Bank (Nominees) Ltd, Fairford Properties 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, Calomland Properties Ltd, Lameland Properties Ltd, Fantasio Properties Ltd, Lancast Properties Ltd, Kandoramo Properties Ltd, Cronaland Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Alepar Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balisimo Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd, Nelipo Properties Ltd, Allodica Properties Ltd, Resocot Properties Ltd, Jomento Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Unoplan Properties Ltd and BOC Asset Management Ltd.

Greece: Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method.

Termination of the leasing activities of Cyprus Leasing Romania IFN SA

On 26 September 2016 the shareholders of Cyprus Leasing Romania IFN SA decided to:

- deregister the company from the Registry of non-banking financial institutions held by the National Bank of Romania,
- terminate the leasing and crediting activity of the company, and
- change the name of the company to Cyprus Leasing SA.

As a consequence of the above, the main activity of the company will be the collection of the existing portfolio of receivables, including third party collections.

The matter is pending approval by the National Bank of Romania.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

32. Group companies (continued)

Control over CLR Investment Fund Public Ltd (CLR) without substantial shareholding

The Group considers that it exercises control over CLR 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 30 September 2016, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, Kyprou Securities SA, BOC Ventures Ltd, Tefkros Investments Ltd, Salecom Ltd, Longtail Properties Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC and Unknownplan Properties SRL.

Tefkros Investments (CI) Ltd, Bank of Cyprus Mutual Funds Ltd, Laiki EDAK Ltd, Limestone Holdings Ltd and Turnmill Properties Ltd were dissolved during the nine months ended 30 September 2016. Mainport Properties Ltd, Besadoco Properties Ltd, Odaina Properties Ltd, Icecastle Properties Ltd and Gilfront Properties Ltd were disposed of during the nine months ended 30 September 2016 as part of the Company's disposal process of properties repossessed.

As part of the Group's strategy of focusing on its core businesses and markets, the Group decided the closure of the operations of Bank of Cyprus (Channel Islands) Ltd and to relocate its business to other group locations.

33. Acquisitions and disposals

33.1 Acquisition during 2016

33.1.1 Acquisition of S.Z. Eliades Leisure Ltd

In the context of its loan restructuring activities the Group acquired on 15 June 2016 a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of borrowings due from it of a total gross amount of €52.335 thousand. S.Z. Eliades Leisure Ltd operates in land development and the operation of a golf resort in Cyprus. The fair value of the consideration for the acquisition of the 70% share in S.Z. Eliades Leisure Ltd amounts to €43.758 thousand. The acquisition did not include any cash consideration. The Group considers that it controls S.Z. Eliades Leisure Ltd.

The non-controlling interest is measured at the proportionate share of the identifiable net assets acquired.

The fair value of assets and liabilities of S.Z. Eliades Leisure Ltd at the date of acquisition are presented below:

Assets	€000
Property and equipment	20.308
Stock of property	48.632
Prepayments, accrued income and other assets	580
	69.520
 Liabilities	
Deferred tax liability	3.807
Accruals, deferred income and other liabilities	3.202
	7.009
Net identifiable assets acquired	62.511
Less non-controlling interest	(18.753)
Net assets acquired	43.758

No cash and cash equivalents were acquired.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

33. Acquisitions and disposals (continued)

33.2 Disposal during 2016

33.2.1 Disposal of Kermia Hotels Ltd and adjacent land

In June 2016, the Group completed the sale of 100% of its subsidiary Kermia Hotels Ltd and adjacent land which was classified as a disposal group held for sale as at 31 December 2015.

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	€000
Property and equipment	27.130
Prepayments, accrued income and other assets	678
Cash and cash equivalent	1.132
	<u>28.940</u>
Liabilities	
Deferred tax liability	3.677
Accruals, deferred income and other liabilities	1.308
	<u>4.985</u>
Total net assets sold	<u>23.955</u>

The cash consideration received amounts to €26.500 thousand and the disposal resulted in a gain of €2.545 thousand.

33.3 Disposals during 2015

33.3.1 Disposal of the majority of the Group's Russian operations

On 25 September 2015, the Group completed the disposal of the majority of its Russian operations, comprising (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC and (ii) certain other Russian loan exposures.

The transaction resulted in a loss on disposal of €23.032 thousand, comprising a loss of €28.237 thousand representing the recycling of the foreign currency translation reserve from other comprehensive income to the consolidated income statement and a profit of €5.205 thousand against the net book value of the assets as at the disposal date. As part of the sales agreement, the parties agreed an asset swap arrangement which involved the exchange of certain assets between them that resulted in a €41.849 thousand receivable for the Group on the date of the transaction.

Following the disposal of the Group's Russian operations, the remaining net exposure as at 30 September 2016 in Russia is €45.358 thousand, comprising primarily of customer loans.

The results of the Group's Russian operations from 1 January 2015 until the date of their disposal are presented in Note 8 of these consolidated financial statements and are classified as discontinued operations.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

33. Acquisitions and disposals (continued)

33.3 Disposals during 2015 (continued)

33.3.1 Disposal of the majority of the Group's Russian operations (continued)

The assets and liabilities of the Group's Russian operations disposed as at the date of their disposal are presented below:

Assets	€000
Cash and balances with central banks	64.291
Loans and advances to banks	26.269
Investments	12.726
Loans and advances to customers	343.909
Prepayments, accrued income and other assets	41.950
	<u>489.145</u>
 Liabilities	
Deposits by banks	24.422
Customer deposits	494.274
Debt securities in issue	139
Subordinated loan stock	2.673
Accruals, deferred income and other liabilities	4.976
	<u>526.484</u>
Net liabilities	<u>(37.339)</u>

The sale consideration is analysed below:

	€000
Net cash consideration received, of which:	2.896
—Outflow of cash and cash equivalents	(3.945)

The net cash flows of the Russian operations are as follows:

	Nine months ended	
	30 September	
	2016	2015
	€000	€000
Operating	—	(34.108)
Investing	—	(15.927)
Financing	—	(1.733)
Net cash outflow for the period	<u>—</u>	<u>(51.768)</u>

33.3.2 Disposal of Aphrodite group

In September 2015, the Group completed the sale of shares representing a 65% shareholding in the Aphrodite Hills Resort Ltd and Aphrodite Hills (Lakkos tou Frangou) Ltd, for the amount of €500 thousand. Following the sale, the Group retained a 10% minority equity stake in the Aphrodite group. The transaction also involved the restructuring of the debt owed by these companies to the Group.

Notes to the Interim Condensed Consolidated Financial Statements (Continued)

33. Acquisitions and disposals (continued)

33.3 Disposals during 2015 (continued)

33.3.3 Disposal of Kyprou Leasing SA

Following the disposal of the Group's leasing operations in Greece to Piraeus Bank SA through a Decree issued on 26 March 2013, the Group completed the transfer of the legal ownership of its subsidiary, Kyprou Leasing SA to Piraeus Bank SA during the first quarter of 2015.

34. Investments in associates and joint ventures

Carrying value of the investments in associates and joint ventures

	30 September 2016	31 December 2015
	€000	€000
CNP Cyprus Insurance Holdings Ltd	110.495	105.540
Interfund Investments Plc	2.087	2.201
Aris Capital Management LLC	—	—
Rosequeens Properties Limited	—	—
Rosequeens Properties SRL	—	—
Tsiros (Agios Tychon) Ltd	—	12
M.S. (Skyra) Vassas Ltd	—	—
D.J. Karapatakis & Sons Ltd	—	—
Rodhagate Entertainment Ltd	—	—
Fairways Automotive Holdings Ltd	—	—
	<u>112.582</u>	<u>107.753</u>

Investment in associates

The Group's investments in associates comprise of CNP Cyprus Insurance Holdings Ltd (shareholding of 49,90%), Aris Capital Management LLC (shareholding of 30,00%), Interfund Investments Plc (shareholding of 23,12%), Rosequeens Properties Limited (effective shareholding of 33,33%), Rosequeens Properties SRL (effective shareholding of 33,33%), M.S (Skyra) Vassas Ltd (shareholding of 15,00%), D.J. Karapatakis & Sons Ltd (shareholding of 7,50%), Rodhagate Entertainment Ltd (shareholding of 7,50%) and Fairways Automotive Holdings Ltd (shareholding of 45,00%). The carrying value of Rosequeens Properties Limited, Rosequeens Properties SRL and Aris Capital Management LLC is restricted to zero.

M.S. (Skyra) Vassas Ltd

During the period, in the context of its loan restructuring activities, the Group acquired a 15,00% 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 Ltd and Rodhagate Entertainment Ltd

During the period, in the context of its loan restructuring activities, the Group acquired a 7,50% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in the 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.

34. Investments in associates and joint ventures (continued)

Investment in associates (continued)

Fairways Automotive Holdings Ltd

During the period, in the context of its loan restructuring activities, the Group acquired a 45,00% 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 ventures

Tsiros (Agios Tychon) Ltd

The Group holds a 50% 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.

35. Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 30 September 2016 amount to €12.440 thousand (31 December 2015: €17.099 thousand).

36. Events after the reporting date

36.1 Apply for a listing on the London Stock Exchange and the Cyprus Stock Exchange using a Holding Company structure

The Board of Directors decided to proceed with an application for a standard listing on the London Stock Exchange (LSE). The Company intends to maintain a listing on the Cyprus Stock Exchange and will no longer be listed on the Athens Exchange.

The London listing is in line with the Company's long-term strategic commitment to list on a major European stock exchange. The Company continues to work towards a premium listing on the LSE, and intends to apply for a step up to the premium segment of the LSE at a future date, with the intention of becoming eligible for inclusion in the FTSE UK Index series. Work is ongoing and the standard listing is an intermediate step on this long-term path.

In order to be considered eligible for future inclusion in the FTSE UK index series following a step up to a premium listing, the Company has decided to incorporate a new holding company in Ireland, which is a FTSE eligible jurisdiction. The newly set up company, Bank of Cyprus Holdings plc (BOC Holdings), was incorporated in Ireland earlier this year for this purpose.

It is intended that BOC Holdings will own all of the existing shares of the Company, and existing shareholders of the Company will receive shares in BOC Holdings in proportion to their current ownership.

The Group's headquarters, management and operations will all remain in Cyprus and the new holding company will be, and the Company will remain, tax residents in Cyprus. The Group will continue to be regulated by the ECB and the CBC.

The change in the Group's structure will be implemented by means of a Cypriot law scheme of arrangement (Scheme) and is therefore subject, amongst other things, to the approval/sanctioning of the Scheme by (i) the shareholders at an extraordinary general meeting, (ii) the Company's regulators (including the ECB and the CBC) and (iii) the Courts of Cyprus following a hearing upon the fairness of the Scheme terms. It is intended that a circular setting out full details of the Scheme will be made available to the Company's shareholders in the coming days and a prospectus in relation to the shares in the new holding company is intended to be published thereafter.

36.2 Other events after the reporting date

The material events which occurred after the reporting date are disclosed in Note 29 of these Interim Condensed Consolidated Financial Statements.

DIRECTORS' DECLARATIONS

This Prospectus of the Bank of Cyprus Holdings Public Limited Company dated 30 November 2016 has been signed by the Directors of BOCH. BOCH and the Directors signing this Prospectus declare that having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and that it contains no omission likely to affect its import:

Dr. Josef Ackermann, Chairman

Mr. Wilbur L. Ross, Jr., Vice-Chairman

Mr. Maksim Goldman, Vice-Chairman

Mr. Michalis Spanos, Senior Independent Director

Mr. John Patrick Hourican, Group Chief Executive Officer

Dr. Christodoulos Patsalides, Deputy Chief Executive Officer and Chief Operating Officer

Mr. Arne Berggren, Non-Executive Director

Mr. Marios Kalochoritis, Non-Executive Director

Mr. Ioannis Zographakis, Non-Executive Director

Dr. Michael Heger, Non-Executive Director

**LEAD MANAGER RESPONSIBLE FOR THE DRAWING UP OF THE PROSPECTUS'
DECLARATION**

This Prospectus of the Bank of Cyprus Holdings Public Limited Company dated 30 November 2016 has been signed by the Lead Manager—Investment Firm responsible for the drawing up of the Prospectus in accordance with Article 23 of the Prospectus Law, The Cyprus Investment and Securities Corporation Limited (“CISCO”) which declares that, having taken all responsible care to ensure that such is the case the information contained in this Prospectus is to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Cyprus Investment and Securities Corporation Limited (CISCO)

