Pillar 3 Disclosures 2016

The Pillar 3 Disclosures 2016 report relates to the Bank of Cyprus Public Company Ltd (the 'Company' and together with its subsidiaries the 'Group') as at 31 December 2016. The financial information referred to and/or presented in this report is not the Pillar 3 Disclosures of Bank of Cyprus Holdings Public Limited which was introduced in the Group structure as the new parent company of the Group on 18 January 2017.

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Specific References to CRR Articles

CRR ref.	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar III disclosures.	Section 1.2
431 (2)	Disclosure of operational risk information.	Section 2.2.3
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and overall appropriateness.	The Bank has a dedicated Pillar III policy
431 (4)	Explanation of ratings decisions to SMEs upon request.	Not applicable to the Bank
Non-material, proprietary or confidential information		
432	Non-material, proprietary or confidential information – EBA Guidelines on materiality, proprietary, confidentiality and on disclosure frequency	The Bank follows the EBA guidelines – Compliance with this provision is covered through the Report
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, in conjunction with the date of publication of the financial statements and more frequently if necessary.	Section 1.2
Means of disclosures		
434 (1)	To include disclosures in one appropriate medium, or provide clear cross-references to other media.	All applicable disclosures are contained within the Report
434 (2)	Equivalent disclosures made under other requirements (i.e., accounting) can be used to satisfy Pillar III if appropriate.	Cross-references to accounting and other disclosures are indicated in the Report
Risk management objectives and policies		
435 (1) (a)	Disclosure of information as regards strategies and processes, organisational structure of the relevant risk management function, reporting and measurement systems and risk mitigation / hedging policies.	Sections 2.1 and 2.2
435 (1) (b)		Sections 2.1 and 2.2
435 (1) (c)		Sections 2.1 and 2.2
435 (1) (d)		Sections 2.1 and 2.2
435 (1) (e)	Declaration approved by the BoD on adequacy of risk management arrangements.	Section 2.1.1.(b)
435 (1) (f)	Concise risk statement approved by the BoD.	Section 2.1.3
435 (2)	Information, once a year at a minimum, on governance arrangements.	Section 2.3.2. and Annual Corporate Governance Report 2016
435 (2) (a)	Number of directorships held by members of the BoD.	Section 2.3.2 and Annual Corporate Governance Report 2016
435 (2) (b)	Recruitment policy of BoD members, their experience and expertise.	Section 2.3.1 and Annual Corporate Governance Report 2016
435 (2) (c)	Policy on diversity of BoD members, its objectives and results against targets.	Section 2.3.3
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Section 2.3.5 to 2.3.7
435 (2) (e)	Description of information flow on risk to BoD.	Section 2.3.8 and Appendix II

Specific References to CRR Articles (continued)

Scope of application		
436 (a)	Name of institution.	Section 1.1
436 (b)	Difference on the basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 1.3 and Appendix I
436 (b) (i)	Fully consolidated;	Section 1.3 and Appendix I
436 (b) (ii)	Proportionally consolidated;	Section 1.3 and Appendix I
436 (b) (iii)	Deducted from own funds;	Section 1.3 and Appendix I
436 (b) (iv)	Neither consolidated nor deducted.	Section 1.3 and Appendix I
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Section 2.2.2.3
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation and their names (if any).	Section 1.2
436 (e)	Use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries / entities.	Not applicable to the Bank
Own funds		
437 (1)	Requirements regarding capital resources table.	Section 3
437 (1) (a)		Section 3
437 (1) (b)		Section 3
437 (1) (c)		Section 3
437 (1) (d) (i)		Section 3
437 (1) (d) (ii)		Section 3
437 (1) (d) (iii)		Section 3
437 (1) (e)		Section 3.4
437 (1) (f)		Not applicable to the Bank
437 (2)	EBA shall develop implementation standards for points (a), (b), (d) and (e) above.	The Bank follows the implementation standards. (Section 3)
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 4
438 (b)	Result of ICAAP on demand from competent authority.	Not such a request received
438 (c)	Capital requirement amounts for credit risk for each Standardised approach exposure class (8% of risk-weighted exposure).	Section 4.1
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based approach exposure class.	Not applicable to the Bank
438 (d) (i)		Not applicable to the Bank
438 (d) (ii)		Not applicable to the Bank
438 (d) (iii)		Not applicable to the Bank
438 (d) (iv)		Not applicable to the Bank
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Section 4.2
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	Section 4.3

Specific References to CRR Articles (continued)

Exposure to counterparty credit risk (CCR)		
439 (a)	Description of methodology to assign internal capital and credit limits for counterparty credit exposures.	Section 5.1
439 (b)	Discussion of policies for securing collateral and establishing credit reserves.	Section 5.2
439 (c)	Discussion of policies as regards wrong-way risk exposures.	Section 5.3
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 5.4
439 (e)	Derivation of net derivative credit exposure.	Section 5.5
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods as applicable.	Section 5.6
439 (g)	Notional value of credit derivative hedges and current credit exposure by types of credit exposure.	Section 5.8
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not applicable to the Bank
439 (i)	Estimation of alpha, if applicable.	Not applicable to the Bank
440 (1) (a)	Geographical distributions of credit exposures	Section 6.3.1
440 (1) (b)	Amount of the institution specific countercyclical buffer	Section 1.2
440 (2)	EBA issue the Regulatory Technical Standards on countercyclical capital buffer	Section 1.2
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441	Indicators of global systemic importance	Not applicable to the Bank
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442 (a)	Definitions for accounting purposes of ‘past due’ and ‘impaired’.	Section 6.1
442 (b)	Approaches for calculating credit risk adjustments.	Section 6.1
442 (c)	Exposures post-value adjustments by different types of exposure classes.	Section 6.2
442 (d)	Exposures post value adjustments by significant geographic areas and material exposure classes and by industry and exposure class.	Section 6.3
442 (e)	Distribution of exposures by industry	Section 6.3

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Credit risk adjustments (continued)		
442 (f)	Exposures post value adjustments by residual maturity and by material exposure class.	Section 6.4
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Section 6.5
442 (g) (i)		Section 6.5
442 (g) (ii)		Section 6.5
442 (g) (iii)		Section 6.5
442 (h)	Impaired, past due exposures, by geographic area, and amounts of specific and general impairment for each geography.	Section 6.6
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	Section 6.13.1
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442 (i) (iii)		Section 6.13.1
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443	Disclosures on unencumbered assets.	Section 7
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444 (a)	Names of the nominated ECAIs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Section 8.1
444 (b)	Exposure classes associated with each ECAI.	Section 8.1
444 (c)	Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book.	Section 8.2
444 (d)	Mapping of external rating to credit quality steps.	Section 8.1
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445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 14
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446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 4.3

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447 (a)	Differentiation between exposures based on their objectives and overview of the accounting techniques and valuation methodologies used.	Section 9
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447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Section 9
447 (d)	Cumulative realised gains and losses on sales in the period.	Section 9
447 (e)	Total unrealised gains or losses, latent revaluation gains or losses and amounts included in Tier 1 capital.	Section 9
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448 (a)	Nature of interest rate risk and key assumptions in measurement models.	Section 10.1
448 (b)	Variation in earnings, economic value, or other measures used from upward and downward shocks to interest rates, by currency.	Section 10.2
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449	Exposure to securitisation positions	Not applicable to the Bank
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450	Remuneration policy.	Section 11
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451 (1) (a)	Leverage ratio and analysis of total exposure measure, including reconciliation to financial statements, and derecognised fiduciary items.	Sections 12.1 and 12.2
451 (1) (b)		Sections 12.1 and 12.2
451 (1) (c)		Sections 12.1 and 12.2
451 (1) (d)	Description of the risk management process to mitigate excessive leverage and factors that had an impact on the leverage ratio during the year.	Section 12
451 (1) (e)		Section 12
451 (2)	EBA shall develop implementation standards for points above.	The Bank follows the implementation standards.
Use of the IRB Approach to credit risk		
452	Use of the IRB Approach to credit risk	Not applicable to the Bank

Specific References to CRR Articles (continued)

Use of credit risk mitigation techniques		
453 (a)	Policies and processes, and an indication of the extent to which the Bank makes use of on-balance sheet and off-balance sheet netting.	Section 13
453 (b)	Policies and processes for collateral valuation and management.	Section 13.2
453 (c)	Description of types of collateral used by the Bank.	Section 13.1
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 13
453 (e)	Information about market or credit risk concentrations within the credit mitigation taken.	Section 13.3
453 (g)	For exposures under either the Standardised or Foundation IRB approach, disclosure of the exposure covered by guarantees or credit derivatives.	Section 6.8
Use of the Advanced Measurement Approaches to operational risk		
454	Description of the use of insurance or other risk transfer mechanisms for the purpose of mitigating operational risk.	Not applicable to the Bank
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455	Use of Internal Market Risk Models	Not applicable to the Bank

Specific References to EBA guidelines published on 14 December 2016

	Compliance Reference	Section
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Section 3.2.2
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Appendix I
EU OV1	Overview of RWAs	Section 4
EU INS1	Non-deducted participations in insurance undertakings	Section 4.5
EU CRB-B	Total and average net amount of exposures	Section 6.2
EU CRB-C	Geographical breakdown of exposures	Section 6.3.1
EU CRB-D	Concentration of exposures by industry or counterparty types	Section 6.3.2
EU CRB-E	Maturity of exposures	Section 6.4
EU CR1-A	Credit quality of exposures by exposure class and instrument	Section 6.9.1
EU CR1-B	Credit quality of exposures by industry of counterparty types	Section 6.9.2
EU CR1-C	Credit quality of exposures by geography	Section 6.9.3
EU CR1-D	Ageing of past-due exposures	Section 6.10
EU CR1-E	Non-performing and forborne exposures	Section 6.11
EU CR2-B	Changes in the stock of defaulted and impaired loans and debt securities	Section 6.12
EU CR4	Standardised approach – Credit risk exposure and CRM effects	Section 13.3
EU CR5	Standardised approach	Section 8.3.3
EU CCR1	Aanalysis of CCR exposure by approach	Section 5.6
EU CCR2	CVA capital charge	Section 5.6
EU CCR3	Standardised approach – CCR exposures by regulatory portofolio and risk	Section 5.7
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EU CCR5-B	Composition of collateral for exposures to CCR	Section 5.2
EU MR1	Market risk under the standardised approach	Section 4.2

1. Introduction

1.1 Corporate Information

Bank of Cyprus Public Company Ltd (Bank, Company) was the holding company of the Bank of Cyprus Group (Group) during the year ended 31 December 2016. The principal activities of the Bank and its subsidiary companies involve the provision of banking, financial, insurance services and management and disposal of property generally acquired in debt satisfaction.

The Bank is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Bank was listed on the Cyprus Stock Exchange (CSE) and the Athens Exchange (ATHEX) as at 31 December 2016. On 18 January 2017, Bank of Cyprus Holdings Public Limited Company was introduced in the Group structure as the new parent company of the Group. On the same date Bank of Cyprus Holdings Public Limited Company became the sole shareholder of the Company and on 19 January 2017 it admitted to listing and trading on the London Stock Exchange (LSE) and the CSE.

1.2 Pillar III Regulatory Framework

Regulatory framework overview

The Pillar 3 report is prepared in accordance with the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV). The CRR and CRD IV establish the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets 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. In addition, the Regulation (EU) 2016/445 of the ECB on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

The current regulatory framework comprises three pillars:

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

1.2 Pillar III Regulatory Framework (continued)

Capital requirements

The Common Equity Tier 1 (CET1) ratio of the Group at 31 December 2016 stood at 14,5% (transitional) and the Total Capital ratio stood at 14,6%.

The minimum Pillar I total capital requirement is 8,0% and may be met, in addition to the 4,5% CET1 requirement, with up to 1,5% by Additional Tier 1 capital and with up to 2,0% by Tier 2 capital.

The Group is also subject to additional capital requirements for risks which are not covered by the Pillar I capital requirements (Pillar II add-ons). Following the enactment of the amendments in the Cypriot Banking Law in February 2017 regarding the gradual phase-in of the Capital Conservation Buffer (CCB) (0,625% in 2016, 1,25% in 2017, 1,875% in 2018 and fully implemented on 1 January 2019 at 2,5%) and based on the SREP performed by the European Central Bank (ECB) in 2016, the Group's minimum CET1 capital ratio as from 1 January 2017 has been reduced to 9,50% compared to 10,75% fully phased-in of CCB (minimum CET1 capital ratio at 31 December 2016: 11,75% fully phased-in of CCB), comprising of a 4,5% Pillar I requirement, a 3,75% Pillar II requirement and a phased-in CCB of 1,25%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital ratio requirement as from 1 January 2017 following the amendments in the Cypriot Banking Law in February 2017 regarding the gradual phase-in of CCB, has been reduced to 13,00% compared to 14,25% (fully phased-in of CCB), 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 a phased-in CCB of 1,25%.

The minimum CET1 requirement including Pillar II, applicable for the year 2016 was determined by the ECB at 11,75% in November 2015 and includes CCB on a fully loaded basis.

The Group's capital position at 31 December 2016 exceeds both 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.

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

In accordance with the provisions of this law, the CBC sets, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for year 2016 and for the first quarter of 2017.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the CBC set the O-SII buffer for the Group at 2%. This buffer 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.

In January 2017, the Company successfully issued €250 million unsecured and subordinated Tier 2 Capital Note (the Note). The Note was priced at par with a coupon of 9,25%. The Note matures on 19 January 2027. The Company will have the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents. The issuance of the Note is part of the Company's strategy to optimise the level and composition of its capital and liabilities, enhancing the Total Capital ratio to 15,7% (pro-forma).

The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain minimum requirement for own funds and eligible liabilities (''MREL''), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. Although the precise calibration and ultimate designation of the Bank's MREL has not yet been finalised, the Bank is monitoring developments in this area very closely.

1.2 Pillar III Regulatory Framework (continued)

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.

Basis and frequency of disclosure

The Pillar 3 Disclosures 2016 report (Report) of the Group sets out both quantitative and qualitative information required in accordance with Part 8 'Disclosures by Institutions' of the CRR. Articles 431 to 455 of the CRR specify the Pillar III framework requirements (see Specific References to CRR Articles at the beginning of the Report). The Report includes, to a large extent, new tables prepared in line with the European Banking Authority (EBA) guidelines published on 14 December 2016 (see Specific References to EBA guidelines at the beginning of the Report), which have been early adopted for the purposes of this Report.

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

Verification

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

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

The 2016 Pillar 3 Disclosures Report was validated and approved internally by the BoD and the BoD's Audit and Risk Committees.

1.3 Scope of Application

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

The data included in this Report may be different than the respective data of the Consolidated Financial Statements for year 2016 which are prepared in line with International Financial Reporting Standards as adopted by the EU (IFRS), mainly due to differences between the prudential consolidation basis and the accounting consolidation basis and/or differences in the definitions used (reconciliation between the balance sheet presented in the consolidated financial statements of the Group for the year ended 31 December 2016 (Consolidated Financial Statements for year 2016) and the balance sheet prepared for prudential purposes is presented in Section 3).

The accounting consolidation basis of the Group is prepared in accordance with IFRS and is described in Note 2.1 of the Consolidated Financial Statements for year 2016. The basis of consolidation for prudential purposes includes only those entities which form the basis for the calculation of regulatory capital requirements. The basis of consolidation of the Group entities for accounting and prudential purposes is presented in Appendix I.

2. Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

2.1.1(a) Risk Management Framework

The Group aims to embed explicit and robust risk management practices in all areas of the business, from the initial design of its business strategy to the sale of services and products to its customers, so as to ensure that the level of risk it faces is consistent with the BoD's approved Risk Appetite Statement (RAS) and corporate objectives. This is achieved by implementing a sound, coherent and comprehensive risk management framework for the identification, assessment, monitoring and control of risks within the Group.

2.1.1(a) Risk Management Framework (continued)

The Risk Management Division's (RMD) ability to carry out risk management responsibilities in an unbiased manner rests on its independence. To that end, the following have been established:

- Organisational independence of RMD from the activities assigned to be controlled. The overall Group structure as well as the RMD structure is designed to ensure clear lines of responsibility and accountability for the purpose of enhancing sound internal governance, appropriate segregation of duties and minimising conflicts of interest.
- The Group Chief Risk Officer (GCRO) functionally reports to the Board Risk Committee (RC or BRC) and administratively to the Chief Executive Officer (CEO).
- The RMD via GCRO has the right and is uninhibited in expressing and reporting its findings to the BoD and BoD Committees without the presence of executive members of the BoD.
- GCRO has direct and unrestricted access to senior management and the BoD through the RC and the Executive Committee (EXCO).
- RMD staff is separate from the business lines.
- The RC assesses and monitors the independence, adequacy and effectiveness of the RMD on an on-going basis.

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

The Group's Risk Management Framework is monitored by various Executive and Board Committees (described further below in Sections 2.3.5 - 2.3.7 of the Report and in Section 3 of the Annual Corporate Governance Report of 2016 which is included in the Annual Financial Report 2016). The Risk Management Framework and its constituents are subject to compliance and assurance reviews that endorse its effectiveness or, where necessary, identify issues to be addressed. It has been developed to:

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

2.1.1(b) Effectiveness of Risk Management Framework

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

2.1.2 Risk Inventory

As part of its business activities, the Group faces a variety of risks, the most significant of which are described further in dedicated sections below as well as in the management report in the 2016 Annual Financial Report. For risks relating to financial instruments, information is also included in Notes 43-46 of the Consolidated Financial Statements for year 2016 and in the Additional Risk and Capital Management Disclosures included in the 2016 Annual Financial Report. The Group holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk (including litigation risk) as required by CRR/CRD IV, all of which are defined below.

2.1.2 Risk Inventory (continued)

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

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

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

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

Litigation risk
The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group and in the event that legal issues are not properly dealt with by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it. Additional information on Pending Litigation and Claims is disclosed in Note 38 of the Consolidated Financial Statements for year 2016.

2.1.3 Risk Management Governance

Among the responsibilities of the BoD is to ensure the maintenance of a sound system of internal control and risk management, which includes, among others:

- Approving the Company's RAS (Section 2.1.5)
- Receiving reports on, and reviewing annually, the effectiveness of the Group's risk and control processes to support its strategy and objectives in the context of its Risk Appetite;

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

- The Board's Risk Committee (RC or BRC) (Section 2.3.5)
- The Board's Audit Committee (BAC) (Section 2.3.6)

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

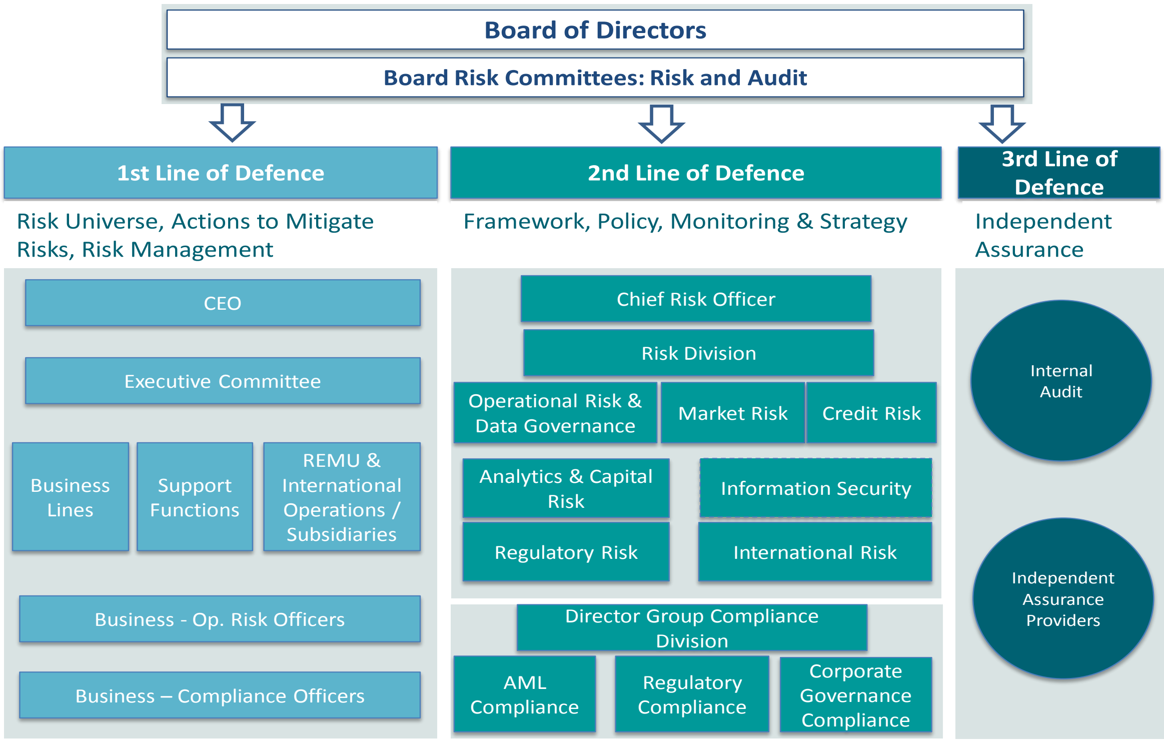
- The Group's EXCO
- The Group's Operational Committee (OPCO)
- The Group's Asset Acquisitions and Disposals Committee (ADC)
- The Group's Assets and Liabilities Committee (ALCO)
- Executive Management Credit Committees

Critical in this context is the role of the GCRO who:

- Oversees the entire risk management function, including overseas and local subsidiaries and promotes the development and implementation of a consistent Group wide risk management framework.
- Provides regular briefings and guidance to the Group Executive and other Group Committees to ensure that they are aware of the overarching risk management framework and that they have a clear understanding of their accountabilities for risk and control.
- Is a member of the Group's EXCO, the ADC (holds veto power), the ALCO, the Operating Committee and an observer with veto power in the Credit Committee 3, the highest executive credit committee. His representatives (Credit Appraisal Department (CAD)) are observers in other credit committees with equal power of veto. The veto power held can only be cancelled by the RC.
- Participates directly or through his delegates (Manager International Risk Management & Other Subsidiaries, Market Risk Manager, Operational Risk Manager) to the following subsidiary committees:
    - BOC UK Audit & Risk, Credit & Advances Committees and ALCO.
    - GIC Audit & RC and ALCO.
    - EuroLife RC and ALCO.
    - JCC Risk Committee.
    - BoC Asset Management Company Risk Committee, BoD.
- Oversees the effectiveness of the implementation of the Bank's RMD's policies.
- Reviews and recommends appropriate limits for all identified risks.

Also critical is the role of Director Group Compliance Division who is responsible for the effective management of compliance risk as a control function at the second line of defence. He ensures that the Group recognises pro-actively and manages the compliance risks it takes by implementing the appropriate best practices and methods for the measurement and assessment of compliance risk relating to financial crime and regulatory crime.

2.1.3 Risk Management Governance (continued)



The Bank has established the Three Lines of Defence model as a framework for effective risk management and control which depicts the relationship of RMD with other internal control functions.

The first line of defence against impending risks lies with line management. The second line of defence consists of the Risk Management and Compliance units of the Bank, which are responsible for developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives. The third line of defence relates to Internal Audit and independent assurance providers.

The main role of the Risk departments assigned to the second line of defence is to provide the tools and methodologies for risk management to the business units, to promote risk awareness, to engage business units in identifying, measuring and mitigating risks as appropriate, to report the losses from risks identified to Executive Management and the Regulatory Authorities, to facilitate the collection and monitoring of Key Risk Indicators (KRIs), to identify risks at Group level in cases where these risks are not managed by a specific business unit and to make sure that actions mitigating risks are implemented.

2.1.4 Risk Culture

A robust risk culture is a substantial determinant of whether the Bank will be able to successfully execute its chosen strategy within its defined risk appetite. The risk culture that the Bank wishes to build is reflected in its policies and procedures and these are closely aligned to its Risk Appetite. Risk culture is manifested in the institutions norms, its day-to-day decisions that indicate how risk is identified, understood, discussed, and acted upon. The Group has focused primarily on the implementation of a firm-wide effective and pervasive risk culture. This is achieved through the following:

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

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

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

2.1.5 Risk Appetite Statement

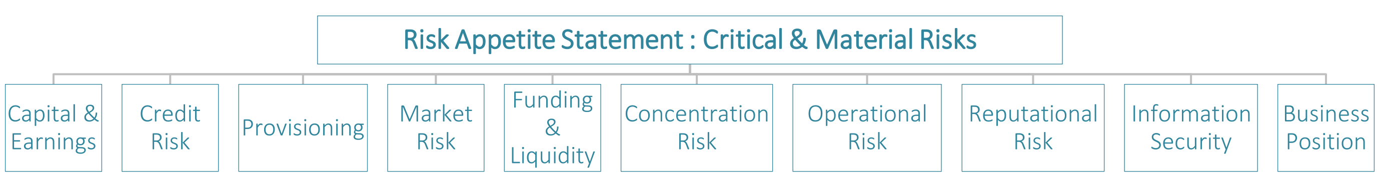
Introduction

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

Through the RAS formulation process, the Bank is in a position to:

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

The RAS considers, but is not limited to, the following risks:



The RAS is subject to an annual review process during the period which the Group's financial plan as well as the divisional strategic plans are being prepared. The interaction between these processes ensures that the RAS requirements are adhered to or in cases where amendments are required in the latter these are identified, assessed and put forward for BoD approval. Furthermore, RAS is in place for all active subsidiaries. These statements are subject to subsidiary board approval. If however a RAS deviates (less strict) or a subsidiary employs a different methodology from the Group RAS, then, this is escalated to the GCRO for consideration and approval or further escalation to the BRC if deemed necessary.

2.1.5 **Risk Appetite Statement** (continued)

Reporting, Monitoring and escalation

The RAS dashboard, is used for tracking all indicators/measures of the RAS and recording the status of each one (compliance, partial compliance or violation) and is reported on a quarterly basis through the Risk Report to the RC. The BoD is also recipient of the Risk Report. The dashboard is accompanied with a relevant commentary which indicates:

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

The RC can then escalate to the BoD any issues it deems necessary.

Position as at December 2016

The Group currently operates outside its risk appetite in a number of important matrices. The BoD is deemed as the appropriate body to set the risk appetite, which provides medium to long term direction to executive management.

During 2016 the Group has taken major steps to move closer to its risk appetite by lowering (almost eliminating) emergency liquidity reliance, internally generating capital to strengthen its capital position, deleveraging further from risky non-core jurisdictions (Russia, Greece, Romania and Serbia), improving its governance and taking steps to address its reputational weaknesses. Furthermore, the Bank has placed a strong focus on NPE management and this has already led to a significant reduction in NPE stock of €4bn from December 2014. More specifically, with respect to:

- *Liquidity:* small reliance on emergency liquidity continued in 2016 (eliminated in early 2017); along with violation of regulatory ratios. There has been significant progress in this front in 2016 and the beginning of 2017, with the full repayment of Emergency Liquidity Assistance (ELA), and Liquidity Coverage Ratio (LCR) being close to compliance (as at the end of February 2017 the regulatory limit was 80% and the ratio was 63%).
- *Risk Position:* asset quality with significant legacy issues continues to be stressed and the current Non Performing Exposures (NPEs) level is not within the Group’s risk appetite. There are also violations of concentration limits (name and sector (construction and real estate) concentrations) due to legacy positions that are currently being addressed.

As described above, the Group’s RAS is not static and thus it is continuously monitored and evaluated against Group performance so as to ensure it reflects its currently approved business model.

2.1.5 Risk Appetite Statement (continued)

Key Performance Indicators

The below table shows the Group's performance in relation to Key Performance Indicators (KPIs) vis-a-vis the medium-term targets.

Group Key Performance Indicators		Actual December 2015	Actual December 2016	Medium-Term Targets
Asset Quality	90+ Days Past Due ratio[1]	50%	41%	**<20%**
	NPEs ratio	62%	55%	**<30%**
	NPEs coverage	39%	41%	**>50%**
	Provisioning charge (Cost of Risk)	4,3%	1,7%[2]	**<1,0%[3]**
	Net Loans % Deposits	121%	95%	**90 - 110%**
Capital	Total capital ratio[4]	14,1%	14,6%	**>15%**
Efficiency	Net interest margin	3,8%	3,5%	**c. 3,0%**
	Fee and commission income / total income	15%	17%[5]	**>20%**
	Cost to Income ratio	39%	41%	**40 - 45%**
Balance Sheet	Total assets	€23,3 bn	€22,2 bn	**>€25 bn**

As part of its deleveraging strategy, and through specific, deliberate and well-timed actions, the Bank has managed to reduce its risk profile, to enhance its liquidity position and to improve its capital position during the year 2016.

RAS - Non Core

Following the significant deleveraging achieved, the remaining non-core overseas operations as at 31 December 2016 are as follows:

- Greece, comprising net on-balance sheet exposures (excluding foreclosed properties) totalling €17 million (2015: €22 million), 634 foreclosed properties with a book value of €153 million (2015: about 641 foreclosed properties with a book value of €173 million), off-balance sheet exposures totalling €113 million (2015: €131 million), lending exposures to Greek entities in the normal course of business in Cyprus totalling €82 million (2015: €81 million) and lending exposures in Cyprus with collaterals in Greece totalling €107 million (2015: €70 million),
- Romania, with an overall net exposure of €206 million (2015: €312 million),
- Serbia[6], with an overall net exposure of €42 million (2015: €54 million), and
- Russia, the remaining net exposure (on and off balance sheet) is €44 million (2015: €114 million)

[1] Loans in arrears for more than 90 days (90+DPD) are defined as loans past-due for more than 90 days and loans that are impaired (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 existed at their initial recognition or customers in Debt Recovery).
[2] That is Provisions for impairment of customer loans and gains/losses on derecognition of loans and charges in expected cash flows over average gross loans (gross loans are before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (difference between the outstanding contractual amount and the fair value loans acquired)).
[3] Post IFRS 9 impact.
[4] Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the DTA phase-in period was reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016.
[5] Excluding non-recurring fees of approximately €7 million.
[6] The net exposure in Serbia was reduced to €10 million during the first quarter of 2017, through repayments.

2.1.6 Risk Management Division

The structure of RMD is shown in the diagram below:

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

- Provision of a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Bank (risk appetite, stress testing framework).
- Facilitation of policy setting in line with the strategic and business objectives.
- Development of the framework for appropriate risk governance.
- Co-ordination of risk management activities within the Group.
- Development of risk measurement and monitoring tools.
- Assessment and aggregation of all material risks to ascertain the Group's overall risk position.
- Development of capital adequacy assessment models.
- Compliance with relevant Regulatory and Competent Authorities requirements.

Furthermore, RMD's role within the organisation is strengthened by the operation of its teams which address the identification and management of risks as part of their day to day work. Such work includes, among others, the following:

- The presence of limits across risks (credit, market, country, counterparty, liquidity etc.) which are reviewed as required so that to reflect the prevailing strategy and conditions, the risk appetite of the Bank and any changes in the regulatory environment.
- The employment of specialised tools to identify, assess, mitigate and monitor operational risk.
- The existence of formalised procedures to treat and escalate violations of limits or processes which include:
    - The monitoring of the credit granting process.
    - The monitoring and reporting of credit and market policy violations which, depending on their severity, are further escalated for ratification to the appropriate committees (BRC, ALCO).
- The raising of risk issues across the Bank including the business lines through:
    - The setting of annual asset quality targets.
    - The review of new products and services before their implementation.
    - The identification of areas within Risk polices which pose implementation concerns and taking appropriate action as required.
    - The escalation and discussion of risk issues within committees in which business lines also participate such as EXCO and ALCO.
- The existence of departmental procedures as documented in the relevant manuals which ensure a consistent approach towards risk.

2.1.7 Risk Management Process and Policies

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

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

Processes are continuously being reviewed with the intent of further strengthening through the implementation of guidance provided by both the industry and new regulatory requirements. In addition, the entire risk management policy universe has been re-designed to define an updated comprehensive and coherent framework for risk management, linked to the Group's risk appetite. The policies have been approved by the BoD and are being revised on an annual basis or earlier if deemed necessary.

S/N	Policy name	Revision Period
1	Lending Policy	Annual
2	Valuation Policy	Annual
3	Provisioning Policy	Annual
4	Asset Acquisition & Disposal Policy	Annual
5	Monitoring Policy	Annual
6	Stress Testing Policy	Annual
7	Liquidity Policy Statement	Annual
8	Concentration Risk Policy	Annual
9	Country Risk Policy	Annual
10	Market Risk Policy	Annual
11	Business Continuity Planning Policy	Annual
12	Fraud Management Policy	Annual
13	Operational Risk Management Policy	Annual
14	Group Insurance Policy	Annual
15	Reputational Policy	Annual
16	Environmental & Social Policy	Annual
17	Regulatory Coordination and Communication with Competent Authorities (joint policy with Compliance)	Annual
18	New Products/Services/Delivery Channels Management Policy	Annual
19	Information Security Policies (25 separate policies)	Annual

2.1.8 Recovery Plan

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

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

- Provides for a concrete and well-functioning crisis governance system which identifies the escalation and decision making process and includes recovery and early warning indicators to identify stress situations and ensure timely and appropriate action in the event of stress.
- Distinguishes between critical and non-critical functions, as well as core and non-core business lines, in order to prioritise the parts of the Group that can be disposed vis-à-vis those that need to be maintained.
- Includes recovery options designed to respond to financial stress scenarios (e.g. capital and/or liquidity enhancing measures) that leverage on the Group's own resources to weather the crisis, instead of relying on State or European Union funds and support mechanisms.
- Includes a communication and disclosure plan in the event of a crisis.
- Includes preparatory measures for the operationalisation of the Recovery Plan in cases of stress.

The Recovery Plan was submitted to the ECB in October 2016.

2.1.9 Stress Testing

2.1.9.1 Regulatory Considerations

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

- Regulation (EU) No. 575/2013 [CRR], Article 177: an institution shall have in place sound stress testing processes for use in the assessment of its capital adequacy. Stress testing shall involve identifying possible events or future changes in economic conditions that could have negative effects on an institution's credit exposures and assessment of the institution's ability to withstand such changes.

- Article 97 of Directive 2013/36/EU [CRD IV]: competent authorities should evaluate risks revealed by stress testing, taking into account the nature, scale and complexity of an institution's activities. The aim is to ensure among others, that the Bank holds sufficient own funds and liquidity to cover its risks. This review and evaluation shall be updated at least once a year.

- Article 73 of CRD IV: Institutions shall have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed.

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

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

2.1.9.2 Purpose

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

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

2.1.9.3 Responsibility

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

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

During 2016 the Bank performed its internal stress test exercise within the ICAAP process. The Group participated in the SSM SREP stress test, 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. This was facilitated by an extensive use of materiality thresholds. The results of the stress test were not published but were taken into account in the SREP assessment.

Other business and risk type specific stress tests

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

- Monthly stress testing for interest rate risk (2% shock on net interest income and economic value).
- Quarterly stress testing on items that are marked to market: impact on profit/loss and reserves is indicated from changes in interest rates and prices of bonds and equities.
- Quarterly and yearly stress test for the evaluation of ICAAP.
- Daily, quarterly and yearly stress tests for the evaluation of liquidity and ILAAP.
- Liquidity stress testing on cash flows by both MR department (one month horizon) and Treasury department (one and two month horizons). This report, which was a regulatory requirement stopped following the full repayment of ELA in January 2017.

2.1.10 ICAAP, Pillar II and SREP

2.1.10.1 ICAAP

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

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

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

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

The Group prepared the ICAAP report for year 2015. The report was approved by the BoD and was submitted to the ECB in April 2016. Currently, the Group is preparing the ICAAP report for the year 2016, due for submission in April 2017.

The Group also undertakes a quarterly review of its ICAAP results. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the full ICAAP exercise are taken into consideration. The quarterly review identifies whether the Group is exposed to new risks and assesses the adequacy of capital resources in order to cover its risks, as these have evolved (compared to the full ICAAP exercise). Given completion of the full ICAAP report in April 2016, two quarterly reviews have taken place in the third and fourth quarter of 2016 covering the period up to end of June 2016 and the period up to end of September 2016, respectively.

2.1.10.2 Pillar II and SREP

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

2.1.10.2 Pillar II and SREP (continued)

Following the enactment of the amendments in the Cypriot Banking Law in February 2017 regarding the gradual phase-in of the CCB (0,625% in 2016, 1,25% in 2017, 1,875% in 2018 and fully implemented on 1 January 2019 at 2,5%) and based on the SREP performed by the ECB in 2016, the Group's minimum CET1 capital ratio as from 1 January 2017 has been reduced to 9,50% compared to 10,75% fully phased-in of CCB (minimum CET1 capital ratio at 31 December 2016: 11,75% fully phased-in of CCB), comprising of a 4,5% Pillar I requirement, a 3,75% Pillar II requirement and a phased-in CCB of 1,25%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital ratio requirement as from 1 January 2017 following the amendments in the Cypriot Banking Law in February 2017 regarding the gradual phase-in of CCB, has been reduced to 13,00% compared to 14,25% (fully phased-in of CCB), 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 a phased-in CCB of 1,25%.

The minimum CET1 requirement including Pillar II, applicable for the year 2016 was determined by the ECB at 11,75% in November 2015 and includes CCB on a fully loaded basis.

2.2 Approach in Managing Individual Risk

2.2.1 Credit Risk Management

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

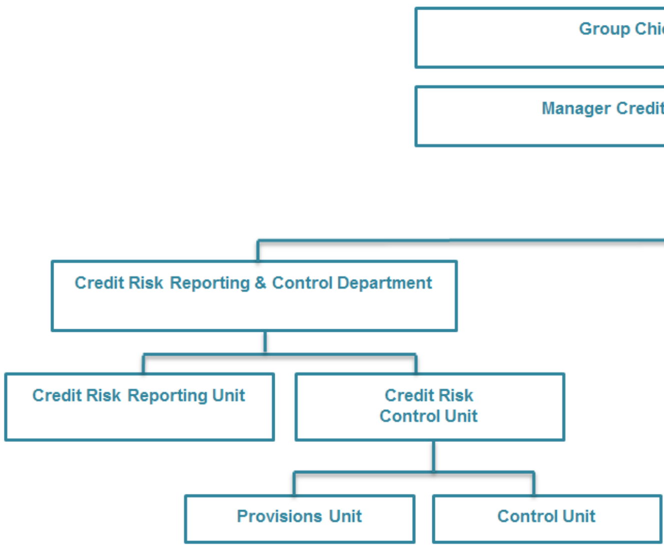
There are various tools involved in the management of credit risk, including systems used to measure and assess customer risk, credit approval limits and structure, lending criteria, monitoring of customer advances and methods of mitigating risk.

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

- The Credit Risk Policy (CRP) department develops policies necessary to address the credit risk in the Bank. These policies are reviewed and updated at least annually or earlier if deemed necessary to reflect any changes in the Group's risk appetite and strategy and the market environment / economy.
- The Credit Risk Reporting & Control ("CRR&C") department is responsible for reviewing approved credit applications, and monitoring the Group's credit portfolio, implementing the credit provisioning policy and reports on the relevant credit risk metrics.

2.2.1 **Credit Risk Management** (continued)

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



2.2.1.1 Measurement and Assessment - Systems

The effective management of the Group's credit risk is achieved through a combination of training and specialisation as well as appropriate credit risk assessment systems. The Bank aims to continuously upgrade its systems and models used in assessing the creditworthiness of Group customers. This is the responsibility of the Credit Risk Systems and Analytics (CRSA) department.

Credit Scoring Systems

Retail-SAS Credit Scoring for Banking
The CRSA department is responsible for the existing credit scoring systems for new customers and the behavioural scoring systems for existing customers in the Retail banking (RB) area.

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

The Bank currently maintains and monitors a behavioural credit scoring system for Retail customers with five scorecards (customer level, mortgage loans, fixed term loans, cheque accounts and credit cards).

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

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

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

2.2.1.2 Credit Risk Policy

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

The Group has implemented prudent policies and a proactive approach for the monitoring of credit risk. In addition, through the establishment of the Restructuring and Recoveries Division (RRD), the Group has strengthened the management and recovery of its delinquent loans, especially the large corporate exposures.

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

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

2.2.1.3 Credit Approval Limits and Structure

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

Approval limits are reviewed at least annually. The structure of the limits takes into account:

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

From the beginning of 2017 certain changes were implemented in relation to the CAD following an ECB's recommendation from the on-site inspection on Risk Management and Risk Control System. These changes are as follows:

- Credit Appraisal personnel which had the responsibility to sanction credit directly has been transferred under a different division, in order to be independent from the RMD.
- A new department, named Credit Risk Assessment (CRA), has been formed which is divided into two new departments, Credit Risk Assessment Department (CRAD) and CAD.
- CRAD, formerly under Credit Risk Management, will continue its credit risk assessment operations, while the new CAD performs credit analysis, reviews and comments on all cases to be presented to credit committees. The department ensures that, whilst its staff is not approving credit, they 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 manager of the Department and can be further delegated to the CAD department for the lower credit committees where the GCRO or the Manager of CRA is not present.

2.2.1.3 Credit Approval Limits and Structure (continued)

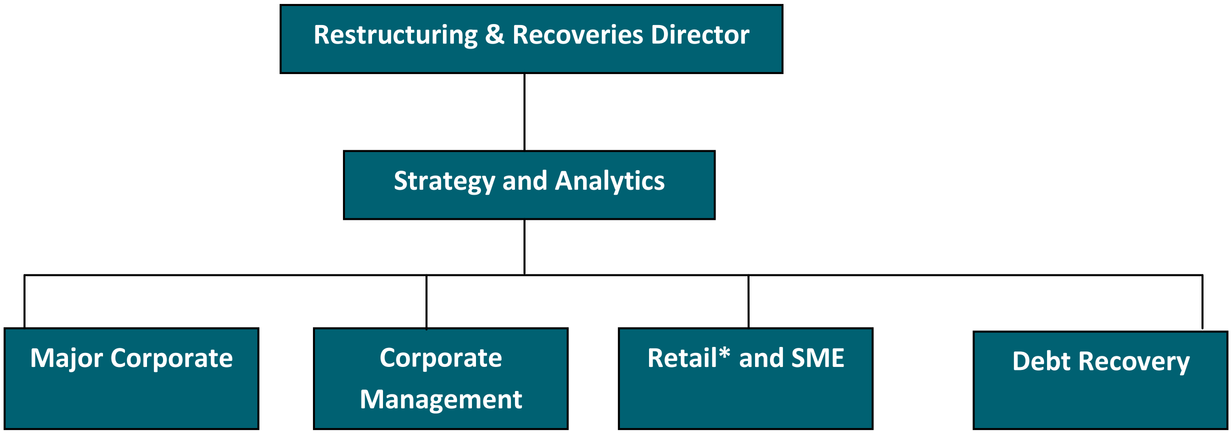
Efficient management, monitoring and control of customer advances

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

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

2.2.1.3 Credit Approval Limits and Structure (continued)

RRD Structure



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

2.2.1.4 Risk Identification, Measurement, Control and Reporting for Loans and Advances to Customers

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

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

- Arrears/Excesses – monitored daily
- Non-performing exposures – monitored daily
- Restructuring activity – monitored daily
- Restructuring performance
- Sectoral analysis
- Adequacy in provisions
- Roll rates

In addition, the Group has in place systems in order to monitor key quality indicators such as non-performing loans and restructuring activity on a daily basis. This acts as an early warning sign reported to the top management for the necessary actions and corrective measures.

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

2.2.1.4 Risk Identification, Measurement, Control and Reporting for Loans and Advances to Customers (continued)

The Credit Risk Reporting Unit is responsible for the monitoring of credit quality. The main roles and activities of the Credit Risk Reporting Unit, are:

- Monitor key performance indicators (stated above) on a monthly basis and report any deviations to Senior Management,
- Prepare regulatory reports,
- Monitor compliance with risk appetite and tolerance limits,
- Provide support to external auditors, consultants and investors.

With the aim of identifying credit risk at an early stage, the following key reports are prepared for the senior management of the Bank and various competent authorities such as the CBC and ECB:

- Risk report which is prepared on a monthly basis and includes KPIs on a Bank and division level, such as gross advances, provisions, Non Performing Exposures (NPEs), 90+dpd, restructurings etc,
- Portfolio performance report, which is also prepared on a monthly basis and includes detailed analysis of restructurings' performance, roll rates, NPEs and impaired
- Daily report of the NPEs inflow / outflow and restructurings

2.2.1.5 Credit Risk with Correspondent Banks and Countries

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

Country Risk
'Country Risk' refers to the possibility that sovereign borrowers of a particular country may be unable or unwilling to fulfil their foreign obligations for reasons beyond the usual risks which arise in relation to all lenders.

Factors such as official actions (e.g. nationalisation, currency controls, currency devaluation), economic and socio-political changes in the borrowing country (e.g. civil war, mass riots) or unpredictable events (e.g. national disaster) or external shocks such as international economic recession or rise in the price of oil as well as other potential events contribute to country risk.

Country risk affects the Group via the operation of its banking units in other countries and also via investments in other countries (money market placements, bonds, shares, derivatives, etc). In addition, the Group is indirectly affected by credit facilities provided to customers for their international operations.

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

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

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

2.2.1.5 Credit Risk with Correspondent Banks and Countries (continued)

Country limits are allocated following detailed assessment of the country risk. The MR department obtains adequate and reliable information on countries and effectively analyses and evaluates their risk. Such information is obtained from various international publications and from country reports of various organisations (such as Moody's, S&P and Fitch) and/or economic data published by the country's supervising authorities. Statistical information prepared by the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS) can also be taken into account. Important factors taken into consideration are, among others, the credit rating of the country, GDP per Capital, general government gross debt, general government interest payments of the country over its revenue and the country's unemployment rate. Relevant information may also be obtained from the Correspondent Banking department, as well as from Bloomberg/Reuters.

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

- Strategy of the Group in respect of its international activities.
- Group's appetite for risk.
- Perceived business opportunities in a country.
- Risk/reward ratio of an investment.
- The Group's capital base, in accordance with maximum percentages of the approved model (based on Moody's country risk rating) and the internal score of the country (based on the assessment of five key indicators: GDP per capital, general government gross debt, general government net lending/borrowing, general government interest payments/revenue and unemployment rate).
- Sanction measures

There is one country limit, at Group level, which is allocated to the various units of the Group and also divided in sub-limits. The country sub-limits for Treasury transactions (excluding countries where the Bank operates) are allocated based on the CET1 capital of the Bank, the country's credit rating and internal scoring. All limits are reviewed at regular intervals (at least once per year) and approved by the BoD through the BRC. Moreover, all policy documents relating to country and counterparty risk are approved by the BRC at least once a year.

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

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

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

2.2.1.6 Policies for Credit Risk Mitigation

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

- *Sanctioning limits:* details of approving authorities and related credit limits as well as parameters for approval. The Group currently has three credit committees (CC1, CC2 and CC3), which approve customer applications submitted through CRA. All credit committee members are managers from various Group divisions outside Risk Management, in order to ensure independence of opinion. Applications falling outside the approval limits of these credit committees are submitted to the RC or the BoD, depending on the total facility amount of the customer group.
- *Lending Policy*: the main/core policy of the Group which includes collateral, customer and facility types, lending criteria, repayment ability calculation and loan-to-value rules. Deviations and Restructuring Policies have recently been incorporated in the Bank's Lending Policy. The Lending Policy establishes the framework for safe and prudent banking and provides guidelines regarding the lending functions and how to maintain sound credit - granting standards.

2.2.1.6. Policies for Credit Risk Mitigation (continued)

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

The Lending Policy includes the following sections:

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

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

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

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

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

2.2.1.6. Policies for Credit Risk Mitigation (continued)

Using the above four sound economic indicators as a basis (NPE, Growth Potential, Industry Risk and Operating Profit Margin) and after considering other parameters, such as the respective USA indicators, and the availability of statistically significant data, the output of the above two data sources was combined in order to categorise the various economic sectors into four categories, based on their relative risk:

- Desirable sectors
- Sectors requiring Case by Case evaluation
- High Risk sectors
- Least Desirable or Prohibitive

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

- Gross Value Added of each sector to the economy (from Government statistical figures)
- Current sector size in the Bank's portfolio
- Bank strategy for specific sector financing (e.g. marinas, casinos, shipping, energy, financing of assets transferred to the Bank)
- Empirical data based on observations and experience
- *New loan origination and revision of existing facilities:* At the beginning of 2016, the CBC issued the Credit Granting and Review Processes Directive, which replaced the Loan Origination Directive of 2013. The most significant changes in relation to the previous directive which have been incorporated into the Bank's policies and procedures are as follows:
    - The amount of financial information required from customers has been reduced especially for natural persons/legal entities
    - Each collateral must be obtained exclusively for the purpose of securing specific credit facilities (unless otherwise specified)
    - The calculation for assessing a physical entity's repayment ability has been revised
    - In case of foreign currency loans (i.e. loans in a currency other than that in which the borrower receives the income), lenders must inform borrowers when there are significant changes in their total amounts payable or their instalments due to significant exchange rate fluctuations
- *Restructuring of private individuals and legal entities*:*The purpose of the Restructuring Policy is to create efficient and effective strategies, policies, structures, procedures and mechanisms for the management of arrears and the attainment of fair and sustainable restructurings of credit facilities of borrowers with financial difficulties. It includes:*
    - Definition of restructuring and forbearance
    - General principles and guidelines for viable restructurings
    - Description of different restructuring solutions that are available (traditional and specialised)
- *Valuation and monitoring of collaterals*: for each collateral type, the relevant guidelines are given on when to value/revalue as well as on the recoverable amount based on CBC directives. Emphasis is placed on the valuations of mortgaged property which accounts for the great majority of the Group's collateral for credit facilities. The key points of this policy are:
    - Valuations are performed by approved and suitably qualified valuers based on standards and procedures.
    - A recent valuation is required for new lending (two if the lending amount is over €3 million), facility restructurings, release of collateral and when transferring to Recoveries.
    - Property values are monitored by indexation with the appropriate CBC Commercial and Residential Indices - valuations are requested when there is information that the value of a property may have decreased significantly in relation to the index.
      For customer exposures over €3 million, mortgaged properties must be revalued every 3 years (this is a Basel requirement).
    - In addition to the above valuation rules, the Bank may request a revaluation in any situation where there is increased risk e.g. when market conditions are volatile, cancellation of a mortgage, increase in the LTV ratio of the customer.

2.2.1.6. Policies for Credit Risk Mitigation (continued)

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

2.2.2 Market Risk Management

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

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

- Interest rate risk (Section 2.2.2.1)
- Currency risk (Section 2.2.2.2)
- Liquidity risk (Section 2.2.2.3)
- Credit risk with Correspondent Banks (Section 2.2.1.5)
- Country risk (Section 2.2.1.5)
- Security Price risk (Bonds and Equities) (Section 2.2.2.4)
- Properties risk (Section 2.2.2.5)
- Commodities risk[7]

The monitoring of these risks in Cyprus and UK is carried out by the relevant officers in these countries. The Group centralises the management of the above risks for better efficiency and control.

The Group has a very low appetite for Market Risk. It does not take open positions on its own account (proprietary trading) but rather seeks to have square or near square positions in all currencies or other market instruments. The ALCO recommends the policy and limits for the management of the risks stated above, which are then approved by the BoD through the BRC.

The Manager of Market Risk is the secretary of the Group ALCO. GCRO and Market Risk Manager participate to the ALCO meetings with voting rights. All Market Risk related papers are reviewed by the GCRO before being submitted to ALCO. Papers submitted are either approved by ALCO or recommended for approval to the BRC or to the BoD as necessary.

2.2.2.1 Interest Rate Risk

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

In order to control the interest rate risk, there are limits on the maximum reduction of net interest income of each banking unit that can take place each year, over the three years after the reporting date. Limits are set as a percentage of the Group capital and as a percentage of the Group net interest income (when positive) and are allocated to the various banking units. In the case of Cyprus, there are different limits for Euro and foreign currencies. Small limits have also been set for open interest rate positions in the over three-year period after the reporting date.

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

2.2.2.1 **Interest Rate Risk** (continued)

The MR department also measures the impact of a 2% change in interest rates on the economic value of the Group as per the CBC guidelines. ALCO has set a maximum limit for this change equal to 10% of Group CET1 capital compared to the 20% regulatory maximum ratio. The economic value is also calculated for the various units of the Group on a standalone basis. The economic value of each Group unit is divided by the amount of their capital (where it exists). This analysis is presented in Section 10.

As at 31 December 2016, the total economic value effect for a 200 basis points decrease in the yield curves in all currencies was €110,4 million (4% of CET1 capital) (2015: minus €13,4 million (-0,49% of CET1 capital)).

The 2% change in interest rates on the economic value of the Group is within the ALCO approved limit of 10%.

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

Interest rate risk is managed centrally at Group level in conjunction with local Treasuries. Corrective actions include:

(a) on balance sheet solutions, including among others purchase of fixed rate assets, introduction of new customer accounts or loans with the desired characteristics, and
(b) the use of derivatives e.g. interest rate swaps (IRS).

In addition, if an open fixed rate exposure exists, Treasury evaluates whether it can be used as part of its structural hedging portfolio (assets used to hedge liabilities with low interest rates which are inelastic to market rate changes).

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

For cash flow hedges and fair value hedges that have been designated for hedge accounting in accordance with IAS 39, effectiveness is established both prospectively and retrospectively as per the requirements of IFRS.

2.2.2.2 Currency Risk

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

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

2016	**Intraday**	**Overnight**
	€ million	**€ million**
Cyprus	20	20 (10 per currency)
United Kingdom	3	1,5
Romania	1[8]	0,5[8]
Total	**24[9]**	**22[9]**
2015		
Cyprus	20	20 (10 per currency)
United Kingdom	3	1,5
Romania	1	0,5
Total	**24**	**22**

Each local MR officer is responsible for monitoring both their intraday and overnight FX position limits. Any violations are reported daily to the MR department, which monitors compliance with Group limits. In Cyprus, the MR department conducts near real time and end of day checks of open FX positions (through a designated specialised system) to monitor adherence to FX position limits. Group ALCO is informed on a monthly basis on the Group's FX open position.

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

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

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

[8] €1.5 million for the last day of the month only, to take into account the position created due to the month end process converting their profits to their local currency.
[9] €24 million for intraday and €23 million for overnight, for the last day of the month only, to take into account the position created due to the month end process converting their profits to their local currency.

2.2.2.2 Currency Risk (continued)

The currency risk for the Bank arises mainly from:

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

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

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

Currency Risk Management

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

2016	**Change in FX rate**	**Impact on loss after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	+10	**158**	**-**
Russian Rouble	+25	**12**	**(1.529)**
Romanian Lei	+10	**(213)**	**(727)**
Swiss Franc	+20	**14**	**-**
British Pound	+20	**6**	**131**
Japanese Yen	+10	**-**	**-**
Other currencies	+10	**29**	**-**
US Dollar	-10	**(129)**	-
Russian Rouble	-25	**(7)**	**917**
Romanian Lei	-10	**174**	**595**
Swiss Franc	-20	**(10)**	**-**
British Pound	-20	**(4)**	**(87)**
Japanese Yen	-10	**-**	**-**
Other currencies	-10	**(24)**	**-**

2.2.2.2 **Currency Risk** (continued)

Currency Risk Management (continued)

	Change in FX rate	Impact on loss after tax	Impact on equity
2015	**%**	**€000**	**€000**
US Dollar	+10	60	-
Russian Rouble	+40	8	(649)
Romanian Lei	+10	1	(931)
Swiss Franc	+20	(91)	-
British Pound	+10	3	428
Japanese Yen	+10	-	-
Other currencies	+10	31	-
US Dollar	-10	(49)	-
Russian Rouble	-40	(4)	278
Romanian Lei	-10	(1)	761
Swiss Franc	-20	61	-
British Pound	-10	(2)	(350)
Japanese Yen	-10	-	-
Other currencies	-10	(25)	-

2.2.2.3 **Liquidity Risk and Funding**

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

The Group's liquidity management strategy covers both its foreign currency operations as well as its local currency operations. Moreover it also covers ways to monitor/control the liquidity of its overseas branches/subsidiaries.

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

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

Local ALCOs (in Cyprus and UK) have the responsibility for ensuring that they comply with local regulatory liquidity requirements, any internal requirements and Group liquidity policies. At its monthly meetings, ALCO reviews the liquidity reports submitted from all Group banking entities, through MR and decides on specific actions with respect to Group liquidity.

2.2.2.3 Liquidity Risk and Funding (continued)

The Treasurer of BOC UK has the responsibility for the day-to-day management of the liquidity position of its unit, with the ultimate aim to ensure that there is sufficient liquidity to meet obligations as they fall due and that they comply with all regulatory and Group ratios/guidelines. The UK Treasurer has dual reporting to local management and to the Group Treasurer. The Treasury activities of BOC Romania are managed by the Group Treasury due to its small size and the fact that it is in run-down mode.

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

The MR department is responsible for monitoring compliance with regulatory and internal limits and policy guidelines and report to ALCO on a monthly basis.

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

- Group CEO
- Finance Director
- GCRO
- Group Treasurer

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

Group Internal Audit and Local Internal Audit units are responsible to assess and report on the:

- Appropriateness, efficiency and effectiveness of the internal control environment in relation to the management of liquidity.
- Appropriateness and adequacy of procedures in place to ensure compliance with applicable laws and regulations.
- Compliance with Group and local policies and procedures.

The Finance Department of each unit is responsible for the preparation of regulatory liquidity reports for each unit.

The Bank, as part of its liquidity management strategy, has put in place management information systems capable of measuring and reporting liquidity risk so that the monitoring of compliance is done effectively and efficiently. These liquidity risk management systems are reviewed every year in ILAAP which is recommended by ALCO and approved by the BoD through its RC.

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

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

- The Bank has a very limited appetite for liquidity risk and maintains strict limits relating to its high quality liquid asset holdings and its cash flow maturity profiles. Further, the Bank has zero tolerance for any limit breaches and aims to comply with regulatory and internal limits in the medium term.
- The Bank aims to ensure that it has sufficient liquidity to meet its liabilities as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. In the medium term, the Bank should ensure that it has enough liquids to survive a three month stress test, under the combined scenario.
- The Bank should not rely on emergency funding from regulators but it should have contingency plans in place to be able to do that.
- The Bank's liquid asset holdings must be comprised mostly of assets classified as liquid under the LCR definitions. In the medium term the Bank aims to:
    - Maintain an LCR of at least 100%, and
    - Comply with other regulatory requirements and ratios as set from time to time.
    - In keeping with best practise, the Bank needs to monitor and manage its liquidity position on a daily basis.

1. 75% of bond investments to be of high liquidity and low capital usage for regulatory purposes.

Following the March 2013 events, the Bank found itself in a very weak liquidity position. Even though significant progress has been made since then, the Bank is not yet in a position to fully comply with the above principles and guidelines.

The following table shows the liquidity position of the Bank, as per the Risk Appetite, as at 31 December 2016:

Risk Type	**Risk Appetite**	**Metric/Qualitative Requirement**	**RAS Limit/Requirement**	**Trigger Limit**	**31/12/2016**	**Red Amber Green (RAG)**
2016						
Liquidity	Very limited appetite for liquidity risk & compliance with regulatory and internal limits	Number of breaches	Zero breaches	n/a	Breach of LCR and CBC regulatory ratios	
Liquidity	Sufficient liquidity to meet liabilities under both normal and stressed conditions	Three month stress test under the combined scenario	In the medium term have enough liquids to survive a three month stress test, under the combined scenario	n/a		
Liquidity	No reliance on emergency funding in the medium term	Amount of emergency funding	Emergency funding = 0	n/a	€200 million	as at Dec 16 since 05/01/2017
Liquidity	Adequate liquid assets mostly comprised of Liquid assets as per the LCR definitions	LCR and liquidity stock ratios (medium term)	LCR ≥ 100% and meet other regulatory requirements as set from time to time	102,5%	48,74%	
Liquidity	Bond investments to be of high liquidity and low capital usage	% of bond portfolio	75% of bond investments to be of high liquidity and low capital usage for regulatory purposes		All bonds are High Quality Liquid Assets (HQLA) for LCR purposes	

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

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

- Loan to deposits ratio: The Bank should not operate with a net loan to deposits ratio higher than 120%.
- The reliance on confidence-sensitive deposits from non-residents needs be closely monitored. This is measured as the ratio of IBU deposits / total Cyprus deposits which should not be increasing over time. If this ratio does increase for temporary or other idiosyncratic reasons, then this will need to be taken into account during the ILAAP process. It is expected that the increased volatility associated with such liquidity to be adequately addressed, analysed and highlighted during this process.
- Asset encumbrance as a percentage of the balance sheet to continue reducing. As a medium term target the Bank should not encumber more than 30% of its balance sheet.
- Strong and diversified funding sources by establishing: (i) an active commercial paper programme, (ii) an active Euro Medium Term Note (EMTN) programme, (iii) securitisation and covered bond issuance capabilities, and (iv) all of the above categories must also be diversified by tenor.
- The following funding sources, as a percentage of total liabilities, should not exceed:
  - Euro Commercial Paper (ECP) and EMTN senior funding: 12,5%
  - Securitisation: 7,5%
  - Covered bond issuance: 12,5%
  - Third party repos and ECB (normal excluding ELA): 10%
- All material subsidiaries to be self-funded. Any Group assistance should be of temporary nature or for specific business activities with a clear repayment source.

The table below outlines the Risk Appetite Ratios as at 31 December 2016 relevant to Funding:

Risk Type	Risk Appetite	Metric/Qualitative Requirement	RAS Limit/Requirement	Trigger Limit	31/12/2016	RAG
Funding	Loan to deposits ratio	Loan to deposits ratio	<120%	117,5%	94,6%	
Funding	Confidence sensitive deposits from non-residents to be monitored	IBU deposits/Total CY deposits	Trend should not be increasing	n/a	26,9%	
Funding	Asset encumbrance	% of encumbrance of balance sheet	<than 30% of balance sheet in the medium term	25%	15,5%	
Funding	Diversification of funding sources	Establish commercial paper and EMTN programme, securitisation and covered bond issuance capabilities and diversification by tenor	As per metric	n/a	See below	
Funding	Funding sources limits	Funding sources as a % of total liabilities	1. ECP & EMTN senior funding ≤ 12,5%. 2. Securitisation ≤7,5% 3. Covered bond issuance ≤ 12,5% 4. Third party repos and ECB (normal not ELA) ≤ 10%	10%	All zero except for Repos 1%	
Funding	Subsidiaries funding	All subsidiaries to be self-funded	n/a	n/a	Main subsidiary is BOC UK which is self funded	

Albeit the table above shows that the Group is in compliance with other funding sources beyond deposits, the fact that the current level is close to zero indicates, as already stated above, limited market access. Lack of market access is not in accordance with the Risk Appetite of the Bank that requires it to maintain strong and diversified funding sources.

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

2.2.2.3 Liquidity Risk and Funding (continued)

In 2016, an ILAAP took place for 2015, which was submitted to the regulators in April 2016. The ILAAP for 2016 will be submitted to the regulators in April 2017 following the same process as that followed in the previous year.

Regarding the Group's liquidity and funding strategy:

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

The Group liquidity ratio[10] was as follows as at 31 December:

Group Liquidity ratio	**2016 %**	2015 %
31 December	**15,59**	18,25
Average ratio[11]	**16,05**	18,31
Highest ratio	**17,22**	21,62
Lowest ratio	**14,48**	15,64

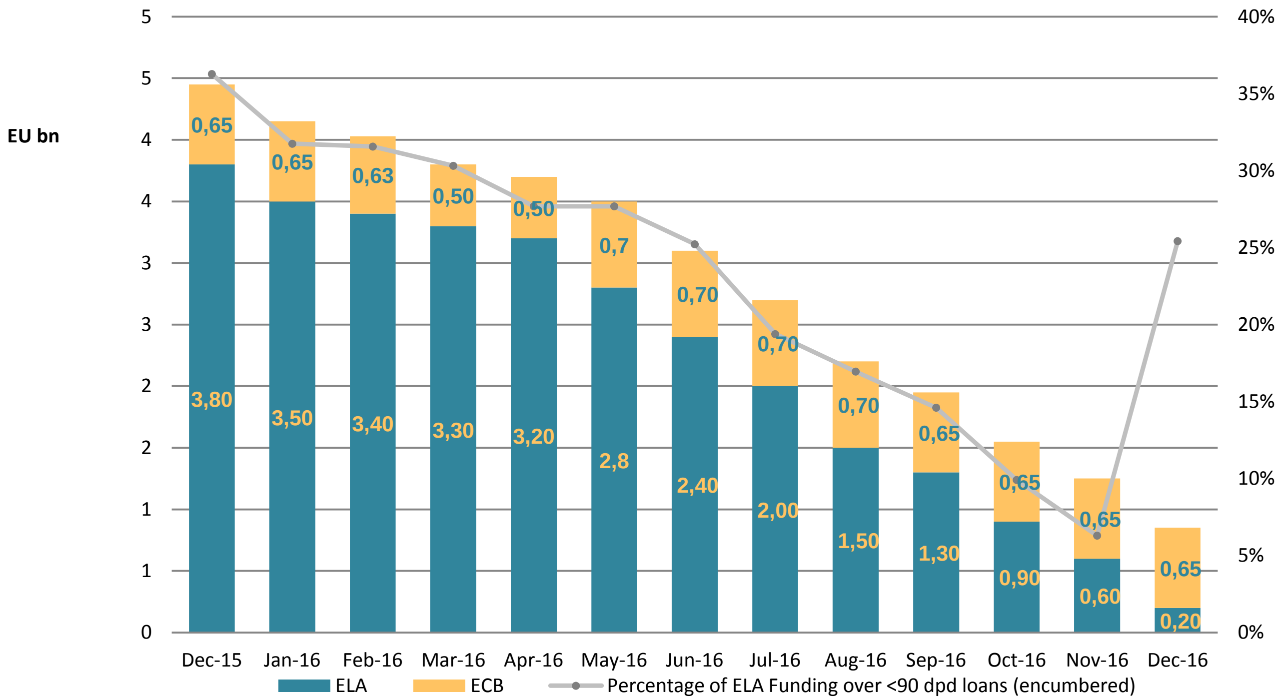
The minimum liquidity ratios for operations in Cyprus are set at the levels required by the CBC: 20% for Euro and 70% for foreign currencies. It is also noted that in the calculation of the above ratios, as well as for CBC regulatory reports, ELA is treated as a long term liability. The Company is currently not in compliance with the above minimum ratios with respect to its operations in Cyprus and therefore dependent on continuing regulatory forbearance. Although ELA funding was fully repaid at the beginning of 2017, a liquidity buffer needs to be put in place in order to comply with liquidity regulatory ratios.

As at 31 December 2016, the Group had available liquids[12] of €1,95 billion compared to €1,89 billion at the end of 2015. The main events that contributed to the increase of cash were the increase in deposits and customer flows in general and the buyback of Cyprus Government bonds by the government. Most of this cash was used to repay ELA. It is noted that during 2016, reliance on CBC funding was reduced significantly. As at 31 December 2016, the funding from ELA amounted to €0,2 billion (31 December 2015: €3,8 billion) and as at the date of this Report it was fully repaid.

[10] Definition of Group liquidity ratio: cash, short term bank deposits, liquid debt securities and equities available for immediate sale over total liabilities failing due within the next twelve months (all deposits are included irrespective of maturity; other assets as well as customer loans are ignored). The ratio is calculated on a monthly basis.
[11] Average ratio represents the average of the end of month ratios for the whole year.
[12] Available liquids comprise cash, balances at CBC (overnight and available on demand), interbank balances (overnight and available on demand) and other CBC and interbank balances with maturity up to 30 days.

2.2.2.3 Liquidity Risk and Funding (continued)

The chart below presents the monthly evolution of ELA/ECB funding for the period from December 2015 until 31 December 2016:



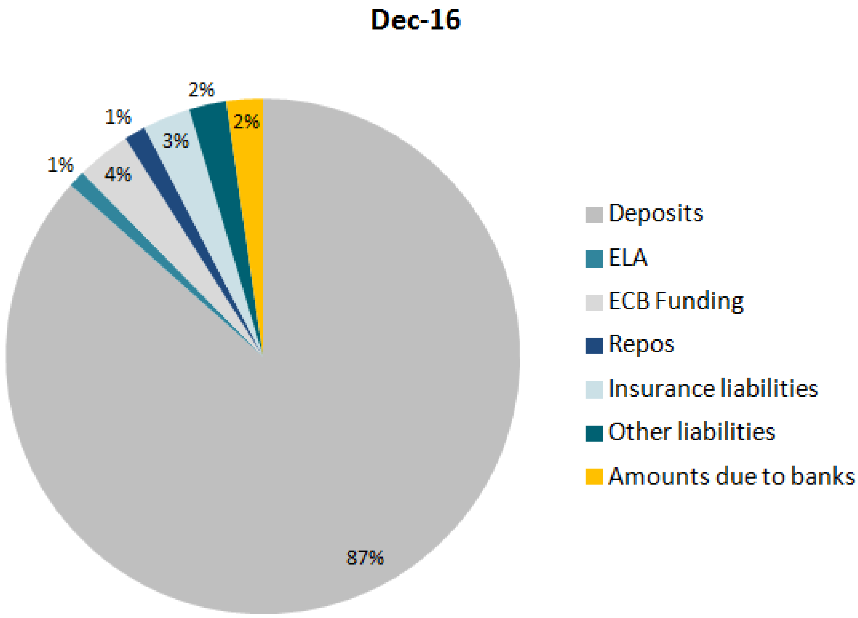
Despite the progress made in the Group's liquidity and funding position, the following challenges remain:

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

As presented in the chart below, as at 31 December 2016 the Group's liabilities were composed of: 87% customer deposits (2015: 70%), 3% ECB funding (2015: 3%) and 1% ELA (2015: 19%). The level of central bank funding as at 31 December 2016 amounted to €0,85 billion (2015: €4,45 billion), comprising €0,65 billion of ECB funding (2015: €0,65 billion) and €0,2 billion of ELA funding (2015: €3,8 billion). The ECB funding of €0,65 billion (2015: €0,65 billion) consists of €0,05 billion funding from long term refinancing operations (LRO) with maturity 30 March 2017 and €0,6 billion from targeted–long term refinancing operations (TLTRO) (2015: €0,5 billion TLTRO and €0,15 billion from weekly monetary policy operations). The TLTRO matures in December 2020.

The CBC regulatory ratios for Bank of Cyprus (Cyprus) are in violation and are expected to continue to be in the foreseeable future, until enough buffer is built following the full ELA funding repayment at the beginning of 2017.

2.2.2.3 Liquidity Risk and Funding (continued)



Violation of regulatory ratios:

CYPRUS	Minimum Regulatory Ratios	Ratio	Surplus/ (Deficit)
2016			**€000**
Euro Liquidity Mismatch ratio: 0-7 days	-10%	**-31,67%**	**(2.740.190)**
Liquidity Mismatch ratio: 0-30 days	-25%	**-39,66%**	**(1.853.955)**
Stock Liquidity ratio	20%	**12,16%**	**(1.044.209)**
Foreign Currency Stock Liquidity ratio	70%	**26,47%**	**(1.153.547)**

2015			
Euro Liquidity Mismatch ratio: 0-7 days	-10%	-31,70%	(2.341.287)
Liquidity Mismatch ratio: 0-30 days	-25%	-41,34%	(1.762.693)
Stock Liquidity ratio	20%	11,91%	(890.999)
Foreign Currency Stock Liquidity ratio	70%	35,51%	(772.005)

2.2.2.3 Liquidity Risk and Funding (continued)

The other banking units of the Group comply with their respective regulatory ratios. Since November 2015, the Romanian Branch does not have to comply with any local regulatory liquidity requirements. In December 2016, the Channel Islands operations were terminated. The UK liquidity regulatory requirements are presented in the tables below.

UK	Pillar 1 (80% of net outflows	Pillar 2	Total Requirement	Liquid assets per LCR	Surplus/ (Deficit)[13]
2016	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Prudential Regulation Authority UK Prudential (PRA LCR)	**14.811**	**115.700**	**130.511**	**229.135**	**98.624**
2015					
Prudential Regulation Authority UK (PRA LCR)	7.720	115.700	123.420	228.331	104.911

In addition to the regulatory liquidity ratios disclosed in Note 45 of the Consolidated Financial Statements for year 2016, the Group is required to comply with the CRR LCR. It also monitors its position against the Basel Quantitative Impact Study (QIS) Net Stable Funding Ratio (NSFR). The LCR is designed to promote short-term resilience of a Bank's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The CRR requires phased-in compliance with the LCR standard from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. In October 2014, the European Commission published the final Delegated Regulation (EU) 2015/61 for the LCR which was enacted in September 2016. During 2016 and until enactment of Regulation (EU) 2015/61, the monthly LCR was calculated as per both Regulation (EU) 680/2014 and Regulation (EU) 2015/61. Since enactment of Regulation (EU) 2015/61 in September 2016, the LCR is only calculated under this Regulation on a monthly basis.

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

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

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

Scope of consolidation: **Consolidated** **€ million**		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on:		**Mar 16**	**Jun 16**	**Sept 16**	**Dec 16**	**Mar 16**	**Jun 16**	**Sept 16**	**Dec 16**
Number of data points used in the calculation of averages		3	3	3	3	3	3	3	3
HIGH-QUALITY LIQUID ASSETS									
1	Total HQLA					945	1.209	1.191	1.363
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	4.260	4.407	4.200	4.468	350	361	330	326
3	Stable deposits	2.437	2.500	2.658	3.246	122	125	133	162
4	Less stable deposits	1.823	1.907	1.543	1.222	228	236	198	163
5	Unsecured wholesale funding	3.324	3.513	3.909	4.352	1.779	1.907	2.123	2.392
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	3.324	3.513	3.909	4.352	1.779	1.907	2.123	2.392
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	234	348	407	516	208	214	237	307
11	Outflows related to derivative exposures and other collateral requirements	188	185	211	283	188	184	211	277
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	46	163	196	233	20	30	26	30
14	Other contractual funding obligations	8	9	8	11	8	9	8	11
15	Other contingent funding obligations	2.796	2.653	2.598	2.611	280	265	260	261
16	TOTAL CASH OUTFLOWS					2.624	2.756	2.958	3.296
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	972	894	865	764	907	818	806	700
19	Other cash inflows	1.290	1.248	1.211	1.174	263	253	251	237
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	2.262	2.142	2.076	1.938	1.170	1.071	1.057	937
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows Subject to 90% Cap	-	-	-	-	-	-	-	-
EU-20c	Inflows Subject to 75% Cap	2.262	2.142	2.076	1.938	1.170	1.071	1.057	937
						TOTAL ADJUSTED VALUE			
21	LIQUIDITY BUFFER					-	-	-	460
22	TOTAL NET CASH OUTFLOWS					1.454	1.685	1.907	2.359
23	LCR (%)					0%	0%	0%	19%

2.2.2.3 Liquidity Risk and Funding (continued)

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

a) Credit deterioration of the bank's credit quality.
During the actual acute stress test period experienced in 2013, additional independent amounts had to be placed by the Bank (reflecting the increased credit risk of the bank as perceived by counterparties). The potential outflow takes into account the percentage increase of independent amounts experienced in 2013 as well as the current outstanding derivatives in terms of notional, the type of derivative and the currency pair in the case of FX swaps.
b) Adverse market movements affecting the mark to market.
The potential negative impact on the mark to market of derivatives and the underlying collateral of repos is calculated in the case of adverse market movements. The methodology followed is based on historical data as well as the current outstanding derivatives and repos. The resulting expected loss is the increased expected outflow.

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

Further qualitative/quantitative information of liquidity risk in accordance with Article 435(1) of Regulation (EU) 575/2013 are addressed within this section (2.2.2.3 Liquidity Risk and Funding).

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 European Commission through the CRR.

Based on the Regulation (EU) 2015/61 and Basel QIS standards respectively, as at 31 December 2016, the Group had an estimated LCR of 49% (2015: 0%) and an estimated Basel QIS NSFR of 95% (2015: 83%).

The CBC regulatory ratios for BOC (Cyprus) are in violation and are expected to continue at least until enough buffer is built following full ELA repayment at the beginning of 2017.

Cyprus has 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, albeit on a rising trend. 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 during the period when waiver for collateral eligibility was in place due to the country being under an economic adjustment programme. The Group has proactively reduced its dependence on Eurosystem monetary operations in anticipation of the above risk materialising.

In May 2016, the Company raised new funding from the ECB's Main Refinancing Operations (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 December 2016 most of the ECB funding converted into long term TLTRO. A small part was placed at medium term.

Although the Group has received no specific guarantees, management expects that it will continue to have access to the central bank liquidity facilities, in line with applicable rules. ELA is available to solvent Euro area credit institutions, and is therefore expected to remain available to the Company if it were to face a 'stress event' that gave rise to temporary liquidity problems.

2.2.2.3 Liquidity Risk and Funding (continued)

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives had 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 European Commission announced in June 2016 the eighth extension of the bank guarantee scheme, which continued until 31 December 2016. Based on the prevailing conditions, the Ministry of Finance has not applied for a further extension of the bank guarantee scheme.

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

Impediments for the prompt transfer of funds between the parent entity and its subsidiaries

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

2.2.2.4 Securities Price Risk

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

The Group has an outstanding equities/preference shares/funds portfolio in its books classified for accounting purposes as either Available-for-Sale (AFS) or Fair Value through Profit and Loss (FVtPL). The policy is to manage the current portfolio with the intention to run it down. No new purchases are allowed without ALCO approval. New equities may only be obtained from repossessions of collateral for loans. The equities' portfolio is managed by IWM.

The ALCO and BoD, through the BRC, monitor on a monthly basis the balance sheet value of this portfolio compared to its historic cost, accompanied with any impairment charges and disposal information. The equities portfolio of the Bank is very small and the Bank is actively managing it down to zero.

Changes in the prices of equity securities that are classified as FVtPL affect the results of the Group, whereas changes in the value of equity securities classified as AFS affect the equity of the Group (unless impaired in which case they affect the results of the Group).

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

	Change in index	Impact on profit/loss before tax	Impact on equity
2016	**%**	**€000**	**€000**
Cyprus Stock Exchange	**+25**	**1.313**	**1.049**
Athens Exchange	**+35**	**-**	**95**
Other Stock Exchanges and non-listed	**+20**	**858**	**2.122**
Cyprus Stock Exchange	**-25**	**(1.567)**	**(795)**
Athens Exchange	**-35**	**(30)**	**(67)**
Other Stock Exchanges and non-listed	**-20**	**(858)**	**(2.122)**

2.2.2.4 Securities Price Risk (continued)

	Change in index	Impact on profit/loss before tax	Impact on equity
2015		**€000**	**€000**
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)

Debt Securities Price Risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuers change and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group as at 31 December 2016 was Baa1 (2015: Baa2) for the whole bond portfolio. The average rating excluding the Cyprus Government bonds for 31 December 2016 was Aa2 (2015: Aa2).

Changes in the prices of debt securities classified as investments at FVtPL, 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).

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

	Impact on profit/loss before tax	Impact on equity
2016	**€000**	**€000**
Change in market prices		
+6,5%	**2.861**	**34.776**
-6,5%	**(2.861)**	**(34.776)**
2015		
Change in market prices		
+5,5%	2.002	25.188
-5,5%	(2.002)	(25.188)

2.2.2.5 Property Risk

The Bank's KRI on Properties (excluding own properties) was set at 50% of the Group's CET1 capital or €1,5 billion, whichever is the higher until March 2017. The board at its March 2017 meeting decided to increase this KRI to €2 billion, to align it with the expected increase in property exposures, as a mean to address its asset quality issue in a more effective way. The KRI on properties is viewed as a trigger for review.

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

The carrying value and analysis by type and by geographical breakdown is disclosed in the Consolidated Financial Statements for year 2016 (Notes 22, 25 and 27).

2.2.3 Operational Risk Management (ORM)

2.2.3.1 Definition and Objectives

Operational risk is defined as the risk of direct or indirect impact/loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes compliance and legal risk; however it excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

The Group uses a broader scope when defining operational risk (to include other important risks such as reputational risks), for the purposes of its Operational Risk Management Framework. As such, operational risk encompasses the following risks: conduct[14], reputational[15], legal[16], compliance[17], information security[18] and information technology (IT), business continuity[19] and model risks[20]. Operational risk policies and procedures contribute to the management of these risks, some of which are also directly managed by specialised departments, i.e. Information Security Department, Group Compliance and Legal Services.

The Operational Risk & Data Governance Department (OR&DG) is responsible to embed explicit and robust ORM practices into all areas of the business process from the initial design of the Bank's business strategy to the sale of services and products to its customers. This is achieved by implementing a sound, coherent and comprehensive framework for the identification, assessment, monitoring and control of operational risk within the Bank that improves the service provided to customers, the Bank's productivity and cost effectiveness and which ultimately protects shareholder value. ORM also ensures that the level of operational risk faced by the Bank is consistent with the BoD's overall risk appetite and corporate objectives.

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

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

[16] Legal risk is defined as the possibility of the operations and conditions of the bank to be disrupted or adversely affected given lawsuits, adverse judgements or unenforceable contracts. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

[17] Compliance risk is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities.

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

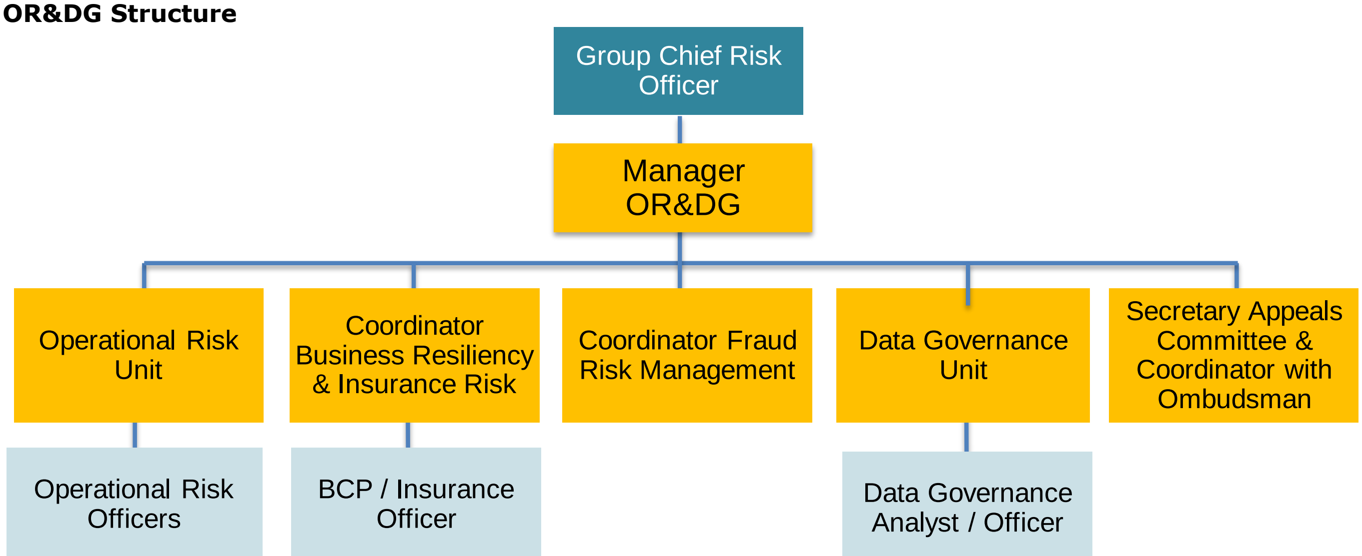
[19] Business Continuity risks refer to risks impacting the capability of the organisation to continue delivery of products or services at acceptable predefined levels following a disruptive incident.

[20] Model risk is the risk of loss resulting from using models to make decisions, in cases where financial models used to measure risks or value transactions do not perform the tasks or capture the risks they were designed to.

2.2.3.1 Definition and Objectives (continued)

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

OR&DG Structure



2.2.3.2 Management and Control of Operational Risk

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

Incident recording and analysis

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

2.2.3.2 Management and Control of Operational Risk (continued)

The data collected is categorised and analysed to facilitate the management of operational risks and, where possible, to prevent future losses by implementing relevant mitigating actions. Emphasis is constantly placed on carrying out root-cause analysis of both operational risk incidents with a significant impact and repeated operational risk incidents which present worrying trends. This enables the identification of weaknesses or vulnerabilities and potential threats, which in turn supports the specification of actions to minimise the risk of similar incidents occurring in the future. In 2016, 86 loss events with gross loss over €1.000 were recorded, compared to 151 in 2015.

Risk Appetite and Adverse scenario analysis
The Bank has a defined Operational RAS, which forms part of the Group's RAS. Operational RAS are set out per Basel Event type categorisation.

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

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

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

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

With primary input from the process of RCSA completion, OR&DG maintains a detailed risk register for each Unit, which forms an important component of the ORM analysis and reporting.

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

2.2.3.2 Management and Control of Operational Risk (continued)

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

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

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

Network of ORM liaisons
Operational risk liaisons act as the point of contact with the aim to enable the effective implementation of the various operational risk methodologies across the Bank, by liaising with their departmental and unit management. In local and overseas subsidiaries, ORM responsibilities are assigned to local risk managers.

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

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

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

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

2.2.3.2 Management and Control of Operational Risk (continued)

Management of Litigation risk

The Legal Services department of the Bank has implemented a number of processes for better and effective management of Litigation Risk. These include, inter alia, the regular reporting/presentation of all pending litigation against the Group to the BoD of the Bank, the BRC and the Operations Committee. Reporting focuses on the status of each legal case or category of cases against the Group, the strategy to be adopted for the handling of the cases and the promotion of the available defences of the Group before the Courts and other dispute resolution forums. External legal counsel for the representation of the Group in litigation proceedings is chosen by the Legal Services department on the basis of a number of criteria, mainly on grounds of experience, size, resources, quality, reputation, charging and their international coverage as per the Group's relevant circular. The Legal Services department closely collaborates with external counsel to adequately safeguard the Group's interests in such proceedings. Operational risk management department collaborates with the Legal department so as to identify root-causes of legal cases and identify mitigation actions to minimize the risk of re-occurrence in the future.

Major developments relating to ORM during 2016

In September 2016, the Data Governance Unit was formed to undertake the responsibility for the Bank's Data Governance & Data Management Framework, hence the department was renamed to OR&DG. The Bank is working towards developing and implementing a practical data governance framework, focusing on effective management of its data, and improvement of data quality. A Data Governance Office and a Data Governance Framework were established.

On 1 June 2016, an ORM Risk Compliance Management System (RCMS) was launched, which provides for the integration of all risk-control data in one place, and enables a centralised risk repository to report, manage and assess operational risks. Further to enhanced reporting and filtering mechanisms regarding incident management, RCMS caters for the automation of the RCSA process across business units and the automation and integration of results from other risk assessment exercises (i.e. outsourcing engagements, new projects, new products, etc.).

During the year emphasis was placed on further enhancing the Project Risk Identification and Assessment process, as well as to the process for assessing new products/services.

Reputational risk management is addressed explicitly as part of both the RCSA and the Incident recording analysis processes. To further enhance management of reputational risk, during the year procedures were enhanced in cooperation with the Corporate Affairs Division, placing emphasis on identification and prompt reporting of incidents bearing an important reputational impact for the Bank.

With regards to the Fraud Risk Management function, an Enterprise Fraud Risk Management System was selected during 2016, and Phase I, covering internet and mobile banking will be implemented within 2017.

2.2.3.3 Capital Calculation for Operational Risk

The Bank qualifies for the use of the Standardised Approach for the calculation of capital for operational risk which was approved by the CBC (see details under Section 4.3).

2.2.3.4 Reporting

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

2.3 Governance Arrangements

2.3.1 Recruitment Policy

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

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

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

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

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

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

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

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

2.3.2 Other Directorships

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

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

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

For the purposes of the above, the following shall count as a single directorship:

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

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

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

The CBC gave permission on appointment to five of the directors to hold one additional non-executive directorship to the above. At present only the following director holds an additional directorship:

- Mr. Goldman holds 5 non-executive directorships.

Full biographies can be accessed online and in the Annual Corporate Governance Report 2016 which is included in the Annual Financial Report 2016 (available on the Bank's website).

2.3.3 Diversity

The Board has a balanced and diverse range of skills, knowledge and experience, but has not yet achieved its target for female representation. The Board Diversity Policy approved in May 2015 has set as target to achieve 40% female representation on the Board by 2020. At present one female director has been appointed to the Board as at 7 February 2017 but the target is still some distance from being reached. An action plan, which currently is in progress, was approved by the NCGC in June 2016 describing the intervening actions leading to the accomplishment of this target. Nationality, gender, age and other relevant qualities are all taken into consideration in order to maintain an appropriate range of balance of skills, experience and background on the Board.

Following review in 2016, the NCGC determined that the skills and experience of the Board were appropriate in areas relevant to the business of the Group such as financial services, strategy development, finance, operations, risk management, business/industry experience, economics, corporate finance, international experience, capital markets, credit, marketing, law, governance and dealing with regulators and governments.

Further information on the Group Board Nomination Policy and the Group Board Diversity Policy is contained in the Annual Corporate Governance Report for 2016 as well as publicly available on the Bank's website www.bankofcyprus.com.

2.3.4 The Board

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

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

2.3.5 Board Risk Committee (BRC)

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

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

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

The BRC comprises 5 non-executive directors all of whom are independent following the appointment of Dr. Michael Heger in June 2016. During 2016 the BRC held 20 meetings (2015: 17 meetings).

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

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

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

2.3.6 Board Audit Committee (BAC)

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

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

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

2.3.7 Human Resources & Remuneration Committee (HRRC)

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

Further information on the Group Board Committees, their composition, number of meetings, their activities and terms of reference are contained in the Annual Corporate Governance Report for 2016 which is included in the Annual Financial Report 2016 and they are also available on the Bank's website www.bankofcyprus.com.

2.3.8 Reporting and Control

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

3. Own Funds

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

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

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

	Ref[21]	2016	2015
		€000	€000
Total equity per Group Consolidated Financial Statements	**a**	**3.106.105**	**3.077.331**
Regulatory deductions:			
Deconsolidation of insurance and other entities	**b**	(198.174)	(221.508)
Minority interest adjustment to comply with regulatory requirements		(34.959)	(22.376)
Intangible assets	**c**	(20.086)	(17.203)
Unrealised gains of AFS instruments		(2.337)	-
Regulatory adjustments (Deferred Tax Asset (DTA) and other items)		(68.996)	(17.989)
Reserves arising from revaluation of properties and other non CET1 eligible reserves, transferred to Tier 2 (T2)		(53.556)	(50.483)
Total Common Equity Tier 1 (CET1)		**2.727.997**	**2.747.772**
Additional Tier 1 capital		**-**	**-**
Total Tier 1 capital		**2.727.997**	**2.747.772**
Tier 2			
Property revaluation reserve and other unrealised gains		53.556	50.483
Regulatory deductions		(32.133)	(20.193)
Total Tier 2 capital		**21.423**	**30.290**
Total own funds		**2.749.420**	**2.778.062**

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

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

	Ref	Group balance sheet per financial statements	Deconsolidation of insurance/ other entities	Held for sale[22] reclassification in line-by-line consolidation	Balance sheet per regulatory scope of consolidation
2016		**€000**	**€000**	**€000**	**€000**
Assets					
Cash and balances with central banks		1.506.396	(6)	-	1.506.390
Loans and advances to banks		1.087.837	(12.637)	-	1.075.200
Derivative financial assets		20.835	-	-	20.835
Investments		373.879	(30.143)	-	343.736
Investments pledged as collateral		299.765	-	-	299.765
Loans and advances to customers		15.649.401	2.069	-	15.651.470
Life insurance business assets attributable to policyholders		499.533	(499.533)	-	-
Prepayments, accrued income and other assets		269.911	(67.399)	-	202.512
Stock of property		1.427.272	(6.203)	-	1.421.069
Investment properties		38.059	(27.101)	11.411	22.369
Property and equipment		280.893	(29.085)	-	251.808
Intangible assets	**c**	146.963	(126.877)	-	20.086
Investments in associates and joint ventures		109.339	(103.008)	-	6.331
Deferred tax assets		450.441	-	-	450.441
Non-current assets and disposal group held for sale		11.411	-	(11.411)	-
Investments in Group undertakings		-	139.128	-	139.128
Total assets		**22.171.935**	**(760.795)**	**-**	**21.411.140**
Liabilities					
Deposits by banks		434.786	(756)	-	434.030
Funding from central banks		850.014	-	-	850.014
Repurchase agreements		257.367	-	-	257.367
Derivative financial liabilities		48.625	-	-	48.625
Customer deposits		16.509.741	64.068	-	16.573.809
Insurance liabilities		583.997	(583.997)	-	-
Accruals, deferred income and other liabilities		335.925	(16.277)	-	319.648
Deferred tax liabilities		45.375	(20.043)	-	25.332
Total liabilities		**19.065.830**	**(557.005)**	**-**	**18.508.825**
Equity					
Share capital		892.294	-	-	892.294
Share premium		552.618	-	-	552.618
Capital reduction reserve		1.952.486	-	-	1.952.486
Revaluation and other reserves		218.678	(100.061)	-	118.617
Accumulated losses		(544.930)	(98.113)	-	(643.043)
Equity attributable to the owners of the Company	**b**	**3.071.146**	**(198.174)**	**-**	**2.872.972**
Non-controlling interests		**34.959**	**(5.616)**	**-**	**29.343**
Total equity	**a**	**3.106.105**	**(203.790)**	**-**	**2.902.315**
Total liabilities and equity		**22.171.935**	**(760.795)**	**-**	**21.411.140**

[22] Further information on non-current assets and disposal groups that were classified as held for sale as at 31 December 2016, is disclosed in Note 29 of the Consolidated Financial Statements for year 2016.

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

	Ref	Group balance sheet per financial statements	Deconsolidation of insurance/ other entities	Held for sale[23] reclassification in line-by-line consolidation	Balance sheet per regulatory scope of consolidation
2015		**€000**	**€000**	**€000**	**€000**
Assets					
Cash and balances with central banks		1.422.602	(6)	-	1.422.596
Loans and advances to banks		1.314.380	(16.698)	-	1.297.682
Derivative financial assets		14.023	-	-	14.023
Investments		588.255	(30.114)	-	558.141
Investments pledged as collateral		421.032	-	-	421.032
Loans and advances to customers		17.191.632	1.977	-	17.193.609
Life insurance business assets attributable to policyholders		475.403	(475.403)	-	-
Prepayments, accrued income and other assets		281.780	(58.926)	-	222.854
Stock of property		515.858	(7.712)	-	508.146
Investment properties		34.628	(15.415)	-	19.213
Property and equipment		264.333	(52.770)	22.335	233.898
Intangible assets	c	133.788	(116.585)	-	17.203
Investments in associates and joint ventures		107.753	(101.410)	-	6.343
Deferred tax assets		456.531	(5)	-	456.526
Non-current assets and disposal group held for sale		48.503	(26.168)	(22.335)	-
Investments in Group undertakings		-	139.129	-	139.129
Total assets		**23.270.501**	**(760.106)**	**-**	**22.510.395**
Liabilities					
Deposits by banks		242.137	(813)	-	241.324
Funding from central banks		4.452.850	-	-	4.452.850
Repurchase agreements		368.151	-	-	368.151
Derivative financial liabilities		54.399	-	-	54.399
Customer deposits		14.180.681	73.876	-	14.254.557
Insurance liabilities		566.925	(566.925)	-	-
Accruals, deferred income and other liabilities		282.831	(15.223)	-	267.608
Debt securities in issue		712	-	-	712
Deferred tax liabilities		40.807	(19.812)	-	20.995
Non-current liabilities and disposal group held for sale		3.677	(3.677)	-	-
Total liabilities		**20.193.170**	**(532.574)**	**-**	**19.660.596**
Equity					
Share capital		892.294	-	-	892.294
Share premium		552.618	-	-	552.618
Capital reduction reserve		1.952.486	-	-	1.952.486
Revaluation and other reserves		258.709	(133.263)	-	125.446
Accumulated losses		(601.152)	(88.245)	-	(689.397)
Equity attributable to the owners of the Company	**b**	**3.054.955**	**(221.508)**	-	**2.833.447**
Non-controlling interests		**22.376**	**(6.024)**	**-**	**16.352**
Total equity	**a**	**3.077.331**	**(227.532)**	-	**2.849.799**
Total liabilities and equity		**23.270.501**	**(760.106)**	-	**22.510.395**

[23] Further information on non-current assets and disposal groups that were classified as held for sale as at 31 December 2015, is disclosed in Note 29 of the Consolidated Financial Statements for year 2016.

3.2.2 Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

2016	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with central banks	1.506.396	1.506.390	1.506.390	-	-	-	-
Loans and advances to banks	1.087.837	1.075.200	1.075.200	-	-	-	-
Derivative financial assets	20.835	20.835	-	20.835	-	-	-
Investments	373.879	343.736	341.218	-	-	2.518	-
Investments pledged as collateral	299.765	299.765	299.765	-	-	-	-
Loans and advances to customers	15.649.401	15.651.470	15.651.470	-	-	-	-
Life insurance business assets attributable to policyholders	499.533	-	-	-	-	-	-
Prepayments, accrued income and other assets	269.911	202.512	202.512	-	-	-	-
Stock of property	1.427.272	1.421.069	1.421.069	-	-	-	-
Investment properties	38.059	22.369	22.369	-	-	-	-
Property and equipment	280.893	251.808	251.808	-	-	-	-
Intangible assets	146.963	20.086	-	-	-	-	20.086
Investments in associates and joint ventures	109.339	6.331	-	-	-	-	6.331
Deferred tax assets	450.441	450.441	279.632	-	-	-	170.809
Non-current assets and disposal group held for sale	11.411	-	-	-	-	-	-
Investments in Group undertakings	-	139.128	139.128	-	-	-	139.128
Total assets	**22.171.935**	**21.411.140**	**21.190.561**	**20.835**	**-**	**2.518**	**336.354**

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

2016	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying value of items				
			Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Liabilities							
Deposits by banks	434.786	434.030	-	-	-	-	434.030
Funding from central banks	850.014	850.014	-	-	-	-	850.014
Repurchase agreements	257.367	257.367	-	257.367	-	-	-
Derivative financial liabilities	48.625	48.625	-	48.625	-	-	-
Customer deposits	16.509.741	16.573.809	-	-	-	-	16.573.809
Insurance liabilities	583.997	-	-	-	-	-	-
Accruals, deferred income and other liabilities	335.925	319.648	36.411	-	-	-	283.237
Deferred tax liabilities	45.375	25.332	-	-	-	-	25.332
Total liabilities	**19.065.830**	**18.508.825**	**36.411**	**305.992**	**-**	**-**	**18.166.422**

3.3 CRD IV Regulatory Capital

The tables below disclose the components of regulatory capital presented on both a transitional and fully loaded basis as at 31 December 2016 and 2015.

This disclosure has been prepared using the format set out in Annex VI of the 'Commission Implementing Regulation (EU) No 1423/2013', which lays down implementing technical standards with regards to disclosure of own funds requirements for institutions according to the CRR.

	Group		
	Transitional position	**Transitional impact**	**Fully loaded**
	2016	**2016**	**2016**
	€000	**€000**	**€000**
Capital instruments and the related share premium accounts	3.397.398	-	3.397.398
Retained earnings	(643.043)	-	(643.043)
Accumulated other comprehensive income (OCI) and other reserves	118.617	-	118.617
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2.872.972**	**-**	**2.872.972**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(20.086)	-	(20.086)
Regulatory adjustments relating to unrealised gains and losses	(56.568)	-	(56.568)
Deferred tax	(68.321)[24]	(112.097)	(180.418)
Direct and indirect holdings of financial sector entities	-	(4.336)	(4.336)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(144.975)**	**(116.433)**	**(261.408)**
Common Equity Tier 1 (CET1) capital	**2.727.997**	**(116.433)**	**2.611.564**
Additional Tier 1 (AT1) capital	**-**	**-**	**-**
Tier 1 capital (T1=CET1 + AT1)	**2.727.997**	**(116.433)**	**2.611.564**
Tier 2 (T2) capital			
Unrealised gains and other reserves	21.423	(21.423)	-
Tier 2 (T2) capital	**21.423**	**(21.423)**	**-**
Total capital (TC=T1+T2)	**2.749.420**	**(137.856)**	**2.611.564**
Risk weighted assets			
Credit risk	16.861.793	(34.880)	16.826.913
Market risk	6.231	-	6.231
Operational risk	1.997.200	-	1.997.200
Total risk weighted assets	**18.865.224**	**(34.880)**	**18.830.344**
Capital ratios			
Common Equity Tier 1	**14,5%**	**(0,6%)**	**13,9%**
Tier 1	**14,5%**	**(0,6%)**	**13,9%**
Total capital	**14,6%**	**(0,7%)**	**13,9%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold)	126.110	(4.336)	121.774
Deferred tax assets (amount below 10% threshold)	279.632[24]	(9.615)	270.016

[24] The DTA adjustments relate to Deferred Tax Assets totalling €450 million and recognised on tax losses totalling €3,6 billion and can be set off against future profits of the Bank until 2028 at a tax rate of 12,5%.

3.3 **CRD IV Regulatory Capital** (continued)

Following the application of the provisions of the EU Regulation 2016/445, the phase-in period in respect of Deferred Tax Assets reduced from 10 to 5 years with effect as from 31 December 2016.

	Group		
	Transitional position	**Transitional impact**	**Fully loaded**
	2015	**2015**	**2015**
	€000	**€000**	**€000**
Capital instruments and the related share premium accounts	3.397.398	-	3.397.398
Retained earnings	(689.398)	-	(689.398)
Accumulated other comprehensive income (OCI) and other reserves	125.447	-	125.447
Minority interests (amount allowed in consolidated CET1)	-	-	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**2.833.447**	**-**	**2.833.447**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Intangible assets	(17.203)	-	(17.203)
Regulatory adjustments relating to unrealised gains and losses	(50.483)	-	(50.483)
Deferred tax	(17.989)	(173.833)	(191.822)
Direct and indirect holdings of financial sector entities	-	(5.435)	(5.435)
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(85.675)**	**(179.268)**	**(264.943)**
Common Equity Tier 1 (CET1) capital	**2.747.772**	**(179.268)**	**2.568.504**
Additional Tier 1 (AT1) capital	**-**	**-**	**-**
Tier 1 capital (T1=CET1 + AT1)	**2.747.772**	**(179.268)**	**2.568.504**
Tier 2 (T2) capital			
Unrealised gains and other reserves	30.290	(30.290)	-
Tier 2 (T2) capital	**30.290**	**(30.290)**	**-**
Total capital (TC=T1+T2)	**2.778.062**	**(209.558)**	**2.568.504**
Risk weighted assets			
Credit risk	17.618.578	(43.390)	17.575.188
Market risk	7.811	-	7.811
Operational risk	2.039.888	-	2.039.888
Total risk weighted assets	**19.666.277**	**(43.390)**	**19.622.887**
Capital ratios			
Common Equity Tier 1	**14,0%**	**(0,9%)**	**13,1%**
Tier 1	**14,0%**	**(0,9%)**	**13,1%**
Total capital	**14,1%**	**(1,0%)**	**13,1%**
Direct and indirect holdings of financial sector entities (amount below 10% threshold)	126.110	(5.435)	120.675
Deferred tax assets (amount below 10% threshold)	276.576	(11.920)	264.656

3.3 **CRD IV Regulatory Capital** (continued)

Issued share capital
The issued share capital consists of 8.922.945 thousand (2015: 8.922.945 thousand) number of shares at nominal value of €0,10 each. The movement of the share capital for years 2016 and 2015 is shown on the table below:

	2016		2015	
	Shares (thousand)	**€000**	Shares (thousand)	€000
Authorised				
Ordinary shares of €0,10 each	**47.677.593**	**4.767.759**	47.677.593	4.767.759
Issued				
1 January	**8.922.945**	**892.294**	8.922.378	892.238
Issue of shares	-	-	567	56
31 December	**8.922.945**	**892.294**	8.922.945	892.294

All issued ordinary shares carry the same rights.

Further details in relation to the share capital of the Company are presented in Note 34 of the Consolidated Financial Statements for year 2016.

Treasury shares
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 2016 all treasury shares other than those held by the life insurance subsidiary of the Group, have been disposed of.

The life insurance subsidiary, as at 31 December 2016, held a total of 2.889 thousand (2015: 2.889 thousand) shares of the Company, as part of its financial assets which are invested for the benefit of insurance policyholders (Note 24 of the Consolidated Financial Statements for year 2016). The cost of acquisition of these shares was €25.333 thousand (2015: €25.333 thousand). In addition, as at 31 December 2015, 5.136 thousand shares with a total cost of acquisition of €41.301 thousand were held by other entities of the Group.

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.

3.3 CRD IV Regulatory Capital (continued)

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 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.

Share-based payments - share options
On 24 November 2015, the Annual General Meeting of the Company's shareholders authorised the BoD 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 would be designed to vest only if certain key performance conditions were 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 original proposed grant date of 31 March 2016 as per the Shareholder Resolution, was postponed until such time that all relevant approvals were obtained.

Following the final SREP 2016 decision received in December 2016, the ECB's prohibition on variable pay was lifted and replaced with a limitation on variable remuneration to 10% of net revenues.

Following the incorporation of Bank of Cyprus Holdings Public Limited Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan was replaced by the Share Option Plan which operates at the level of Bank of Cyprus Holdings Public Limited Company. Further information is disclosed in Note 53.2 of the Consolidated Financial Statements for year 2016.

No share options were issued until the date of replacement of the Long Term Incentive Plan by the Share Option Plan at the level of Cyprus Holdings Public Limited Company.

3.4 Main Terms and Conditions of Capital Resources

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

		2016	2015
		Group	Group
1	Issuer	Bank of Cyprus Public Company Ltd	Bank of Cyprus Public Company Ltd
2	Unique identifier	CY0104810110	CY0104810110
3	Governing law(s) of the instrument	Cyprus Law	Cyprus Law
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at individual/(sub-) consolidation/individual and (sub-) consolidated	Consolidated and Individual	Consolidated and Individual
7	Instrument type	Ordinary Shares	Ordinary Shares
8	Amount recognised in regulatory capital	€892.294.453	€892.294.453
9	Nominal amount of instrument	€892.294.453	€892.294.453
9(a)	Issue price	Various	Various
9(b)	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' Equity	Shareholders' Equity
11	Original date of issuance	Various	Various
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	N/A	N/A
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	Yes[25]	Yes[25]
20(a)	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20(b)	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Non cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, instrument type convertible into	N/A	N/A
29	If convertible, issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation	N/A	N/A
36	Non-compliant transitioned features	N/A	N/A
37	If yes, non-compliant features	N/A	N/A

As at 31 December 2016 the Group did not have AT1 and T2 instruments.

[25] The Company is currently under a regulatory dividend distribution prohibition and therefore no dividend is allowed to be distributed until 2017.

4. Minimum Required Own Funds for Credit, Market and Operational Risk

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

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

The Group capital projections are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Group's risk profile, regulatory and business needs. These are frequently monitored against relevant internal target capital ratios to ensure they remain appropriate, and consider risks to the plan, including possible future regulatory changes. An internal assessment of the Group's capital adequacy is undertaken through the ICAAP (Section 2.1.10).

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

Within the context of the Plan, the Group sets financial medium-term targets which are also publicly announced (Section 2.1.5). The progress of these targets is monitored internally on a monthly basis through the various internal reporting channels to the management and the BoD and its committees.

The overall key pillars, aiming to return the Group to profitability and delivering value to shareholders, whilst maintaining sufficient capital throughout are as follows:

- Materially reduce the level of delinquent loans
- Further improve the funding structure and liquidity ratios
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market and on the UK operations
- Achieve a lean operating model. Introduction of appropriate technology/processes to enhance product distribution channels and reduce operating costs
- Deliver value to shareholders and other stakeholders

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

The RWA that form the denominator of the risk-based capital requirements are presented below:

		RWAs		**Minimum capital requirements**
		Dec 16	**Sep 16**	**Dec 16**
		€000	**€000**	**€000**
1	Credit risk (excluding CCR)	15.793.717	15.648.529	1.263.497
2	Of which the standardised approach	15.793.717	15.648.529	1.263.497
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which the advanced IRB (AIRB) approach	-	-	-
5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-
6	CCR	53.721	90.117	4.298
7	Of which mark to market	24.283	43.567	1.943
8	Of which original exposure	-	-	-
9	Of which the standardised approach	-	-	-
10	Of which internal model method (IMM)	-	-	-
11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-
12	Of which CVA	29.438	46.550	2.355
13	Settlement risk	-	-	-
14	Securitisation exposures in the banking book (after the cap)	-	-	-
15	Of which IRB approach	-	-	-
16	Of which IRB supervisory formula approach (SFA)	-	-	-
17	Of which internal assessment approach (IAA)	-	-	-
18	Of which standardised approach	-	-	-
19	Market risk	6.231	6.433	498
20	Of which the standardised approach	6.231	6.433	498
21	Of which IMA	-	-	-
22	Large exposures	-	-	-
23	Operational risk	1.997.200	2.158.550	159.776
24	Of which basic indicator approach	108.225	108.225	8.658
25	Of which standardised approach	1.888.975	2.050.325	151.118
26	Of which advanced measurement approach	-	-	-
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	1.014.355	1.007.855	81.148
28	Floor adjustment	-	-	-
29	**Total**	**18.865.224**	**18.911.484**	**1.509.217**

The increase in RWA observed in line 2 relates to balance sheet movements in relation to non-treasury and non-customer advances assets. The decrease in CRR RWA relates to a decrease in securities financing transactions (SFTs).

4.1 Credit Risk

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

Exposure Portfolio	**2016**	2015
	€000	€000
Central governments or central banks	-	-
Regional governments or local authorities	50	105
Public sector entities	-	-
Multilateral Development Banks	-	-
International Organisations	-	-
Institutions	27.392	33.779
Corporates	275.992	203.679
Retail	113.800	130.952
Secured by mortgages on immovable property	129.272	132.237
Exposures in default	325.800	435.215
Items associated with particularly high risk	245.739	320.497
Covered bonds	93	109
Collective investments undertakings (CIU)	3	9
Equity	26.635	25.719
Other items	201.812	124.184
Total capital requirement	**1.346.588**	**1.406.485**

Customer loan restructurings increased provisioning, debt-for-asset swaps and deleveraging actions led to an overall decrease in capital requirements in the exposure classes that are traditionally related to customer advances, namely, “Corporates”, “Retail”, “Secured by mortgages on immovable property”, “Exposures in default”, and items associated with particularly high risk”. On the other hand debt-for-asset swaps resulted in the increase in capital requirements in "Other Items", albeit the net impact of the debt-for-asset swaps was an overall decrease in the capital requirements.

4.2 Market Risk

The minimum capital requirement calculated under the standardised approach in accordance with Title IV: Own funds requirements for Market Risk of the CRR is as follows:

2016		**RWAs**	**Capital requirements**
		€000	**€000**
	Outright products		
1	Interest rate risk (general and specific)	-	-
2	Equity risk (general and specific)	3.847	308
3	Foreign exchange risk	-	-
4	Commodity risk	-	-
	Options		
5	Simplified approach	-	-
6	Delta-plus method	-	-
7	Scenario approach	-	-
8	Securitisation (specific risk)	-	-
9	**Total**	**3.847**	**308**

The table above does not include the minimum capital requirement for CIUs of €190 thousand (RWA: €2.384 thousand).

There is no own funds requirement for the foreign exchange risk, since the materiality threshold set by Article 351 of the CRR is not met.

4.3 Operational Risk

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

The Group uses the Standardised Approach for the operational risk capital calculation. The capital requirement calculated for operational risk for 2016, includes an one-off regulatory adjustment in relation to operations in Russia, which were sold in 2015, as permission to be excluded from the calculation of the capital requirement for operational risk was granted by the regulators at the beginning of January 2017. The operations in Russia, which were sold in 2015, followed the Basic Indicator Approach.

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

The minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach and the Basic Indicator Approach amounts to €151.118 thousand and €8.658 thousand (2015: €163.191 thousand) respectively.

4.3 Operational Risk (continued)

2016	Standardised approach	Basic indicator approach	Total
	€000	€000	€000
Corporate finance (CF)	169	-	169
Trading and Sales (TS)	3.492	-	3.492
Retail Brokerage (RBr)	57	-	57
Commercial Banking (CB)	117.582	8.658	126.240
Retail Banking (RB)	18.077	-	18.077
Payment and Settlement (PS)	11.394	-	11.394
Agency Services (AS)	235	-	235
Asset Management (AM)	112	-	112
Total Capital Requirement for Operational Risk	**151.118**	**8.658**	**159.776**

2015	Standardised approach	Total
	€000	€000
Corporate finance (CF)	118	118
Trading and Sales (TS)	2.591	2.591
Retail Brokerage (RBr)	99	99
Commercial Banking (CB)	127.867	127.867
Retail Banking (RB)	24.880	24.880
Payment and Settlement (PS)	7.218	7.218
Agency Services (AS)	210	210
Asset Management (AM)	208	208
Total Capital Requirement for Operational Risk	**163.191**	**163.191**

4.4 Credit Valuation Adjustment (CVA) Risk

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

	2016	2015
	€000	€000
CVA (Credit Valuation Adjustment) Capital Requirement	**2.355**	3.001

4.5 Non-deducted participations in insurance undertakings

2016	Carrying amount €000
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	**117.871**
Total RWAs	**294.678**

5. Counterparty Credit Risk (CCR)

CCR arises from the possibility that a counterparty will fail to perform on an obligation arising from transactions such as derivatives, and SFTs.

As at 31 December 2016, the Group's total CCR exposure was €55.629 thousand (2015: €67.783 thousand), of which €8.639 thousand (2015: €9.689 thousand) were exposures of derivatives (analysed in Section 5.6) and the remaining €46.990 thousand (2015: €58.094 thousand) was due to securities financing transactions (repurchase agreements). The exposure of SFTs has been calculated according to Article 223 'Financial Collateral Comprehensive Method' of CRR.

5.1 Internal Capital and Credit Limits for Counterparty Credit Exposures

The model, which was approved by the BoD, sets maximum limits for financial institutions, based on their credit rating and Tier 1 capital base or the Bank's Tier 1 capital base, in case it is lower. Afterwards, an internal scoring system is applied that considers qualitative and quantitative factors such as:

- Asset Risk
- Capital adequacy
- Profitability
- Liquidity
- Market share
- Ownership strength

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

Two types of limits are monitored:

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

Allocated MM limits are set for a short duration, unless they are used for independent amounts (as defined in the Credit Support Annex (CSA) agreement). Limits for derivative transactions are assigned to counterparties with a CSA agreement in place. Allocated derivative limits with counterparties that have not signed a CSA can be utilised only after a CSA agreement is signed prior to any derivative transaction. The only exception of current exposure without a CSA agreement concerns one counterparty.

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

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

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

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

5.2 Policies for Securing Collateral and Establishing Credit Reserves

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

The responsibilities of the collateral management team are as follows:

(a) Handling collateral valuations and margin calls (for derivatives).
(b) Maintain relevant data and liaise with counterparties regarding issues of collaterals.

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

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

The Group has chosen the International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement for contracting its derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter (OTC) products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults. In most cases the parties execute a CSA in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties in order to mitigate the market contingent counterparty risk inherent in their open positions.

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

As at 31 December 2016, the Group had signed the CSA part of the ISDA Master Agreement with 25 counterparties (2015: 24 counterparties). As at 31 December 2016, CSA part of the Group maintained exposures with 14 counterparties (2015: 14 counterparties). The following table presents the total amounts that were transferred to (where the indicated amount is negative) or obtained from (where the indicated amount is positive) counterparties as a result of reaching the threshold amounts of 12 of the counterparties (2015: 13 counterparties), as at 31 December:

	2016	2015
	€000	€000
Total Positive	**11.678**	2.478
Total Negative	**(56.025)**	(82.123)
Total	**(44.347)**	(79.645)

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

A breakdown of all types of collateral posted or received by banks to support or reduce CCR exposures, as at 31 December 2016, is presented below:

2016	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
	€000	€000	€000	€000	€000	€000
Cash	-	11.678	-	(36.945)	-	(19.080)
Total	**-**	**11.678**	**-**	**(36.945)**	**-**	**(19.080)**

5.3 Policies with Respect to Wrong-Way Risk Exposures

Wrong way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty i.e. changes in market rates (interest rates, FX or other rates which are the main underlying factors of the Group's derivative transactions) have an adverse impact on the probability of default (PD) of a counterparty. This risk is not currently measured as it is not anticipated to be significant given the existence of CSAs for almost all derivative transactions, with daily settlement of margins that significantly reduce credit risk resulting in a total accounting CVA charge equal to only €75 thousand (2015: €136 thousand) and a net credit exposure from Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements of €903 thousand (2015: €913 thousand).

5.4 Collateral the Bank would have to provide given a Downgrade in its Credit Rating

As at 31 December 2016, the only instance where the Group would have to provide additional collateral in the event of a downgrade, involved derivative transactions under ISDA agreements, where a CSA has been signed. Out of the 25 agreements that were in place as at 31 December 2016, the terms of 3 CSAs provide for additional collateral in the event of a downgrade. Given the current rating of the Bank[26] as at 31 December 2016, no additional collateral is expected to be required, in the event of a downgrade.

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

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

Gross positive fair value	2016	2015
	€000	€000
Cyprus	**20.778**	13.939
United Kingdom	**338**	53
Group	**21.116**	13.992

[26] **Credit Ratings**:

- Fitch Ratings: Long-term Issuer Default Rating upgraded to "B-" on 25 April 2016 (stable outlook), Short-term Issuer Default Rating upgraded to "B" on 25 April 2016, Viability Rating upgraded to "b-" on 25 April 2016.
- Moody's Investors Service: Baseline Credit Assessment upgraded at caa2 on 14 December 2016 (positive outlook), Short-term deposit rating affirmed at "Not Prime" on 14 December 2016, Long-term deposit rating upgraded to caa2 on 14 December 2016 (positive outlook), Counterparty Risk Assessment assigned at B2 (cr)-upgraded / Not-Prime (cr) on 14 December 2016.

5.5 Gross Positive Fair Value of Contracts, Netting Benefits, Netted Current Credit Exposure, Collateral held and Net Derivatives Credit Exposure (continued)

The Bank has netting benefits for the derivatives, through the ISDA/CSA agreements signed with the majority of counterparties. The netted credit exposure for the Group derivative contracts (without considering collateral arrangements), is presented in the table below:

Netted credit exposure	2016	2015
	€000	€000
Cyprus	6.727	3.338
United Kingdom	338	53
Group	7.065	3.391

The net credit exposure of Group derivative contracts, after considering both the benefits from legally enforceable netting agreements and collateral arrangements, is presented in the table below. Collateral received through the CSA agreements from counterparties as at December 2016 was €11.678 thousand (2015: €2.478 thousand).

Net derivative credit exposure	2016	2015
	€000	€000
Cyprus	565	860
United Kingdom	338	53
Group	903	913

Impact of netting and collateral held on exposure values

2016	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
	€000	€000	€000	€000	€000
Derivatives	21.116	14.051	7.065	6.162	903
SFTs	46.990	-	46.990	-	46.990
Cross-product netting	-	-	-	-	-
Total	**68.106**	**14.051**	**54.055**	**6.162**	**47.893**

5.6 Mark-to-Market Method and Exposures

The table below indicates the measures for exposure value under the mark-to-market method. The exposure values are the sum of:

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

- Add-on amount, which is equal to a percentage of the nominal amount of each deal based on its remaining maturity and the type of contract as per CRD IV and CRR regulations.

However, in the case where a CSA agreement is in place (and the relevant amount has already been settled) the exposure is set to zero, since no credit risk exists.

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

5.6 Mark-to-Market Method and Exposures (continued)

The table below shows the analysis of CCR per approach. The approach followed by the Bank is the mark to market method.

2016	Notional	Replacement cost/current market value	Potential future credit exposure	Effective expected positive exposure (EEPE)	Multiplier	Exposure at Default (EAD) post Credit Risk Mitigation (CRM)	RWA
	€000	€000	€000	€000		€000	€000
Mark to market		6.727	11.543			8.639	3.588
Original exposure	-	-				-	-
Standardised approach		-			-	-	-
IMM (for derivatives and SFTs)				-	-	-	-
Of which securities financing transactions				-	-	-	-
Of which derivatives and long settlement transactions				-	-	-	-
Of which from contractual cross-product netting				-	-	-	-
Financial collateral simple method (for SFTs)						-	--
Financial collateral comprehensive method (for SFTs)						-	-
VaR for SFTs						-	-
Total							**3.588**

5.6 Mark-to-Market Method and Exposures (continued)

2016		
Exposures under the mark-to-market method	**Cyprus**	**Group**
	€000	**€000**
Institutions	**7.916**	**7.916**
Corporates	**723**	**723**
Total	**8.639**	**8.639**

2015		
Exposures under the mark-to-market method		
Institutions	9.279	9.279
Corporates	410	410
Total	9.689	**9.689**

Regulatory CVA charge for capital calculation

The Standardised Approach has been used to calculate the CVA charge for regulatory purposes in accordance with the requirements of the CRR (Standardised approach: Articles 381,382 and 384). As at 31 December 2016, the total regulatory CVA charge was €2.355 thousand (2015: €3.001 thousand).

The table below provides CVA regulatory calculations (with a breakdown by standardised and advanced approaches).

2016		**Exposure value**	**RWA**
		€000	**€000**
1	Total portfolios subject to the advanced method	**-**	**-**
2	(i) VaR component (including the 3× multiplier)		**-**
3	(ii) SVaR component (including the 3× multiplier)		**-**
4	All portfolios subject to the standardised method	55.629	29.438
EU4	Based on the original exposure method	-	-
5	**Total subject to the CVA capital charge**	**55.629**	**29.438**

5.7 CCR exposures by regulatory portfolio and risk

A breakdown of CCR exposures, calculated under the standardised approach, by portfolio (type of counterparties) and by risk weight (business attributed according to the Standardised approach), as at 31 December 2016 is presented below:

31 December 2016 **Exposure classes**		**Risk weight**											**Total**	**Of which unrated**
		0%	**2%**	**4%**	**10%**	**20%**	**50%**	**70%**	**75%**	**100%**	**150%**	**Others**		
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-
5	International organisa-tions	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	12.977	41.929	-	-	-	-	-	54.906	11.757
7	Corporates	-	-	-	-	-	-	-	-	723	-	-	723	723
8	Retail	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Other items	-	-	-	-	-	-	-	-	-	-	-	-	
11	**Total**	**-**	**-**	**-**	**-**	**12.977**	**41.929**	**-**	**-**	**723**	**-**	**-**	**55.629**	**12.480**

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

The notional amount of derivatives hedges which mainly consist of IRS and FX contracts at 31 December 2016 was €2.661 thousand (2015: €2.195 thousand).

The exposure values of derivatives are calculated as described in Section 5.6. Repurchase transactions are not included. The exposures per country are analysed below:

2016	**Trading Book**	**Banking Book**	**Total**
	€000	**€000**	**€000**
Cyprus	-	774	774
United Kingdom	-	5.063	5.063
Switzerland	-	566	566
Other Countries	-	2.236	2.236
Group	**-**	**8.639**	**8.639**
2015			
Cyprus	-	410	410
United Kingdom	-	2.104	2.104
Switzerland	-	3.771	3.771
Other Countries	-	3.404	3.404
Group	**-**	**9.689**	**9.689**

6. Bank's Exposure to Credit Risk and Impairment

The following sections provide an analysis of past due and impaired loans, exposures post-value adjustments (before and after applying credit risk mitigation and credit conversion factors) and provisions for impairment of loans and advances.

6.1 Past Due and Impaired Loans

Past due loans and impaired loans
Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery. This classification is used for disclosures in Note 43 in the Consolidated Financial Statements for year 2016.

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

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

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

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

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

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

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

6.1 Past Due and Impaired Loans (continued)

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.

6.2 Total and average amount of net exposures

Total and average amount of net exposures for 2016 by exposure class are presented below. The average corresponds to the average of the quarterly net amounts by exposure class. Net exposures relate to amounts post value adjustments but before the application of credit conversion factors.

2016	**Net value of exposures at 31 December 2016**	**Average net exposures 2016**
	€000	**€000**
Central governments or central banks	1.994.934	1.996.496
Regional governments or local authorities	70.936	74.466
Public sector entities	32.870	35.289
Multilateral development banks	9.360	9.645
International organisations	11.823	12.023
Institutions	1.157.800	1.262.358
Corporates	4.661.287	4.108.665
Of which: SMEs	*3.363.067*	*2.473.263*
Retail	3.155.179	3.481.476
Of which: SMEs	*952.164*	*1.067.631*
Secured by mortgages on immovable property	4.318.536	4.479.860
Of which: SMEs	*1.679.295*	*1.582.413*
Exposures in default	3.963.916	4.222.476
Items associated with particularly high risk	2.278.134	2.541.643
Covered bonds	11.667	11.987
Claims on institutions and corporates with a short-term credit assessment	-	-
Collective investments undertakings	41	56
Equity exposures	143.773	137.589
Other exposures	2.268.656	1.958.990
Total standardised approach	**24.078.912**	**24.333.019**
Total	**24.078.912**	**24.333.019**

Customer loan restructurings, increased provisioning, debt-for-asset swaps and deleveraging actions during 2016 led to an overall decrease in capital requirements in December 2016 compared to average net amounts. On the other hand, debt-for-asset swaps resulted in the increase in capital requirements in "Other Exposures", albeit the net impact of the debt-for-asset swaps was an overall decrease in the capital requirements.

6.3.1 Breakdown of exposures by geographical areas and exposure classes

The net value of exposures as at 31 December 2016 is presented below.

The net value relates to amounts post value adjustments but before the application of credit conversion factors. The country or geographical area in which the exposure is classified is driven by the country of residence/incorporation of the counterparty.

The materiality of geographical areas has been determined using the following threshold: All EU countries that do not exceed 1% of total net exposures have been included in "Other countries" and all non-EU countries that do not exceed 1% of total net exposures have been included in "Other geographical areas". Exposures to supranational organizations have been reported separately despite being immaterial due to the nature of the counterparty.

2016	Net Value										
	EU Countries	**Cyprus**	**United Kingdom**	**France**	**Greece**	**Other[27] countries**	**Non EU countries**	**Russian Federation**	**Other geographical[27] areas**	**Supranational**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	**1.976.027**	1.424.914	238.476	287.324	8	25.305	**18.907**	-	18.907	**-**	1.994.934
Regional governments or local authorities	**70.936**	70.936	-	-	-	-	**-**	-	-	**-**	70.936
Public sector entities	**32.870**	32.870	-	-	-	-	**-**	-	-	**-**	32.870
Multilateral development banks	**-**	-	-	-	-	-	**-**	-	-	**9.360**	9.360
International organisations	**-**	-	-	-	-	-	**-**	-	-	**11.823**	11.823
Institutions	**729.781**	33.297	182.163	10.799	11.441	492.081	**428.019**	37.351	390.668	**-**	1.157.800
Corporates	**4.562.590**	3.991.532	474.336	21	92.301	4.400	**98.697**	10.919	87.778	**-**	4.661.287
Retail	**3.108.025**	2.798.311	206.951	380	94.982	7.401	**47.154**	18.541	28.613	**-**	3.155.179
Secured by mortgages on immovable property	**4.252.663**	3.484.826	692.594	489	13.625	61.129	**65.873**	34.528	31.345	**-**	4.318.536
Exposures in default	**3.779.750**	3.494.993	168.319	65	23.671	92.702	**184.166**	79.737	104.429	**-**	3.963.916
Items associated with particularly high risk	**2.270.218**	2.201.497	17.411	3.907	24.154	23.249	**7.916**	313	7.603	**-**	2.278.134
Covered bonds	**-**	-	-	-	-	-	**11.667**	-	11.667	**-**	11.667
Claims on institutions and corporates with a short-term credit assessment	**-**	-	-	-	-	-	**-**	-	-	**-**	-
Collective investments undertakings	**41**	41	-	-	-	-	**-**	-	-	**-**	41
Equity exposures	**143.773**	143.773	-	-	-	-	**-**	-	-	**-**	143.773
Other exposures	**2.260.901**	2.040.882	16.723	-	157.454	45.842	**7.755**	5.914	1.841	**-**	2.268.656
Total standardised approach	**23.187.575**	**19.717.872**	**1.996.973**	**302.985**	**417.636**	**752.109**	**870.154**	**187.303**	**682.851**	**21.183**	**24.078.912**

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

6.3.2 Concentration of exposures by industry and exposure classes

The net exposures by industry and exposure classes as at 31 December 2016 are presented below. The net exposures relate to amounts post value adjustments but before the application of credit conversion factors. "Other services" include exposures to private individuals, activities of extraterritorial organizations and bodies, other services activities, and financial and insurance activities.

The materiality of industry sectors has been determined using the following threshold: All industry groups that do not exceed 1% of total net exposures have been included in "Other" and all exposure classes that do not exceed 1% of total net exposures have been included in "Other". The industry groups that have been included in "Other" are Agriculture, forestry and fishing; Mining and quarrying; Electricity, gas, steam and air conditioning supply; Water supply; Transport and storage; Administrative and support service activities; Education and Arts; entertainment and recreation.

2016	**Manufacturing**	**Construction**	**Wholesale and retail trade**	**Accommodation and food service activities**	**Information and communication**	**Real estate activities**	**Professional, scientific and technical activities**	**Public administration and defence, compulsory social security**	**Human health services and social work activities**	**Other services**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	-	-	-	-	1.994.934	-	-	-	1.994.934
Institutions	-	-	-	-	-	-	32	-	-	1.157.768	-	1.157.800
Corporates	276.557	326.593	1.003.337	785.008	168.513	863.545	202.940	-	127.945	552.358	354.491	4.661.287
Retail	100.970	162.181	347.927	85.560	16.689	114.386	104.155	-	76.475	1.992.878	153.958	3.155.179
Secured by mortgages on immovable property	130.447	218.962	437.595	101.135	24.426	802.390	107.207	-	69.936	2.273.240	153.198	4.318.536
Exposures in default	185.678	477.611	547.758	318.262	53.037	265.612	160.164	10.290	53.532	1.650.547	241.425	3.963.916
Items associated with particularly high risk	1.797	1.392.713	89.953	15.665	53	715.722	18.315	-	405	36.822	6.689	2.278.134
Other exposures	-	-	-	-	-	-	-	30	-	2.268.626	-	2.268.656
Other	5	-	-	23	-	-	-	115.629	-	164.813	-	280.470
Total standardised approach	**695.454**	**2.578.060**	**2.426.570**	**1.305.653**	**262.718**	**2.761.655**	**592.813**	**2.120.883**	**328.293**	**10.097.052**	**909.761**	**24.078.912**

6.4 Net exposures by residual maturity and exposure classes

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

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

2016	Net exposure value					
	On demand	<=1 year	>1 year <=5 years	> 5 years	No stated maturity	Total
	€000	€000	€000	€000	€000	€000
Central governments or central banks	1.405.909	58.754	293.679	236.586	6	1.994.934
Institutions	284.808	735.174	74.168	63.650	-	1.157.800
Corporates	1.436.061	388.916	803.374	2.030.777	2.159	4.661.287
Retail	1.223.304	169.879	242.866	1.519.130	-	3.155.179
Secured by mortgages on immovable property	226.975	186.968	785.025	3.119.568	-	4.318.536
Exposures in default	535.128	1.952.253	381.421	1.095.114	-	3.963.916
Items associated with particularly high risk	194.490	895.441	585.898	585.719	16.586	2.278.134
Other exposures	-	-	-	-	2.268.656	2.268.656
Other	13.189	566	34.253	88.648	143.814	280.470
Total standardised approach	**5.319.864**	**4.387.951**	**3.200.684**	**8.739.192**	**2.431.221**	**24.078.912**

6.5 Impaired and Past Due Exposures by Economic Activity

(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by economic activity

	Impaired exposures	Past due but not impaired exposures	Total
2016	**€000**	**€000**	**€000**
Agriculture, forestry and fishing	46.739	32.429	79.168
Mining and quarrying	18.738	2.446	21.184
Manufacturing	115.269	110.570	225.839
Electricity, gas, steam and air-conditioning supply	907	1.456	2.363
Water supply	412	4.263	4.675
Construction	748.337	392.255	1.140.592
Wholesale and retail trade	285.656	287.513	573.169
Transportation and storage	26.176	16.571	42.747
Accommodation and food service activities	189.596	244.911	434.507
Information and communication	28.146	21.101	49.247
Real estate activities	458.705	218.072	676.777
Professional, scientific and technical activities	111.546	59.251	170.797
Administrative and support service activities	16.450	29.024	45.474
Public administration and defence; compulsory social security	1.326	7.368	8.694
Education	4.730	31.238	35.968
Human health and social work activities	25.508	47.078	72.586
Arts, entertainment and recreation	21.939	36.660	58.599
Other service activities	1.009.527	1.051.435	2.060.962
Total	**3.109.707**	**2.593.641**	**5.703.348**

6.5 Impaired and Past Due Exposures by Economic Activity (continued)

(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by economic activity (continued)

	Impaired exposures	Past due but not impaired exposures	Total
2015	**€000**	**€000**	**€000**
Agriculture, forestry and fishing	57.216	37.061	94.277
Mining and quarrying	37.537	996	38.533
Manufacturing	166.599	105.290	271.889
Electricity, gas, steam and air-conditioning supply	1.449	3.223	4.672
Water supply	399	2.530	2.929
Construction	1.401.358	418.123	1.819.481
Wholesale and retail trade	410.239	332.559	742.798
Transportation and storage	85.883	18.799	104.682
Accommodation and food service activities	361.892	114.785	476.677
Information and communication	32.343	21.306	53.649
Real estate activities	698.500	292.215	990.715
Professional, scientific and technical activities	165.596	140.754	306.350
Administrative and support service activities	45.384	18.603	63.987
Public administration and defence; compulsory social security	1.265	38	1.303
Education	16.214	9.348	25.562
Human health and social work activities	37.725	51.348	89.073
Arts, entertainment and recreation	21.372	40.492	61.864
Other service activities	1.021.862	1.142.123	2.163.985
Total	**4.562.833**	**2.749.593**	**7.312.426**

6.5 Impaired and Past Due Exposures by Economic Activity (continued)

(b) Provisions for impairment of impaired and past due exposures by economic activity[28]

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[29]	Total provisions including fair value adjustment on initial recognition
2016	**€000**	**€000**	**€000**	**€000**	**€000**
Trade	335.854	39.421	375.275	87.576	462.851
Manufacturing	132.603	12.439	145.042	25.734	170.776
Hotels and restaurants	193.863	15.394	209.257	62.665	271.922
Construction	771.034	44.643	815.677	210.436	1.026.113
Real estate	498.414	57.594	556.008	114.140	670.148
Private individuals	708.144	175.213	883.357	227.057	1.110.414
Professional and other services	307.100	30.495	337.595	80.501	418.096
Other Sectors	210.778	19.252	230.030	120.344	350.374
Total	**3.157.790**	**394.451**	**3.552.241**	**928.453**	**4.480.694**

	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[29]	Total provisions including fair value adjustment on initial recognition
2015	**€000**	**€000**	**€000**	**€000**	**€000**
Trade	395.792	57.239	453.031	121.192	574.223
Manufacturing	172.294	20.078	192.372	31.596	223.968
Hotels and restaurants	249.455	15.003	264.458	77.444	341.902
Construction	1.009.214	58.298	1.067.512	335.803	1.403.315
Real estate	532.232	41.211	573.443	137.185	710.628
Private individuals	647.102	234.812	881.914	268.496	1.150.410
Professional and other services	463.298	39.891	503.189	101.913	605.102
Other Sectors	237.853	19.661	257.514	133.781	391.295
Total	**3.707.240**	**486.193**	**4.193.433**	**1.207.410**	**5.400.843**

The tables above do not include provisions for financial guarantees and undrawn contractual commitments of €38.196 thousand (2015: €44.348 thousand).

[28] The tables are presented using figures per the Consolidated Financial Statements for year 2016.

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

6.6 Impaired and Past Due Exposures by Geographic Area

(a) Impaired and past due exposures before Credit Risk Mitigation and after applying credit conversion factors by geographic area[30]

2016	Impaired exposures	Past due but not impaired exposures	Total
	€000	€000	€000
Cyprus	2.692.304	2.398.921	5.091.225
Greece	23.849	19.222	43.071
Russia	84.717	26.598	111.315
United Kingdom	109.562	100.128	209.690
Romania	109.755	2.662	112.417
Other countries	89.520	46.110	135.630
Total	**3.109.707**	**2.593.641**	**5.703.348**

2015	Impaired exposures	Past due but not impaired exposures	Total
	€000	€000	€000
Cyprus	3.936.853	2.534.426	6.471.279
Greece	32.670	8.224	40.894
Russia	69.057	34.672	103.729
United Kingdom	113.513	103.464	216.977
Romania	239.254	3.800	243.054
Other countries	171.486	65.007	236.493
Total	**4.562.833**	**2.749.593**	**7.312.426**

(b) Provisions for impairment of impaired and past due exposures by geographic area[31]

2016	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[32]	Total provisions including fair value adjustment on initial recognition
	€000	€000	€000	€000	€000
Cyprus	2.779.379	390.782	3.170.161	898.271	**4.068.432**
Greece	7.129	-	7.129	-	**7.129**
Russia	156.585	667	157.252	-	**157.252**
United Kingdom	7.788	2.995	10.783	373	**11.156**
Romania	206.909	7	206.916	29.809	**236.725**
Total	**3.157.790**	**394.451**	**3.552.241**	**928.453**	**4.480.694**

[30] Country of residence of the obligor.
[31] The table is presented using figures per the Consolidated Financial Statements for year 2016.
[32] 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. This adjustment has decreased the gross balance of loans and advances to customers.

6.6 Impaired and Past Due Exposures by Geographic Area (continued)

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

2015	Individual Impairment	Collective Impairment	Total accumulated provisions	Fair value adjustment on initial recognition[33]	Total provisions including fair value adjustment on initial recognition
	€000	€000	€000	€000	€000
Cyprus	3.255.398	476.352	3.731.750	1.140.446	**4.872.196**
Greece	29.458	4.375	33.833	22.583	**56.416**
Russia	194.805	212	195.017	-	**195.017**
United Kingdom	36.096	3.299	39.395	9.808	**49.203**
Romania	191.483	1.955	193.438	34.573	**228.011**
Total	**3.707.240**	**486.193**	**4.193.433**	**1.207.410**	**5.400.843**

The tables above do not include provision for financial guarantees and undrawn contractual commitments of €38.196 thousand (2015: €44.348 thousand).

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

The following table presents customer loans and advances split by residency of the counterparty. The table is presented using figures per the Consolidated Financial Statements for years 2016 and 2015.

2016	Loans and advances[34]	Total accumulated provisions	Carrying value
	€000	€000	€000
Cyprus	16.537.310	2.986.604	13.550.706
Greece	118.167	27.377	90.790
United Kingdom	1.689.279	106.737	1.582.542
Netherlands	326	83	243
Romania	315.834	200.344	115.490
Russia	305.862	169.439	136.423
Ukraine	24.330	13.253	11.077
Other	210.534	48.404	162.130
Total	**19.201.642**	**3.552.241**	**15.649.401**

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

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

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

2015	Loans and advances[35]	Total accumulated provisions	Carrying value
	€000	€000	€000
Cyprus	18.462.487	3.516.700	14.945.787
Greece	153.676	58.821	94.855
United Kingdom	1.674.860	152.071	1.522.789
Netherlands	486	52	434
Romania	385.381	194.672	190.709
Russia	390.936	208.125	182.811
Ukraine	52.537	16.849	35.688
Other	264.702	46.143	218.559
Total	**21.385.065**	**4.193.433**	**17.191.632**

6.8 Exposures covered by Eligible Financial Collateral and Credit Protection

Exposure Portfolio	Financial Collateral	Guarantees	Unfunded Credit Protection	Total
2016	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	-	-	**-**
Corporates	202.139	1.718	1.015	**204.872**
Exposures in default	41.612	10.194	652	**52.458**
Institutions	10.380	-	-	**10.380**
Items associated with particularly high risk	62.807	1.441	2.600	**66.848**
Public sector entities	14.728	-	-	**14.728**
Regional governments or local authorities	14.526	40.831	-	**55.357**
Retail	217.728	83	643	**218.454**
Secured by mortgages on immovable property	111.511	-	119	**111.630**
Total	**675.431**	**54.267**	**5.029**	**734.727**

2015				
	€000	**€000**	**€000**	**€000**
Corporates	262.021	1.678	709	**264.408**
Exposures in default	65.787	12.352	972	**79.111**
Institutions	2.496	-	-	**2.496**
Items associated with particularly high risk	51.691	1.505	2.600	**55.796**
Public sector entities	4.240	-	-	**4.240**
Regional governments or local authorities	14.457	43.834	-	**58.291**
Retail	224.986	896	1.179	**227.061**
Secured by mortgages on immovable property	107.675	328	692	**108.695**
Total	**733.353**	**60.593**	**6.152**	**800.098**

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

6.9.1 Credit quality of exposures by exposure class and instrument

Customer loan restructurings, increased provisioning, debt-for-asset swaps and deleveraging actions led to an overall decrease in the overall exposures between the two periods. On the other hand, debt-for-asset swaps resulted in the increase in capital requirements in "Other Exposures", albeit the net impact of the debt-for-asset swaps was an overall decrease in the capital requirements.

"Credit risk adjustment charges of the period" include changes in column (c) between the current and the previous period calculated at exposure class level.

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

The below table has been completed in accordance to the regulatory requirements. Columns (c) and (e) represent the value adjustments reported for the calculation of the RWA.

	a	b	c	d	e	f	g
31 December 2016	**Gross carrying values of**		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d-e)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	-	1.994.935	-	-	1	-	1.994.934
Institutions	-	1.157.808	6	-	2	(6)	1.157.800
Corporates	-	4.849.022	33.418	-	154.317	2.256	4.661.287
Of which: SMEs	-	*3.516.744*	*25.032*	-	*128.645*	*15.197*	*3.363.067*
Retail	-	3.255.099	33.921	-	65.999	(4.227)	3.155.179
Of which: SMEs	-	*968.763*	*5.228*	-	*11.371*	*(445)*	*952.164*
Secured by mortgages on immovable property	-	4.358.501	8.405	-	31.560	(1.936)	4.318.536
Of which: SMEs	-	*1.693.832*	*910*	-	*13.627*	*(718)*	*1.679.295*
Exposures in default	10.363.863	-	3.140.126	-	3.259.821	(142.288)	3.963.916
Items associated with particularly high risk	3.048.843	1.318.004	1.003.652	-	1.085.061	(83.455)	2.278.134
Other exposures	-	2.268.656	-	-	-	-	2.268.656
Other	107	281.628	7	-	1.258	(27)	280.470
Total standardised approach	**13.412.813**	**19.483.653**	**4.219.535**	**-**	**4.598.019**	**(229.683)**	**24.078.912**
Of which: Loans	13.047.763	13.897.482	4.184.132	-	4.597.011	(223.408)	18.164.102
Of which: Debt securities	-	619.051	-	-	-	-	619.051
Of which: Off- balance-sheet exposures	364.945	2.501.549	35.403	-	1.008	(6.277)	2.830.083

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6.9.2 Credit quality of exposures by industry

"Credit risk adjustment charges of the period" include changes in column (c) between the current and the previous period calculated at exposure class level. "Other services" include exposures to Private individuals, Activities of extraterritorial organizations and bodies, Other services activities, and Financial and Insurance activities.

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

The below table has been completed in accordance to the regulatory requirements. Columns (c) and (e) represent the value adjustment reports for the calculation of the RWA.

	a	b	c	d	e	f	g
31 December 2016	**Gross carrying values of**		**Specific risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d-e)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Manufacturing	496.096	539.367	168.430	-	171.579	(42.629)	695.454
Construction	3.097.547	1.455.163	977.993	-	996.657	(129.720)	2.578.060
Wholesale and retail trade	1.374.080	1.955.207	430.757	-	471.960	(21.303)	2.426.570
Accommodation and food service activities	820.681	1.012.165	246.285	-	280.908	(2.407)	1.305.653
Information and communication	152.082	211.164	58.409	-	42.119	(3.150)	262.718
Real estate activities	1.584.212	2.240.633	605.753	-	457.437	35.236	2.761.655
Professional, scientific and technical activities	583.573	438.748	137.947	-	291.561	(7.554)	592.813
Public administration and defence, compulsory social security	12.539	2.111.859	837	-	2.678	209	2.120.883
Human health services and social work activities	113.551	280.230	32.609	-	32.879	737	328.293
Other services	4.434.751	8.554.084	1.360.919	-	1.530.864	(14.090)	10.097.052
Other	743.701	685.033	199.596	-	319.377	(45.012)	909.761
Total	**13.412.813**	**19.483.653**	**4.219.535**	**-**	**4.598.019**	**(229.683)**	**24.078.912**

6.9.3 Credit quality of exposures by geography

"Credit risk adjustment charges of the period" include changes in column (c) between the current and the previous period calculated at exposure class level.

Materiality applied: All EU countries that do not exceed 1% of total net exposures have been included in "Other countries" and all non-EU countries that do not exceed 1% of total net exposures have been included in "Other geographical areas". Exposures to supranational organisations have been reported separately despite being immaterial due to the nature of the counterparty.

The below table has been completed in accordance to the regulatory requirements. Columns (c) and (e) represent the value adjustments reported for the calculation of the RWA.

31 December 2016	a	b	c	d	e	f	g
	Gross carrying value of		**Specific credit risk adjustment**	**General credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges**	**Net values**
	Defaulted exposures	**Non-defaulted exposures**					**(a+b-c-d-e)**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
EU Countries	**12.907.315**	**18.769.709**	**3.961.653**	**-**	**4.527.796**	**(226.857)**	**23.187.575**
Cyprus	11.824.876	15.591.235	3.564.521	-	4.133.718	(170.185)	19.717.872
United Kingdom	387.916	1.852.573	115.902	-	127.614	(17.533)	1.996.973
France	106	303.578	28	-	671	(4)	302.985
Greece	213.333	382.630	30.530	-	147.797	(32.531)	417.636
Other countries[36]	481.084	639.693	250.672	-	117.996	(6.604)	752.109
Non EU Countries	**505.498**	**692.760**	**257.882**	**-**	**70.222**	**(2.826)**	**870.154**
Russian Federation	256.368	110.508	164.444	-	15.129	11.286	187.303
Other geographical areas [36]	249.130	582.252	93.438	-	55.093	(14.112)	682.851
Supranational	**-**	**21.184**	**-**	**-**	**1**	**-**	**21.183**
Total	**13.412.813**	**19.483.653**	**4.219.535**	**-**	**4.598.019**	**(229.683)**	**24.078.912**

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

6.10 Ageing of past-due exposures

	Gross carrying values					
	≤ 30 days	>30 days ≤ 60 days	>60 days ≤ 90 days	>90 days ≤ 180 days	>180 days ≤ 1 year	> 1 year
	€000	€000	€000	€000	€000	€000
Loans[37]	517.513	181.480	222.883	178.247	192.152	7.375.193
Debt securities	-	-	-	-	-	-
Total exposures	**517.513**	**181.480**	**222.883**	**178.247**	**192.152**	**7.375.193**

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

6.11 Non-performing and forborne exposures

The table below discloses NPEs based on the definitions of the EBA standards.

2016	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Debt securities	619.568	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances													
Central Banks	1.373.803	-	-	-	-	-	-	-	-	-	-	-	-
Credit Institutions	1.075.199	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers[38]	20.130.095[38]	107.160	2.206.634	11.034.249	8.837.158	6.886.890	5.889.332	160.992[38]	50.531	4.319.703[38]	1.617.028	7.854.750	6.760.774
Off-balance-sheet exposures	2.881.262	n/a[39]	11.817	481.273	365.335	n/a[39]	24.421	1.793	2	36.403	391	83.957	22.056

[38] Amounts presented are before fair value adjustment on initial recognition. The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originates credit impaired loans.
[39] Per EBA guidelines no disclosure is required.

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

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

31 December 2016	**Gross carrying value defaulted exposures**
	€000
Opening balance	13.998.357
Loans and debt securities that have defaulted or impaired since the last reporting period	968.108
Returned to non-defaulted status	(284.897)
Amounts written off	(1.055.265)
Other changes	(213.488)
Closing balance	**13.412.815**

6.13 Credit Risk Adjustments

6.13.1 Provisions for Impairment of Loans and Advances to Customers

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

2016	**Cyprus**	**Greece**	**Russia**	**Other countries**	**Total**
Individual and collective impairment	**€000**	**€000**	**€000**	**€000**	**€000**
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	113.109	2.267	14.011	(1.785)	**127.602**
Applied in writing off impaired loans and advances	(923.723)	(27.163)	(68.997)	(35.382)	**(1.055.265)**
Interest accrued on impaired loans and advances	(138.603)	(627)	(594)	(688)	**(140.512)**
Collection of loans and advances previously written off	1.872	-	-	81	**1.953**
Charge for the period	394.333	(1.181)	17.815	28.794	**439.761**
31 December	**3.170.161**	**7.129**	**157.252**	**217.699**	**3.552.241**

Individual Impairment					
1 January	3.255.398	29.458	194.805	227.579	**3.707.240**
Dissolution of subsidiaries	-	-	-	(6.154)	**(6.154)**
Acquisition of subsidiary	(8.577)	-	-	-	**(8.577)**
Foreign exchange and other adjustments	112.674	2.267	13.909	(1.343)	**127.507**
Applied in writing off impaired loans and advances	(923.723)	(27.163)	(68.997)	(35.382)	**(1.055.265)**
Interest accrued on impaired loans and advances	(138.603)	(627)	(594)	(688)	**(140.512)**
Collection of loans and advances previously written off	1.872	-	-	81	**1.953**
Charge for the period	480.338	3.194	17.462	30.604	**531.598**
31 December	**2.779.379**	**7.129**	**156.585**	**214.697**	**3.157.790**

Collective impairment					
1 January	476.352	4.375	212	5.254	**486.193**
Acquisition of subsidiary	-	-	-	-	**-**
Foreign exchange and other adjustments	435	-	102	(442)	**95**
Charge for the period	(86.005)	(4.375)	353	(1.810)	**(91.837)**
31 December	**390.782**	**-**	**667**	**3.002**	**394.451**

6.13.1 Provisions for Impairment of Loans and Advances to Customers (continued)

2015	**Cyprus**	**Greece**	**Russia**	**Other countries**	**Total**
Individual and collective impairment	**€000**	**€000**	**€000**	**€000**	**€000**
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					
1 January	2.274.162	9.275	286.924	186.649	**2.757.010**
Disposal of Russian operations	-	-	(91.910)	-	**(91.910)**
Foreign exchange and other adjustments	81.712	-	4.827	1.882	**88.421**
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	1.309.054	32.688	37.356	41.179	**1.420.277**
Charge for the year - discontinued operations	-	-	20.067	-	**20.067**
31 December	**3.255.398**	**29.458**	**194.805**	**227.579**	**3.707.240**

Collective impairment					
1 January	593.183	-	128.970	8.685	**730.838**
Disposal of Russian operations	-	-	(146.102)	-	**(146.102)**
Foreign exchange and other adjustments	(1.340)	-	(5.137)	(344)	**(6.821)**
Charge for the year – continuing operations	(115.491)	4.375	(117)	(3.087)	**(114.320)**
Charge for the year - discontinued operations	-	-	22.598	-	**22.598**
31 December	**476.352**	**4.375**	**212**	**5.254**	**486.193**

6.13.2 Credit Risk Adjustments recorded to Income Statement

Impairment of financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows on acquired loans.

The table is presented using figures per the Consolidated Financial Statements for year 2016.

	2016	2015
	€000	€000
Gain on derecognition of loans and advances to customers and changes in expected cash flows on acquired loans	**(63.315)**	(305.089)

Impairment/(reversal of impairment) of other financial instruments		
Available-for-sale equity securities	**839**	1.291
Available-for-sale mutual funds	**56**	1.206
Loans and receivables debt securities	**-**	(169)
Loans and advances to banks	**13.820**	19.604
Other receivables	**(3.869)**	21.571
Deposits by banks	**447**	-
	11.293	43.503

6.14 Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Group decides to modify the terms and conditions of the contract to provide the borrower 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.

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.

6.14 Forbearance (continued)

Rescheduled loans and advances to customers

The following table is as per the Consolidated Financial Statements for year 2016:

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
2016	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Neither past due nor impaired	4.021.923	-	-	85.722	85	**4.107.730**
Past due but not impaired	1.212.177	-	671	2.509	225	**1.215.582**
Impaired	2.167.770	337	83.222	2.092	78.571	**2.331.992**
	7.401.870	**337**	**83.893**	**90.323**	**78.881**	**7.655.304**
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**

7. Asset Encumbrance

Asset encumbrance means pledging an asset or entering into any form of transaction to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

7.1 Encumbered and Unencumbered Assets by Asset Type

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2016	**€000**	**€000**	**€000**	**€000**
Assets of the reporting institution	**3.446.873**	**n/a**[40]	**17.203.702**	**n/a**[40]
Equity instruments	1.562	1.562	52.514	**52.514**
Debt securities	358.251	358.454	261.317	**262.491**
Other Assets[41]	3.087.060	n/a[40]	16.889.871	**n/a**[40]

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
2015	**€000**	**€000**	**€000**	**€000**
Assets of the reporting institution	**14.023.263**	**n/a**[40]	**7.753.936**	**n/a**[40]
Equity instruments	1.027	1.027	91.644	**91.644**
Debt securities	891.701	900.287	24.915	**24.915**
Other Assets[41]	13.130.535	n/a[40]	7.637.377	**n/a**[40]

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

The vast majority of encumbered assets are within the Bank of Cyprus (Cyprus). Of the unencumbered assets around 27% (2015: 40%) are not deemed available for encumbrance. Further information on asset encumbrance is disclosed in the 2016 Additional Risk and Capital Management Disclosures included in the 2016 Annual Financial Report.

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

[41] Other assets consist of cash and bank placements, loans and advances and property.

7.2 Collateral Received by Product Type

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
2016	**€000**	**€000**
Collateral received by the reporting institution	**-**	**-**
Equity instruments	**-**	**-**
Debt securities	**-**	**29.071**
Other collateral received	**-**	**-**
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	**-**	**-**
2015		
Collateral received by the reporting institution	-	-
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or Asset Backed Securities (ABSs)	1.056.720	-

7.3 Encumbered Assets/Collateral Received and Associated Liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
2016	**€000**	**€000**
Carrying amount of selected financial liabilities	**1.180.595**	**3.446.873**[42]
2015		
Carrying amount of selected financial liabilities	4.903.759	15.079.983[42]

The total on balance sheet encumbered assets of the Group amounted to €3.446.873 thousand as at 31 December 2016 (2015: €14.023.263 thousand). In addition as at 31 December 2015, bonds guaranteed by the Cyprus government amounting to €1.000.000 thousand (fair value: €1.056.720 thousand), were pledged as collateral for obtaining funding from the CBC. In June 2016, one of the two own-issued bonds was released from the ELA pool of collateralised assets and in August 2016, following the release of the second bond, the Bank cancelled both bonds.

[42] It includes the carrying value of balance sheet encumbered assets. For 2015 it also includes the fair value of bonds guaranteed by the Cyprus government.

7.3 Encumbered Assets/Collateral Received and Associated Liabilities (continued)

The on balance sheet encumbered assets primarily consist of loans and advances to customers, investments in debt securities and property. These are mainly pledged for the CBC funding facilities under Eurosystem monetary policy operations and ELA and for covered bonds. Investments in debt securities are also used as collateral for repurchase transactions as well as supplementary assets for covered bonds. Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA agreements, which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (a) derivatives and repurchase transactions (b) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

As from October 2015 the €650 million covered bond own-issue is placed as collateral for accessing funding from the ECB.

As at 31 December 2016 loans and advances to customers include loans of a nominal amount of €787 million (2015: €14.763 million) in Cyprus which are pledged as collateral for ELA. Additionally, they include mortgage loans of a nominal amount €1.002 million (2015: €1.004 million) in Cyprus which are pledged as collateral for the covered bond issued by the Company in 2011 under the Covered Bond Programme. Furthermore they include housing loans of a nominal amount €765 million (2015: €nil) in Cyprus pledged as collateral for the funding from the ECB. At 31 December 2016 the Company's subsidiary Bank of Cyprus UK Ltd has pledged €244 million (2015: €nil) of loans and advances to customers with the Funding for Lending Scheme (FLS) of the Bank of England. These are available for use as collateral for the subsidiary's participation in the FLS. As at 31 December 2016, the subsidiary had drawn down Treasury bills of €29 million (2015: nil) under the FLS. These Treasury bills are not recorded on the subsidiary's balance sheet as ownership remains with the Bank of England.

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.

In August, October and December 2016 the CBC has released loans and advances with contractual value of €2 billion, €2,5 billion and €7,3 billion respectively held as collateral for ELA.

Following the full repayment of ELA on 5 January 2017, all ELA collateralised loans have subsequently been released, but ELA pledged properties remain pledged.

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

8.1 Application of External Ratings from Recognised ECAIs

For the Group's exposure classes listed below, Moody's external credit ratings have been applied:

- Exposures to central governments or central banks
- Exposures to regional governments or local authorities
- Exposures to public sector entities
- Exposures to multilateral development banks
- Exposures to institutions
- Exposures to corporates
- Exposures in the form of covered bonds
- Exposures in the form of units or shares in CIUs

8.1 Application of External Ratings from Recognised ECAIs (continued)

The general ECAI association with each credit quality step complies with the standard association published by the CBC, as at 31 December 2016 and 2015, as follows:

Credit Quality Step	Moody's Rating	Institutions[43] Risk Weight			Sovereigns Risk Weight	Corporates & CIUs Risk Weight	Covered Bonds Risk Weight
		Own Rating		Country Rating			
		Residual Maturity up to 3 months	Residual Maturity more than 3 months	Original Maturity more than 3 months			
1	Aaa to Aa3	20%	20%	20%	0%	20%	10%
2	A1 to A3	20%	50%	50%	20%	50%	20%
3	Baa1 to Baa3	20%	50%	100%	50%	100%	20%
4	Ba1 to Ba3	50%	100%	100%	100%	100%	50%
5	B1 to B3	50%	100%	100%	100%	150%	50%
6	Caa1 or lower	150%	150%	150%	150%	150%	100%

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

All exposures not included in the above table follow the uniform regulatory treatment.

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

For exposures to regional governments or local authorities, public sector entities and institutions, or in the form of covered bonds, the ECAIs are applied in the following priority:

1. Issue/Exposure
2. Issuer/Counterparty
3. Sovereign

For exposures to central governments or central banks, multilateral development banks, corporates and CIUs, the ECAIs are applied in the following priority:

1. Issue/Exposure
2. Issuer/Counterparty

The ECAIs are not taken into account in the risk weight determination where all relative exceptions apply.

[43] It includes regional governments, local authorities and public sector entities. As noted above, the rating applied is that of the Central Government in which the counterparty is incorporated.

8.3 Exposures Post Value Adjustments, after applying Credit Conversion Factors, before and after Credit Risk Mitigation

All unrated exposures are included in Uniform Regulatory Treatment. Exposures to central governments or central banks and exposures to public sector entities that are treated as exposures to central banks that take a risk weight of 0% under Article 114.(4) to 114.(7) of the CRR have been categorised to credit quality step 1 irrespective of the external credit assessment of that exposure or counterparty. Similarly the exposures in multilateral development banks are within the list of organisations of point 2, of Article 117 of the CRR and are assigned a 0% Risk Weight and are therefore categorised as credit quality step 1. Exposures in international organisations meet the requirements of Article 118 of the CRR and are assigned a 0% Risk Weight and are therefore categorised as credit quality step 1. Exposures to institutions for which Article 119(2) of the CRR is applied and take a risk weight of 20% have been mapped to credit quality step 1. Exposures in Other Items meet the requirements of Article 134 of the CRR and they are all assigned to the Uniform Regulator Treatment.

8.3.1 Exposures Post Value Adjustments, after applying Credit Conversion Factors (CCF) and before Credit Risk Mitigation (eligible credit protection)

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

	1	**2**	**3**	**4**	**5**	**6**	**Uniform Regulatory Treatment**	**Grand Total**
2016	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	1.992.631	-	-	-	-	-	2.276	**1.994.907**
Regional governments or local authorities	58.488	-	-	-	-	-	-	**58.488**
Public sector entities	-	-	-	-	-	-	32.777	**32.777**
Multilateral development banks	9.360	-	-	-	-	-	-	**9.360**
International organisations	11.823	-	-	-	-	-	-	**11.823**
Institutions	937.961	53.828	1.229	37.067	18.800	61.524	4.787	**1.115.196**
Corporates	-	-	-	-	-	-	3.699.660	**3.699.660**
Retail	-	-	-	-	-	-	2.226.270	**2.226.270**
Secured by mortgages on immovable property	-	-	-	-	-	-	4.286.940	**4.286.940**
Exposures in default	-	-	-	-	-	-	3.762.423	**3.762.423**
Items associated with particularly high risk	-	-	-	-	-	-	2.114.673	**2.114.673**
Covered bonds	11.667	-	-	-	-	-	-	**11.667**
Collective investment undertakings (CIU)	-	-	-	-	-	-	41	**41**
Equity	-	-	-	-	-	-	143.773	**143.773**
Other items	-	-	-	-	-	-	2.268.656	**2.268.656**
Total	**3.021.930**	**53.828**	**1.229**	**37.067**	**18.800**	**61.524**	**18.542.276**	**21.736.654**

8.3.1 Exposures Post Value Adjustments, after applying Credit Conversion Factors (CCF) and before Credit Risk Mitigation (eligible credit protection) (continued)

	1	2	3	4	5	6	Uniform Regulatory Treatment	Grand Total
2015	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	2.185.171	-	15	-	-	-	-	**2.185.186**
Regional governments or local authorities	65.191	-	-	-	-	-	-	**65.191**
Public sector entities	40.258	-	-	-	-	-	-	**40.258**
Multilateral development banks	10.912	-	-	-	-	-	-	**10.912**
International organisations	11.923	-	-	-	-	-	-	**11.923**
Institutions	1.087.673	98.207	1.595	74.081	16.501	64.987	10	**1.343.054**
Corporates	-	-	-	-	-	-	2.857.024	**2.857.024**
Retail	-	-	-	-	-	-	2.543.351	**2.543.351**
Secured by mortgages on immovable property	-	-	-	-	-	-	4.432.581	**4.432.581**
Exposures in default	-	-	-	-	-	-	5.005.850	**5.005.850**
Items associated with particularly high risk	-	-	-	-	-	-	2.726.602	**2.726.602**
Covered bonds	13.579	-	-	-	-	-	-	**13.579**
Collective investment undertakings (CIU)	-	-	-	-	-	-	107	**107**
Equity	-	-	-	-	-	-	132.325	**132.325**
Other items	-	-	-	-	-	-	1.314.407	**1.314.407**
Total	**3.414.707**	**98.207**	**1.610**	**74.081**	**16.501**	**64.987**	**19.012.257**	**22.682.350**

8.3.2 Exposures Post Value Adjustments, after applying Credit Conversion Factors and after Credit Risk Mitigation (it includes exposures covered by eligible credit protection)

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

	1	2	3	4	5	6	Uniform Regulatory treatment	Grand Total
2016	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	2.043.058	-	-	-	-	-	2.276	**2.045.334**
Regional governments or local authorities	17.657	-	-	-	-	-	-	**17.657**
Public sector entities	-	-	-	-	-	-	32.777	**32.777**
Multilateral development banks	9.360	-	-	-	-	-	-	**9.360**
International organisations	11.823	-	-	-	-	-	-	**11.823**
Institutions	946.829	53.828	1.229	37.067	18.800	61.524	4.787	**1.124.064**
Corporates	-	-	-	-	-	-	3.696.928	**3.696.928**
Retail	-	-	-	-	-	-	2.225.544	**2.225.544**
Secured by mortgages on immovable property	-	-	-	-	-	-	4.286.822	**4.286.822**
Exposures in default	-	-	-	-	-	-	3.751.577	**3.751.577**
Items associated with particular high risk	-	-	-	-	-	-	2.110.631	**2.110.631**
Covered bonds	11.667	-	-	-	-	-	-	**11.667**
Collective investments undertakings (CIU)	-	-	-	-	-	-	41	**41**
Equity	-	-	-	-	-	-	143.773	**143.773**
Other items	-	-	-	-	-	-	2.268.656	**2.268.656**
Total	**3.040.394**	**53.828**	**1.229**	**37.067**	**18.800**	**61.524**	**18.523.812**	**21.736.654**

8.3.2 Exposures Post Value Adjustments, after applying Credit Conversion Factors and after Credit Risk Mitigation (it includes exposures covered by eligible credit protection) (continued)

	1	2	3	4	5	6	Uniform Regulatory Treatment	Grand Total
2015	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	2.239.835	-	15	-	-	-	-	**2.239.850**
Regional governments or local authorities	21.203	-	-	-	-	-	-	**21.203**
Public sector entities	40.258	-	-	-	-	-	-	**40.258**
Multilateral development banks	10.912	-	-	-	-	-	-	**10.912**
International organisations	11.923	-	-	-	-	-	-	**11.923**
Institutions	1.099.736	98.207	1.595	74.081	16.517	64.987	10	**1.355.133**
Corporates	-	-	-	-	-	-	2.854.638	**2.854.638**
Retail	-	-	-	-	-	-	2.541.276	**2.541.276**
Secured by mortgages on immovable property	-	-	-	-	-	-	4.431.715	**4.431.715**
Exposures in default	-	-	-	-	-	-	4.992.527	**4.992.527**
Items associated with particularly high risk	-	-	-	-	-	-	2.722.497	**2.722.497**
Covered bonds	13.579	-	-	-	-	-	-	**13.579**
Collective investment undertakings (CIU)	-	-	-	-	-	-	107	**107**
Equity	-	-	-	-	-	-	132.325	**132.325**
Other items	-	-	-	-	-	-	1.314.407	**1.314.407**
Total	**3.437.446**	**98.207**	**1.610**	**74.081**	**16.517**	**64.987**	**18.989.502**	**22.682.350**

8.3.3 Breakdown of exposures by asset class and risk weight under the Standardised approach

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

Risk weights or exposure classes with zero exposure values are not included in the table below.

December 2016	Risk weight																Total	Of which unrated[44]
Exposure classes	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Central governments or central banks	2.045.333	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**2.045.333**	-
Regional government or local authorities	-	-	-	-	3.131	-	-	-	-	-	-	-	-	-	-	-	**3.131**	-
Public sector entities	18.041	-	-	-	7	-	-	-	-	-	-	-	-	-	-	-	**18.048**	-
Multilateral development banks	9.360	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**9.360**	9.360
International organisations	11.823	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**11.823**	11.823
Institutions	3.543	-	-	-	944.899	-	85.098	-	-	18.619	61.524	-	-	-	-	-	**1.113.683**	-
Corporates	-	-	-	-	-	-	-	-	-	3.493.834	952	-	-	-	-	-	**3.494.786**	3.494.786
Retail	-	-	-	-	-	-	-	-	2.007.816	-	-	-	-	-	-	-	**2.007.816**	2.007.816
Secured by mortgages on immovable property	-	-	-	-	-	2.833.605	1.284.913	-	-	56.794	-	-	-	-	-	-	**4.175.312**	4.175.312
Exposures in default	-	-	-	-	-	-	-	-	-	2.984.899	725.066	-	-	-	-	-	**3.709.965**	3.709.965
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	2.047.824	-	-	-	-	-	**2.047.824**	2.047.824
Covered bonds	-	-	-	11.667	-	-	-	-	-	-	-	-	-	-	-	-	**11.667**	-
Collective investment undertakings	-	-	-	-	-	-	-	-	-	41	-	-	-	-	-	-	**41**	41
Equity	-	-	-	-	-	-	-	-	-	17.663	-	126.110	-	-	-	-	**143.773**	143.773
Other items	132.588	-	-	-	41.085	-	-	-	-	1.815.351	-	279.632	-	-	-	193.226	**2.461.882**	2.461.882
Total	**2.220.688**	**-**	**-**	**11.667**	**989.122**	**2.833.605**	**1.370.011**	**-**	**2.007.816**	**8.387.201**	**2.835.366**	**405.742**	**-**	**-**	**-**	**193.226**	**21.254.444**	**18.062.582**

[44] Includes all exposures for which an issue/issuer or country rating is not available or they follow uniform regulatory treatment.

9. Exposures in Equities not included in the Trading Book

The Group holds certain legacy equity securities which are actively managed down. The Group also had certain equity securities obtained from customers in satisfaction of debt.

Listed equity securities are measured at fair value, being the market value of these securities on a recognised stock exchange. Unlisted securities are also measured at fair value (except for certain securities that are carried at cost), which is determined using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data. These models are periodically reviewed by qualified personnel. Further information on fair value measurement is disclosed in Note 22 of the Consolidated Financial Statements for year 2016.

Of the total equity securities held by the Group as at 31 December 2016, €21.683 thousand (2015: €59.292 thousand) were classified as AFS and €4.030 thousand (2015: €4.018 thousand) were classified as at FVtPL.

The balance sheet value of the Group's equity securities not included in the trading book at 31 December 2016 was €25.713 thousand (2015: €63.310 thousand), analysed as follows:

	2016	2015
	€000	€000
Listed on the CSE	**7.985**	8.737
Listed on other stock exchanges	**430**	271
Other unlisted	**17.298**	54.302
Total	**25.713**	63.310

The net realised gain from disposals of AFS equity securities during 2016 amounted to €58.368 thousand (2015: €1.075 thousand) and was included in the Consolidated Income Statement. In addition, the Group recorded an impairment charge on AFS equity securities of €839 thousand (2015: €1.291 thousand) and was included in the Consolidated Income Statement. As at 31 December 2016 the AFS revaluation reserve for equity securities of the Group amounted to €2.264 thousand of which 60% of it (€1.358 thousand) is included in CET1 in accordance with the EU Regulation (2016/445) (2015: €47.877 thousand (10% included in CET1)), net of tax.

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

10.1 Nature of the Interest Rate Risk and Key Assumptions

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

Interest rate risk is measured using interest rate sensitivity gap analysis. The assets and liabilities in each currency are placed in time bands, according to the number of days remaining from the reporting date until their next repricing date. Assets and liabilities that are not sensitive to rate changes are recognised as Non Rate Sensitive (NRS) items. The difference between assets and liabilities repricing in each time band (GAP) is then calculated. The gaps are the starting point in calculating the impact on net interest income. A rate change is applied on 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 measured assuming that the composition of the banking book remains the same. It is assumed that the Bank's balance sheet is static and not dynamic and thus, no prepayments or new volumes are taken into consideration. It is noted that the Bank may at its discretion allow its customers to prepay their loans. However, in the case of loan prepayments, penalty charges can apply for fixed rate loans, to cover any associated cost.

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

Given the linkage of the Bank's base rate for loans to the CBC deposit index, the Euro balance sheet is decomposed into two separate balance sheets as per below (the foreign currency balance sheets are not subject to the below decomposition):

1. Balance sheet 1: Bank Base Rate balance sheet where only bank base rate loans and deposits are included.
2. Balance sheet 2: Euribor and ECB balance sheet where all items of the balance sheet except deposits and bank base rate loans are included.

The above decomposition is considered necessary given that different rate shocks/scenarios are applied to each of the balance sheets above as per below[45].

The calculations are performed under the following scenarios:

A. Rate shocks for EUR:

- **Bank Base Rate Balance Sheet [1]**

+/- 1% interest rate change with floor of 0% for:
  (a) bank base rate loans.
  (b) demand, guarantee, savings, time (notice and fixed) deposits.

- **Euribor and ECB Bank Base Rate Balance Sheet [2]**

+ /- 0.5% interest rate change without applying a floor of 0%. A floor of 0% will only apply to ECB marginal lending rate to which ELA funding is referenced.

In the case of the Euro balance sheet for Bank of Cyprus (Cyprus) (which is the greatest part of the Group balance sheet) an additional scenario is also run based on expected rate changes as follows:
  (a) parallel -0.25% change in ECB and Bank base rate and -0.1% change in the Euribor sensitive items of the balance sheet and
  (b) parallel +0.25% change for all items of the balance sheet.

Given the small change assumed under the above scenarios it is expected that the interest rate of demand deposits will not change. The rest of the balance sheet items are assumed to change as per above.

The MR department is authorised to change the Euro rate shocks of this scenario depending on the level of the market rates.

B. Rate shocks for foreign currency:

+ /- 1% interest rate change with application of a floor (of 0%) to interest rates for deposits only.

C. Stress Test Scenario:

2% parallel shift of interest rates (floor of 0% applies to Euro base rate loans, Euro and foreign currency deposits and ELA funding).

[45] Changes to interest rates for the two balance sheets are not considered dependant and thus different rate shocks are used.

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

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

Type of account		Treatment in GAP report
1.	Current accounts (non-maturing deposits)	Mixed sensitivity[46]
2.	Instant access and savings	Mixed sensitivity
3.	Notice and guarantee accounts	Interest Rate Sensitive
4.	Fixed deposits	Interest Rate Sensitive

The first two deposit categories indicated above are considered inelastic on the basis that a change in the market interest rates will not affect or will only partly affect the interest rate of the respective accounts.

In addition to the above, notice and guarantee accounts are treated as reacting quicker to increases in interest rates rather than to decreases in interest rates. This is considered necessary since the Bank is legally obliged to inform the customer (whenever the customer is adversely affected) with one month notice, for its intention to decrease the interest rate that these accounts carry.

Position limits of Bank of Cyprus (Cyprus) are monitored against limits on a daily basis. Interest rate risk exposure limits up to year 3 are managed on a daily basis and monitored against limits on a monthly basis. Bank of Cyprus UK Ltd measures and monitors the interest rate risk exposure on a daily basis whereas the other banking units of the Group on a monthly basis. The Group interest rate risk is monitored on a monthly basis.

10.2 Impact of Downward and Upward Rate Shocks

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

10.2.1 On Earnings

The maximum loss limits apply for each of the first three years. They are set as a percentage of the Group capital and as a percentage of Group net interest income. Approved small limits are in place for open interest rate positions for periods longer than three years.

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

[46] Mixed sensitivity means that these accounts have different interest rate sensitivity characteristics depending on the direction of the change of the interest rates (increase/decrease). The extent of this sensitivity is periodically calibrated

10.2.1 On Earnings (continued)

2016	**Euro**	**US Dollar**	**British Pound**	**Other currencies**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Change in interest rates					
Scenario 1: +2% for RUB, +1% for USD, +0,5% for all other currencies	**17.269**	**15.950**	**5.081**	**(43)**	**38.257**
Scenario 2: -4% for RUB and -0,5% for all other currencies	**(21.479)**	**(8.089)**	**(3.057)**	**(438)**	**(33.063)**

2015					
Change in interest rates					
Scenario 1: +5% for RUB, +0.75% for USD, +0,5% for all other currencies	14.244	10.281	4.524	(570)	28.479
Scenario 2: -5% for RUB, -0,25% for JPY, -0.5% for EUR Euribor, ECB, -1% for EUR Bank Basic Rate and -0,5% for all other currencies	(24.120)	(7.275)	(3.454)	532	(34.317)

10.2.2 On Economic Value of Equity

The impact on the economic value of equity is measured for Group positions, given a 200 basis points decrease in market interest rates. ALCO has set a maximum limit of 10% of Group regulatory capital for this change, compared to the 20% regulatory maximum ratio. The change in the economic value of the Group's equity as at the end of December 2016 amounted to -€110,4 million (4% of Group Tier 1 capital, calculated in accordance with CBC rules). As at the end of December 2015, this amounted to -€13,4 million (-0,49% of Group Tier 1 capital, calculated in accordance with CBC rules). The increase compared to last year is due to the transfer of the Loans in Recoveries from the NRS column (having no impact) to the longer term time bands based on the average period needed to reach the maximum recovery period of six years (with minimum recovery period of two years), from the time they entered recoveries. This assumption was based on the fact that the interest rate of all loans transferred to recoveries is frozen (due to the delinquent nature of the loans).

10.2.2 On Economic Value of Equity (continued)

The economic value change of the foreign branches/subsidiaries given a 200 basis points drop in market interest rates as well as a per currency analysis is indicated in the tables below:

Group economic value change of the foreign branches/subsidiaries

2016	**Cyprus**	**United Kingdom**	**Romania**	**Channel Islands**	**Total**
Change in economic value (€000)	126.329	(15.279)	(611)	-	**110.439**
Change on CET1 (%)		**-12,82%**			**4,05%**

2015					
Change in economic value (€000)	(1.700)	(11.278)	(276)	(149)	(13.403)
Change on CET1 (%)	-	-8,51%	-	-0,22%	-0,49%

10.2.2 On Economic Value of Equity (continued)

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

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5to 7 years	7 to 10 years	10 to 15 years	15 to 20 years	>20 years	NRS	Total
2016	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
EUR gaps	2.454.308	2.932.713	484.375	(1.287.392)	(572.164)	(28.338)	1.393.064	111.513	131.769	57.805	4.411	8.559	1.149	(5.685.141)	**6.631**
Ec. Value change	2.045	9.776	3.633	(19.311)	(17.165)	(1.417)	97.514	10.036	14.245	9.702	1.083	2.925	502	-	**113.568**
USD gaps	1.430.355	331.921	(136.420)	(33.720)	(4.586)	1.962	8.437	-	-	-	-	-	-	(1.597.572)	**377**
Ec. Value change	1.186	1.101	(1.013)	(501)	(135)	96	575	-	-	-	-	-	-	-	**1.309**
GBP gaps	542.028	554.817	(150.215)	(355.647)	(228.892)	(74.538)	-	-	5.635	-	-	-	-	(293.044)	**144**
Ec. Value change	450	1.840	(1.121)	(5.308)	(6.811)	(3.688)	-	-	607	-	-	-	-	-	**(14.031)**
AUD gaps	17.223	6.732	(5.791)	(7.428)	(864)	-	-	-	-	-	-	-	-	(9.949)	**(77)**
Ec. Value change	14	22	(43)	(110)	(25)	-	-	-	-	-	-	-	-	-	**(142)**
Other gaps	122.232	(94.385)	(1.264)	(341)	5.808	-	-	-	-	-	-	-	-	(38.468)	**(6.418)**
Ec. Value change	101	(313)	(9)	(5)	173	-	-	-	-	-	-	-	-	-	**(53)**
RUB gaps	30.032	(166)	(1.319)	96	133	4.374	265	583	-	-	-	-	-	(33.154)	**844**
Ec. Value change	25	(1)	(9)	1	3	178	14	39	-	-	-	-	-	-	**250**
CHF gaps	(198.560)	(14.774)	75.504	4.773	735	735	117.444	562	959	-	-	-	-	12.632	**10**
Ec. Value change	(166)	(50)	571	72	22	37	8.283	51	105	-	-	-	-	-	**8.925**
JPY gaps	(24.543)	18.826	3.626	-	-	-	7.771	-	-	-	-	-	-	(5.712)	**(32)**
Ec. Value change	(21)	63	27	-	-	-	544	-	-	-	-	-	-	-	**613**
Total Ec. Value change															**110.439**

10.2.2 On Economic Value of Equity (continued)

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

	Up to 1month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 7 years	7 to 10 years	10 to 15 years	15 to 20 years	>20 years	NRS	Total
2015	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
EUR gaps	(909.718)	4.624.010	701.559	(944.461)	148.571	(475.924)	(61.564)	16.552	80.229	15.340	(258)	3.346	841	(3.191.102)	**7.421**
Ec. Value change	(758)	15.413	5.262	(14.167)	4.457	(23.606)	(4.285)	1.480	8.681	2.574	(63)	1.144	367	-	**(3.501)**
USD gaps	1.201.042	121.819	234.117	(114.930)	3.794	(2.711)	4.400	29	5.155	87	-	-	-	(1.453.723)	**(921)**
Ec. Value change	961	414	1.732	(1.701)	112	(133)	300	3	552	14	-	-	-	-	**2.254**
GBP gaps	584.950	357.322	(253.359)	(294.543)	(162.133)	(43.499)	-	-	-	-	-	-	-	(187.915)	**823**
Ec. Value change	468	1.215	(1.875)	(4.359)	(4.799)	(2.131)	-	-	-	-	-	-	-	-	**(11.481)**
AUD gaps	34.041	(11.616)	(5.524)	(7.087)	-	-	-	-	-	-	-	-	-	(9.780)	**34**
Ec. Value change	28	(38)	(41)	(104)	-	-	-	-	-	-	-	-	-	-	**(155)**
Other gaps	19.227	(396)	5.044	(1.083)	-	-	-	-	-	-	-	-	-	(29.572)	**(6.780)**
Ec. Value change	15	(1)	37	(16)	-	-	-	-	-	-	-	-	-	-	**35**
RUB gaps	(12.028)	9.683	100.775	(101.824)	373	-	4.059	357	250	-	-	-	-	(1.724)	**(79)**
Ec. Value change	(9)	29	687	(1.389)	10	-	221	24	24	-	-	-	-	-	**(403)**
CHF gaps	(200.715)	47.611	(39.731)	(5.784)	252	252	252	252	1.260	-	-	-	-	196.601	**250**
Ec. Value change	(169)	160	(300)	(87)	8	13	18	23	138	-	-	-	-	-	**(196)**
JPY gaps	(19.466)	(5.646)	10.721	-	-	-	-	-	-	-	-	-	-	14.575	**184**
Ec. Value change	(17)	(19)	80	-	-	-	-	-	-	-	-	-	-	-	**44**
Total Ec. Value change															**(13.403)**

11. Remuneration Policy and Practices

The Group Remuneration Policy captures provisions from the CSE's Corporate Governance Code (Code), the UK Code further to the Company's decision to comply with the UK Corporate Governance Code 2014 as of 4 October 2016 and relevant Directives of the CBC and aims to align the remuneration of directors, executive management, officers and staff with the business strategy, objectives and long-term interests of the Group. It is consistent with the effective management of risks and does not encourage excessive risk-taking.

11.1 Human Resources and Remuneration Committee (HRRC)

11.1.1 The Role of the HRRC

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

The role of the HRRC is:

- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals and the organisation and information capital necessary to effect continuous improvement and create a comparative advantage in the market.
- To set the over-arching principles and parameters of compensation & benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the executive directors of the Group, senior management and other key personnel whose total annual fixed remuneration exceeds €120 thousand and the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices, the Directive for the Governance and Management Arrangements issued by the CBC the UK Code and any other applicable statutory or regulatory requirements.

The HRRC:

Through a formal and transparent process, considers, agrees, recommends to the Board and maintains an overall remuneration policy for the Group (the "Group Remuneration Policy") on an annual basis which:

- applies to all executive and non- executive directors, senior management and other staff across the Group;
- aligns remuneration with job value, individual performance and potential;
- takes into account market conditions;
- is aligned with the Group's long term business strategy and objectives, its values and its long-term interests;
- is in line with the regulatory framework; and
- is aligned with the Group's capital and liquidity availability, the interests of its shareholders, does not encourage excessive risk taking and ensures an appropriate balance between fixed and performance-related remuneration, immediate and deferred remuneration.

Reviews and approves the remuneration packages of executive members of Group BoD vis-à-vis their performance;

Reviews remuneration packages of senior management and other key personnel whose total annual fixed remuneration exceeds €120 thousand as follows:

- **All Divisional Directors that report to the CEO or D-CEO, General Managers of major subsidiaries (Eurolife, General Insurance of Cyprus (GIC)) and other employees whose total annual remuneration exceeds €120 thousand:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, review and approve their remuneration packages, (incl. salary, pension policy additional to any possible membership of the Provident Fund, option plans and other types of compensation), recommended by the CEO or D-CEO.

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

11.1.1 The Role of the HRRC (continued)

- **Country CEOs:** Within the Group Remuneration Policy and the recommended level and structure of remuneration for senior management, review and approve their remuneration (jointly with the Country Board Remuneration Committee), recommended by the chairperson of the Country Board.

Proposes fees payable to the Chairperson and Vice Chairpersons to the Board for approval.

11.1.2 Composition and Meetings of the HRRC

The HRRC has a minimum of 3 members who are appointed by the BoD on an annual basis. The HRRC must consist entirely of independent non-executive directors. From 1 January 2016 to 9 June 2016 the HRRC comprised of only two independent non-executive members, until the appointment of a new independent non-executive director to the BoD.

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

The HRRC held nine meetings during 2016. The HRRC reviewed the Voluntary Exit Plan and recommended it to the BoD for approval. The HRRC reviewed and approved the Group's Remuneration Policy, reviewed the Provision of Vehicles, Mobile Devices and Expense Reimbursement Policy and then recommended to the BoD for approval, and also reviewed and approved the Long Term Incentive Plan as presented by the Group CEO. Additionally, the HRRC was instrumental in effecting remuneration initiatives to selected staff.

The HRRC reviewed its terms of reference once in order to ensure continuing appropriateness and full compliance with regulatory framework especially the UK Code. Amongst other things, the Committee reviewed the 2016 Training Plan and the Staff Engagement Survey.

11.1.3 Relevant Stakeholders

The HRRC ensures that internal control functions (i.e. Internal Audit, RMD and Compliance) and the HR Division are involved in the design, review and implementation of the Remuneration Policy.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the UK Code as well as the CBC Directive on Governance and Management Arrangements of Credit Institutions which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in CRD IV, as well as regulatory restrictions pertinent to the banking sector currently.

11.2 Performance Related Pay

Fixed remuneration comprises of salary and any applicable allowances. With regards to variable remuneration, the Bank is currently restricted with regards to the amounts to be granted. Additional information on the Group's remuneration policy is set out in the Annual Corporate Governance Report for year 2016. The Annual General Meeting of 2015 approved a Long Term Incentive Plan which is still valid (Section 3.3) pending on a number of preconditions that must be met.

11.3 Design and Structure of Remuneration

11.3.1 Non-Executive Directors

The remuneration of non-executive directors is not linked to the profitability of the Group. The remuneration of non-executive directors is related to the responsibilities and time devoted for BoD meetings and decision-making for the governance of the Group, and for their participation in the committees of the BoD and the boards of Group subsidiary companies. The shareholders' Annual General Meeting held on 25 October 2016 approved the same levels of remuneration as those approved on 24 November 2015.

11.3.2 Executive Directors

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

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

The employment contract of the CEO was extended to 31 December 2018.

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

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

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

Bonus
No bonus was recommended by the BoD for executive directors for year 2016.

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

The main characteristics of the retirement benefit schemes are presented in Note 14 of the Consolidated Financial Statements for year 2016.

Share Options
No share options were granted to executive directors during 2016.

Other Benefits
Other benefits provided to the executive directors include other benefits provided to staff, medical fund contributions and life insurance. The CEO is provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for executive management are disclosed in Note 48 of the Consolidated Financial Statements for year 2016.

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

2016	**Executive Directors**	**Other key management personnel**
	€000	**€000**
Salaries and other short term benefits	1.848	3.144
Termination benefits	-	397
Employer's contributions	110	190
Retirement benefit plan costs	168	158
Total	**2.126**	**3.889**
Number of beneficiaries during the year	**2**	**18**

2015	**Executive Directors**	**Other key management personnel**
	€000	€000
Salaries and other short term benefits	1.061	3.328
Employer's contributions	66	164
Retirement benefit plan costs	128	178
Total	**1.255**	**3.670**
Number of beneficiaries during the year	**2**	**15**

The other key management personnel emoluments include the remuneration of the members of the Senior Management since the date of their appointment to the committee and other directors who report directly to the CEO or to the D-CEO and Chief Operating Officer.

Remuneration for year 2016 (excluding termination benefits) by business line

	Remuneration	**Number of employees/ positions**
2016	**€000**	
Corporate	264	2
Retail	192	1
IBUs	158	1
Private Banking	40	1
RRD	1.190	1
Insurance operations	298	3
Head office	3.476	11
Total	**5.618**	20

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

One executive director in 2016 and one key management personnel in 2015 had total emoluments for the year, including employer's contributions and other benefits, in the range of €1,5 million to €2 million.

Remuneration for year 2015 (excluding termination benefits) by business line

	Remuneration	**Number of employees/ positions**
2015	**€000**	
Corporate	131	1
Retail	166	1
IBUs	136	1
Private Banking	125	1
RRD	1.783	1
Insurance operations	299	2
Head office	2.285	10
Total	**4.925**	17

Non-executives	**2016**	2015
	€000	€000
Total fees	**861**	822

The fees of the non-executive directors include fees as members of the BoD of the Company and its subsidiaries, as well as of committees of the BoD. They include the fees and benefits for the period that they serve as members of the BoD.

11.5 Additional Information

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

12. Leverage

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

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

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

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

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

As result, two leverage ratios are calculated.

As at 31 December 2016, the leverage ratio of the Group was equal to 11,95% (2015: 12,1%) using a transitional definition of Tier1 and 11,46%% (2015: 11,32%) using a fully phased-in definition of Tier 1. This ratio is well above the 3% limit.

In order to manage the risk of excessive leverage, the Bank, through its Liquidity Policy, has adopted the internal leverage ratio (defined as total assets over core equity). The internal leverage ratio which is within 15x corresponds approximately to a minimum limit of 7% (1 over 15) which effectively corresponds to the EBA leverage ratio. The limit for the Basel QIS ratio is 3%, hence the aforementioned limit is stricter. To monitor the internal leverage ratio the following traffic light reporting is used:

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

The regulatory transitional leverage ratio of the Group has remained relatively constant since, in the past year, there were no significant changes to either Tier 1 capital or to the exposures.

12.1 Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

	Application amounts	
	2016	2015
	€000	€000
Total assets as per published financial statements	**22.171.936**	**23.270.501**
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation[47]	-	(760.106)
Adjustments for derivative financial instruments	(9.293)	(4.334)
Adjustments for securities financing transactions	42.398	58.094
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	692.656	526.044
Asset amount deducted – Tier 1 capital – transitional definition	(68.321)	(17.989)
Other adjustments	3.849	(205.685)
Leverage ratio exposure	**22.833.225**	**22.866.525**

12.2 Leverage Ratio Common Disclosure

	CRR leverage ratio exposures	
On-balance sheet exposures (excluding derivatives and SFTs)	**2016**	2015
	€000	€000
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**22.154.950**	22.272.698
Total on-balance sheet exposures (excluding derivatives and SFTs)	**22.154.950**	22.272.698
Derivative exposures		
Replacement cost associated with derivatives transactions	**6.727**	1.046
Add-on amounts for PFE associated with derivatives transactions	**4.815**	8.643
Total derivative exposures	**11.542**	9.689
Securities financing transaction exposures		
SFT exposure	**42.398**	58.094
Total securities financing transaction exposures	**42.398**	58.094
Off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	**2.866.494**	2.774.835
Adjustments for conversion to credit equivalent amounts	**(2.173.838)**	(2.248.791)
Total off-balance sheet exposures	**692.656**	526.044
Capital and Total Exposures		
Tier 1 capital	**2.727.997**	2.747.772
Total Exposures	**22.833.225**	22.866.525
Leverage Ratios		
End of quarter leverage ratio	**11,95%**	12,1%

[47] Leverage ratio as per December 2016 was reported as per the Commission Delegated Regulation (EU) 2015/62 which was introduced in September 2016. December 2015 figures are as per CRR.

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

	CRR leverage ratio exposures	
	2016	2015
	€000	€000
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	**22.154.950**	**22.272.698**
Trading book exposures	**3.849**	**7.813**
Banking book exposures, of which:	**22.151.101**	**22.264.885**
Exposures treated as sovereigns	2.098.786	2.302.842
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	17.553	20.907
Institutions	1.027.682	1.245.483
Secured by mortgages of immovable properties	4.255.443	4.412.468
Retail exposures	2.156.429	2.473.211
Corporates	5.484.546	5.341.806
Exposures in default	3.715.968	4.967.139
Other exposures (e.g. equity and other non-credit obligation assets)	3.394.694	1.501.029

13. Information on Credit Risk Mitigation Techniques

The Group has implemented various methods in order to achieve effective mitigation of credit risk. Some of the most important methods are listed below:

- Identifying the sectors of the economy the Bank is not willing to finance or may finance under strict conditions (i.e. dangerous / prohibited sectors of the economy).
- Setting of sanctioning limits for all line/Unit Managers and the various Sanctioning / Approving Authorities of the Bank (including the Credit Committees).
- Setting of thresholds relating to Loan to Value Ratios as well as procedures for taking collaterals especially mortgages on residential and commercial properties.
- Issuing circulars and guidelines concerning the granting of credit which are in line with the regulatory directives.

The purpose of collateral is to secure the Bank's claims towards a customer when granting a credit facility and it acts as a credit risk mitigant in the case of customer default.

The Group sets the following criteria for accepting collateral:
(a) They should be sufficient to cover the proposed facility throughout its duration.
(b) They should provide capital efficiency and minimum risk.
(c) They should be easy to realise in the case of customer default in the current regulatory framework and market availability.

13. Information on Credit Risk Mitigation Techniques (continued)

As a principle, the financed asset should be obtained as collateral. Deviations from this rule may be allowed in cases where (a) there may be a valid reason for not pledging the financed property (b) the alternative collateral fully covers the finance amount, and (c) an official valuation is performed for both properties by the same valuer and the alternative collateral is deemed to be at least as easily realisable as the property to be financed. When the collateral is in the name of a third party, the personal/corporate guarantee of the third party is usually obtained. For capital efficiency, the duration/maturity of the collateral should be at least the same as that of the facility.

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

13.1 Main Types of Collateral Accepted

Collaterals are classified into two categories:
(a) Own (belonging to the borrower).
(b) Third Party (belonging to third party, not being the borrower).

Collaterals cover all the facilities of a customer provided that these facilities are specific and the owner provides its consent.

13.1.1 Legal Pledge of Cash Deposit (Cash Collateral)

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

13.1.2 Government Guarantees

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

13.1.3 Bank Guarantees

These include guarantees issued by local and foreign banks. Bank guarantees are accepted in line with the various Group limits set by the MR department and which are based on each bank's credit worthiness.

13.1.4 Mortgages (Legal Charge on Property)

Mortgage on real estate property is the most common form of collateral accepted by the Group. They are generally accepted only when the Group's claim ranks first over other creditors. Lower ranking mortgages (i.e. 2nd, 3rd, etc) are accepted only when the Bank has first ranking mortgage also or where the country's legal system protects the value of a second mortgage (or the first ranked mortgagees have restricted their claim). All mortgages are written for the equivalent of the facility amount plus 10%, and in the same currency as the related facility's currency; in case there is a currency mismatch, MR is consulted to set the acceptable coverage percentage. For buildings, a fire/earthquake insurance policy is also required and it should be assigned in favour of the Group.

13.1.5 Assignment of Sale of Contract

When the property offered as collateral has no official title deed necessary for a mortgage, the Group can accept the assignment of the contract of sale. With the assignment of the contract of sale, the buyer of the property assigns to the Group the benefits arising from the contract. The assignment of the contract should be registered with the Land Registry and is considered equivalent to a mortgage provided that the assignment of the sale of contract is accompanied by the corporate guarantee of the developer (seller) and the developer's (seller's) related project is mortgaged in favour of the Bank.

13.1.6 Personal/Corporate Guarantees

Whilst these are a weaker form of collateral, they are obtained as additional or supporting collateral to other forms of security held by the Group. For corporate guarantees, officers need to ensure that this act is permitted in the incorporation documents of the entity giving the guarantee. When the customer is a legal entity, the personal guarantees of the main shareholders/directors, key persons and any other parties having active participation or control in the entity must be obtained. When the debtor is not a local resident, it is recommended to receive personal guarantees from local residents. The amount of the guarantee should be at least equal to the amount of the facility, and if possible cover any interest or additional charges. All guarantors must be evaluated through the credit scoring or other evaluation processes that are issued from time to time, using relevant assets and liabilities statements which must be at least in time with the revision of the customer's facilities. In order for the Group to accept the guarantees, the guarantors should be solvent.

Additionally, based on the CBC Directive on Credit Granting and Review Processes, in cases where guarantees are obtained the same information is requested from guarantors as from the borrower.

Guarantors are required to complete a personal financial statement (individuals) or provide audited financial statements (legal entities) as well as supply various documents depending on the case. Although the guarantor's income is not taken into account in calculating the repayment ability of the borrower (except for spouses), they are assessed for creditworthiness and may be rejected for any negative financial or other reasons.

13.1.7 Fixed Charges

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

13.1.8 Floating Charges on Company Assets

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

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

13.1.9 Assignment of Life Insurance Policies

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

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

13.1.10 Assignment of General Insurance Policies

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

13.1.11 Assignment of Receivables

The original beneficiary assigns the receivables to the Group without notification to the paying party. It is a weaker form of collateral unless the Group can notify the debtor of the assignment. Their eligibility depends on:
(a) The degree of trust and confidence the Bank has in the assignor.
(b) The legal assignability of the receivables.
(c) The clear and unambiguous definability of the receivables and their value.
(d) The receivables being free from third-party rights.

13.1.12 Pledge on Marketable Securities (Shares, Debt Securities, etc)

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

13.2 Collateral Valuation Policy

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

13.2.1 Mortgages (Legal Charge on Property)

Valuation Frequency/Monitoring

New Lending

New Lending Amount	No. of Valuations
2016	
Lending < €3 million	1
Lending > €3 million	2[48]
2015	
Lending < €3 million	1
Lending > €3 million	2[48]

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

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

[48] If there is a discrepancy greater than 20% between the two valuations then a third valuation should be performed.

13.2.1 Mortgages (Legal Charge on Property) (continued)

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

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

Amount of Customer Facilities	**Official Valuation Period**
€	**Commercial and Residential Properties**
Below €3million	No valuation unless there is a material decline in property value
Above €3million	3 years
	Index Monitoring
Irrespective of amount	Quarterly

Restructuring Facilities

During restructuring applications, the frequency of the revaluations is as follows, unless the LTV of the customer is below 50% based on the most recent valuation:

Facility Amount	**Date of last Valuation**	
2016	Commercial	Residential
Irrespective of amount	1 year	3 years

Facility Amount	**Date of last Valuation**	
2015	Commercial	Residential
Irrespective of amount	1 year	3 years

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

Facility Amount	**Frequency/Age of Valuation**
2016	
At the time of transfer to RRD (irrespective of amount)	6 months
Properties already under Recoveries	Monitored using appropriate indices, as per paragraph "Revision of Facilities" above
2015	
At the time of transfer to RRD (irrespective of amount)	6 months
Irrespective of amount	Monitored using appropriate indices

13.2.2 Assignment of Sale of Contract

Sales contracts do not have a recoverable amount but indirectly acquire value in the following cases:
(a) When there is a developer guarantee for the buyer's loan and the project is financed and mortgaged within the same bank.
(b) When accompanied by a bank guarantee or letter of allocation (within the Group).

13.2.3 Fixed and Floating Charges

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

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

13.2.4 Personal/Corporate Guarantees

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

13.2.5 Government Guarantees

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

13.2.6 Bank Guarantees

100% of the guarantee value (entered by the user at origination) plus interest where applicable (from the date of issue). The market value of the bank guarantee is the face value of the guarantee.

13.2.7 Pledge on Marketable Securities (Shares, Bonds, Debentures, etc)

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

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

Recoverable Amounts	Listed	Non Listed
Shares (Cyprus and abroad)	75 / 50*% * Where the % of shares pledged, per customer group, does not / does exceed 3% of the total shares of the company, respectively.	50% of company net worth
Bonds & Debentures issued by Banks (Cyprus and Abroad)	90%	90% of NPV
Bonds & Debentures issued by other public companies (Cyprus and abroad)	70%	50% of nominal value provided issuer has positive net asset value
Government Bonds (Cyprus)	100%	100%
Government Bonds & Debentures	Subject to CBC approval	Subject to CBC approval

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

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

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

LTV increase	Action taken
+15%	Inform appropriate Director – Request additional collateral,/deposits, decrease lending, evaluate the possibility of liquidation)
+25%	Inform appropriate Director and obtain approval from the related approving authority for immediate liquidation, assessing the impact of such action on the company and its related group

13.2.8 Assignment of Life Insurance Policies

Term life insurance policies have no recoverable amount.

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

13.2.9 Other Collateral Types

- Pledge on goods (0%).
- Assignment of receivables (0%).
- Positive/Negative pledge (0%).
- Vehicles under stocking finance (0%-75%) depending on the age of the vehicle (recorded manually at origination and then depreciated automatically by the system).
- Items under hire-purchase, 50% of net book value at origination and subsequently depreciated automatically according to the type of item.

13.3 Concentrations within Credit Risk Mitigation

The Group has a material concentration of property collateral. Further analysis on fair value of collateral and credit enhancements held by the Group is presented in Note 43 of the Consolidated Financial Statements for year 2016.

The table below illustrates the effect of all CRM techniques applied in accordance with the CRR, including the financial collateral comprehensive method.

RWA density is a synthetic metric on the riskiness of each portfolio. The increase in the overall RWA density results mainly from the reclassification of retail exposures to corporate exposures, CRR Article 123(c) and a further increase in exposure classes that have a higher RWA density e.g. Other items.

Exposure classes with zero exposure values are not included in the table above.

13.3 Concentrations within Credit Risk Mitigation (continued)

31 December 2016	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
Central governments or central banks	1.994.906	28	2.045.333	-	-	0,0%
Regional government or local authorities	58.384	12.552	3.036	95	626	20,0%
Public sector entities	32.270	600	18.041	7	1	0,0%
Multilateral development banks	9.360	-	9.360	-	-	0,0%
International organisations	11.823	-	11.823	-	-	0,0%
Institutions	1.019.117	74.146	1.027.587	31.190	318.843	30,1%
Corporates	3.449.820	1.210.744	3.267.286	226.777	3.449.352	98,7%
Retail	2.157.150	998.029	1.948.526	59.290	1.422.499	70,8%
Secured by mortgages on immovable property	4.255.562	62.974	4.145.741	29.571	1.615.895	38,7%
Exposures in default	3.726.558	237.358	3.675.261	34.704	4.072.498	109,8%
Higher-risk categories	2.058.042	220.092	2.003.647	44.177	3.071.736	150,0%
Covered bonds	11.667	-	11.667	-	1.167	10,0%
Collective investment undertakings	41	-	41	-	41	100,0%
Equity	143.773	-	143.773	-	332.938	231,6%
Other items	2.255.096	13.560	2.255.096	13.560	2.522.648	111,2%
Total	**21.183.569**	**2.830.083**	**20.566.218**	**439.371**	**16.808.244**	**80,0%**

14. Exposure to Market Risk

The Total Capital Requirement for MR as at 31 December 2016 consists of capital requirement of €308 thousand due to equities in the trading booked (2015: €625 thousand due to equities in the trading book and €2 thousand due to commodities).

There were no large exposures for institutions as at 31 December 2016 and 2015 that exceeded the relevant limits.

For further details refer to section 4.2

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

The subsidiary companies and branches, their activities and their consolidation method as at 31 December 2016 are presented in the table below:

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bank of Cyprus Public Company Ltd	Full consolidation	x	-	-	-	Commercial bank
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Full consolidation	x	-	-	-	Investment banking, asset management and brokerage
Finerose Properties Ltd	Full consolidation	x	-	-	-	Financing services
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Full consolidation	x	-	-	-	Holding company
JCC Payment Systems Ltd	Full consolidation	x	-	-	-	Card processing transaction services
Auction Yard Ltd	Full consolidation	x	-	-	-	Auction company
S.Z. Eliades Leisure Ltd	Full consolidation	x	-	-	-	Land development and operation of a golf resort
Bank of Cyprus Public Company Ltd (branch of the Company)	Full consolidation	x	-	-	-	Administration of guarantees and holding of real estate properties
Bank of Cyprus UK Ltd	Full consolidation	x	-	-	-	Commercial bank
BOC Financial Services Ltd	Full consolidation	x	-	-	-	Financial advisory services
Bank of Cyprus Romania (branch of the Company)	Full consolidation	x	-	-	-	Commercial bank
Cyprus Leasing S.A. (formerly Cyprus Leasing Romania IFN SA)	Full consolidation	x	-	-	-	Collection of the existing portfolio of receivables, including third party collections
MC Investment Assets Management LLC	Full consolidation	x	-	-	-	Problem asset management company
Kyprou Finance (NL) B.V.	Full consolidation	x	-	-	-	Financing services
Fortuna Astrum Ltd	Full consolidation	x	-	-	-	Problem asset management company
General Insurance of Cyprus Ltd	Full consolidation	-	-	-	x	General insurance
EuroLife Ltd	Full consolidation	-	-	-	x	Life insurance
Kermia Ltd	Full consolidation	-	-	-	x	Property trading and development
Kermia Properties & Investments Ltd	Full consolidation	-	-	-	x	Property trading and development
Cytrustees Investment Public Company Ltd	Full consolidation	-	-	-	x	Closed-end investment company
CLR Investment Fund Public Ltd	Full consolidation	-	-	-	x	Investment company
BOC Secretarial Company Ltd	Full consolidation	-	-	-	x	Secretarial services
Kyprou Zois (branch of EuroLife Ltd)	Full consolidation	-	-	-	x	Life insurance
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Full consolidation	-	-	-	x	General insurance

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Timeland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cobhan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bramwell Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Birkdale Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Newington Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Innerwick Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ramendi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ligisimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Moonland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Polkima Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nalmosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Smooland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Emovera Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Estaga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Skellom Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Blodar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Spaceglowing Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Threefield Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lepidoland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ecunaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cranmer Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vieman Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Les Coraux Estates Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Natakon Company Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Oceania Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Dominion Industries Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Ledra Estate Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Eurolife Properties Ltd	Full consolidation	-	-	-	x	Ownership and management of immovable property
Laiki Lefkothea Center Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Labancor Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Steparco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Joberco Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zecomex Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Domita Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Memdes Estates Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pamaco Platres Complex Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vameron Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thryan Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otoba Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Edoric Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Canosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Silen Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kernland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Unduma Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Danoma Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kimrar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jobelis Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Metin Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pekiro Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Melsolia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nimoland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lozzaria Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Koralmon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Petrassimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Kedonian Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lasteno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Armozio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Spacous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Calinora Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marcozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Soluto Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Solomaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Linaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Andaz Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Unital Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Neraland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Canemia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Wingstreet Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nolory Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lynoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Renalandia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fitrus Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lisbo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mantinec Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Syniga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Colar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Irisa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valiro Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Avolo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bracando Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Provezaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Hillbay Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jungax Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ofraco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Forenaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vidalaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jemina Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hovita Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Flitous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Badrul Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Belaland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Belzeco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bothwick Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fireford Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Citlali Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Endar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Astromeria Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Orzo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Basiga Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Regetona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Arcandello Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Sylvesta Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Camela Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nerofarm Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Subworld Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jongeling Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Introserve Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Alomco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cereas Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fareland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Landeed Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Sindelaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Barosca Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fogland Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tebasco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dolapo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Homirova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nabela Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valecross Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Altco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Forsban Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Marisaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Olivero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Cavadino Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Jaselo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elosa Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Garveno Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Flona Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Toreva Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Resoma Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Singleserve Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Consento Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Mostero Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Helal Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Yossi Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Gozala Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Molla Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lezanco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pendalo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Frontyard Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bascot Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bonsova Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nasebia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Vanemar Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Garmozy Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Orasmo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Palmco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Crolandia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thermano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Indene Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Ingane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Venicous Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lasmane Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Lorman Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Caruzoco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Consoly Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Eracor Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Alomnia Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Rulemon Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Thelemic Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Maledico Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Dentorio Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valioco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bascone Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Balisimo Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Artozaco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Elizano Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
K. Athienitis Kalamon Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property
Otherland Properties Dorobanti SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Pittsburg Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Battersee Real Estate SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Valioco Properties Ltd	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

		Method of regulatory consolidation				
Name of the entity	**Method of accounting consolidation**	**Full consolidation**	**Proportional consolidation**	**Neither consolidated nor deducted**	**Deducted**	**Activities**
Trecoda Real Estate SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Green Hills Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Bocaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Buchuland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Commonland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Romaland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Janoland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Blindingqueen Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Fledgego Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Hotel New Montana SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Loneland Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Frozenport Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Imoreth Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Inroda Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Melgred Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Tantora Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Zunimar Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Allioma Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property
Nikaba Properties SRL	Full consolidation	x	-	-	-	Ownership and management of immovable property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Iperi Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Obafemi Holdings Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Stamoland Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Gosman Properties Ltd	Full consolidation	x	-	-	-	Holding of shares and other investments
Belvesi Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Warmbaths Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Tavoni Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Tezia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Carnota Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Demoro Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Primaco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Amary Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Hamura Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Gileco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Meriaco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Venetolio Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Flymoon Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Senadaco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Desogus Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Intelamon Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Weinar Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Holstone Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Balasec Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Nouralia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Mazima Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Diafor Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Prosilia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Fantasio Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Lancast Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Alepar Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Nelipo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Allodica Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Resocot Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Jomento Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Soblano Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Talamon Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Unoplan Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Paradexia Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Rosalica Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Zandexo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Calandomo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Paramina Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Cramonco Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Bigwaive Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Tasabo Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Coeval Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Bendolio Properties Ltd	Full consolidation	x	-	-	-	Reserved to accept property
Mirodi Properties SRL	Full consolidation	x	-	-	-	Reserved to accept property
Nallora Properties SRL	Full consolidation	x	-	-	-	Reserved to accept property
Selilar Properties SRL	Full consolidation	x	-	-	-	Reserved to accept property
Otherland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Pittsburg Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Battersee Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Trecoda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Bonayia Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Bocaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Buchuland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Commonland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Romaland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
BC Romanoland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Blindingqueen Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Fledgego Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Janoland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Threerich Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Loneland Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Unknownplan Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Frozenport Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Imoreth Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Inroda Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Melgred Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Tantora Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Zunimar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Selilar Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Mirodi Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Nallora Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Nikaba Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Allioma Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Hydrobius Ltd	Full consolidation	x		-	-	Intermediate holding company
Landanafield Properties Ltd	Full consolidation	x	-	-	-	Intermediate holding company
Laiki Bank (Nominees) Ltd	Full consolidation	-	-	-	x	Inactive
Fairford Properties Ltd	Full consolidation	x	-	-	-	Inactive
Thames Properties Ltd	Full consolidation	x	-	-	-	Inactive
Paneuropean Ltd	Full consolidation	x	-	-	-	Inactive
Philiki Ltd	Full consolidation	x	-	-	-	Inactive
Cyprialife Ltd	Full consolidation	x	-	-	-	Inactive
Imperial Life Assurance Ltd	Full consolidation	-	-	-	x	Inactive
Philiki Management Services Ltd	Full consolidation	x	-	-	-	Inactive
Nelcon Transport Co. Ltd	Full consolidation	-	-	-	x	Inactive
Ilera Properties Ltd	Full consolidation	x	-	-	-	Inactive
Weinco Properties Ltd	Full consolidation	x	-	-	-	Inactive
Calomland Properties Ltd	Full consolidation	x	-	-	-	Inactive
Lameland Properties Ltd	Full consolidation	x	-	-	-	Inactive
BOC Asset Management Ltd	Full consolidation	x	-	-	-	Inactive
Pariza Properties Ltd	Full consolidation	x	-	-	-	Inactive
Kyprou Commercial SA	Full consolidation	x	-	-	-	Inactive
Kyprou Properties SA	Full consolidation	-	-	-	x	Inactive

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

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation				Activities
		Full consolidation	Proportional consolidation	Neither consolidated nor deducted	Deducted	
Samarinda Navigation Co Ltd	Full consolidation	-	-	-	x	In the process of dissolution / in the process of being struck off
Kyprou Securities SA	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
BOC Ventures Ltd	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Tefkros Investments Ltd	Full consolidation	-	-	-	x	In the process of dissolution / in the process of being struck off
Salecom Ltd	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Longtail Properties Ltd	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Diners Club (Cyprus) Ltd	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Leasing Finance LLC	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Corner LLC	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Omiks Finance LLC	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Unknownplan Properties SRL	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off
Bank of Cyprus (Channel Islands) Ltd	Full consolidation	x	-	-	-	In the process of dissolution / in the process of being struck off

APPENDIX II Information flow on risk to management body

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Copied to	Frequency
1	Material Approvals > €100 million	Presents summary of all material approvals (restructurings, large exposures, etc.)	Group	CRA	BoD	BRC, BoD, GCRO	Quarterly
2	Credit Risk Assessment Progress & Findings	Report includes: 1) Satisfying quality assurance requirements as per ''Review and assessment of BOC arrears management framework (Phase II)''. 2) Inform Group EXCO and BRC members on the monitoring of the implementation of terms, conditions and covenants set in reviewed applications. 3) To describe the actions taken by CRA for the period. 4) Evaluate the performance / efficiency of loan sanctioning authorities and processes. 5) Identify any deviations between CRA comments and final Decision issued by Sanctioning authorities	Group	CRA	CBC, GCRO & Divisional Directors, BRC	ExCo	Semi-annually
3	Deviations/Exceptions report	Summary of major deviations/ exceptions are recorded and reported to the RC on a quarterly basis. This is also used in order to monitor the loan portfolio by Credit Risk Control.	Cyprus	Credit Risk	BRC	-	Quarterly
4	Portfolio Specific loan arrears resolution targets	Monitoring of targets and report them to the CBC	Cyprus	Credit Risk	CBC	BRC	Quarterly
5	Portfolio performance	In depth analysis of portfolio restructurings performance, roll rates, etc.	Cyprus	Credit Risk	GCRO	EXCO, BRC,GCRO	Monthly
6	Write-Offs report	Presents write offs cases >1 € million	Cyprus	Credit Risk	BoD	BRC, BoD	Quarterly
7	Risk Report	Report of KRIs and events as well as data on selected Credit Appraisal statistics. Encompasses the full spectrum of Risks (Credit, Market, Operational, Information Security, International & Subsidiaries).	Group	GCRO	BoD	ExCo , CBC, BRC, BoD, GIA, Group Compliance	Monthly

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

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/ Preparer	Recipient (Competent Authority)	Copied to	Frequency
8	Annual Risk Management Report	Report includes: 1) Review of the main financial developments during the year which had a significant influence on the institution's operations and risk profile. 2) Description of the risk management framework, including the organization and operation of the risk management function, and of the risk management process in place. 3) Assumptions and results of the main stress tests and scenario analyses carried out during the year under review. 4) Detailed information on the risk profile of the institution and the capital allocation process. 5) Summary of the results of the risk and control self-assessment exercise conducted during the year under review together with recommendations for minimizing any increased operational risks identified. 6) Information on operational losses incurred during the year under review. 7) Information on KRIs and KPIs on non-performing loans monitored by the institution. 8) Calculation of the institution's capital requirements and capital adequacy ratio. 9) A comprehensive gap analysis section by major risk department whereby the risk management function will comment on the recommendations made in its report of the previous year including an assessment of the progress achieved and the current status. 10) Risk Management function action plans for 2016 by each major department/area.	Group	GCRO	CBC	EXCO, BRC, BoD CBC	Yearly
9	Annual Information Security Report	Reports to CBC current Risks, any security incidents during the year, actions taken to improve weaknesses and any outstanding issues	Group	Information Security	CBC	OPCO, CEO, BRC, BoD, CBC	Annually
10	Quarterly Information Security report	Reports to BRC current Risks, security incidents during the quarter actions taken to improve weaknesses and any outstanding issues	Group	Information Security	GCRO	OPCO, BRC	Quarterly

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

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Copied to	Frequency
11	ICAAP	Internal Capital Adequacy Assessment Process	Group	GCRO / MR	ECB	CBC/ECB, ALCO/, BRC/, BoD members	Yearly with quarterly updates
12	ILAAP	Internal Liquidity Adequacy Assessment Process	Group	GCRO / MR	ECB	CBC/ECB ALCO, BRC, BoD members	Annually
13	Violations report	Group ALCO to ratify the violations up to 50%, and the Board RC the violations greater than 50%	Group	MR	ALCO	ALCO, RC,BOD	Quarterly
14	Quarterly Market Risk Report	Summary of development of market risks in quarter	Group	MR	BRC	-	Quarterly
15	Annual review of Market Risk Limits	Review and revision, where necessary of market risk limits	Group	MR	BoD	BRC	Annually
16	Annual review of Credit Risk Limits (counterparty & country)	Review and revision, of credit risk limits	Group	MR	BoD	BRC	Annually
17	Lines of Authorities Document	Review and revision, of Lines of Authorities	Group	MR	BoD	BRC	Annually
18	Quarterly Operational Risk Report	Report of Major Operational Risk issues as these are derived from the Activities of ORM department	Group	Operational Risk	GCRO	EXCO, BRC	Quarterly
19	RCSAs- High Risk Findings	Quarterly update to the BAC on the progress of the high risk findings (Available on request)	Cyprus	Operational Risk	BRC	AC, BRC	Quarterly

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

S/N	Report Name	Report Description	Covers Group or Cyprus	Owner of Report/Preparer	Recipient (Competent Authority)	Copied to	Frequency
20	Reputational Risk Report	Provides information on major risks bearing an important reputational impact for the Bank	Group	Operational Risk (in cooperation with Corporate Affairs Division)	BRC	-	Semi – annually
21	Regulatory Communication & important regulatory requests	Document informing the Management Body of the Key correspondence from ECB addressed to the Management Body (including key points of correspondence) and also of the key areas of Regulators requests (along with the individual detailed requests), for the period	Group	RSCO	BoD / CEO	BRC / AC / BoD	Monthly
22	Update on Regulatory / Supervisory activity	Half yearly document informing the Management Body of the key areas of regulatory activity / interest over the last 6 months, providing statistics and trends	Group	RSCO	OpCo, BRC	-	Semi - annually
23	Review of Risk Management Policies universe	Policies revisions	Cyprus	All RMD Departments	ALCO, EXCO, BRC and AC (some committees might not necessarily receive all policies).	-	Annually

APPENDIX III List of immaterial countries

Other countries included in significant area "EU countries"

Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg , Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

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

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

GLOSSARY

A	
ATHEX	Athens Exchange
ADC	Asset Acquisitions and Disposals Committee
ALCO	Asset Committee
AFS	Available-for-Sale
AT1	Additional Tier 1
AS	Agency Services
AM	Asset Management
ABSs	Asset Backed Securities
AC	Audit Committee
B	
BAC	Board Audit Committee
Bank	Bank of Cyprus Public Company Ltd
BoD	Board of Directors
BRC	Board Risk Committee
BIS	Bank for International Settlements
BRRD	Bank Recovery and Resolution Directive
C	
CEO	Chief Executive Officer
Company	Bank of Cyprus Public Company Ltd
CSE	Cyprus Stock Exchange
CRD IV	Capital Requirements Directive
CBC	Central Bank of Cyprus
CRSA	Credit Risk Systems and Analytics
CRP	Credit Risk Policy
CAD	Credit Appraisal Department
CRCU	Credit Risk Control Unit
CRU	Credit Reporting Unit
CET1	Common Equity Tier 1
CIU	Collective Investment Undertakings
CVA	Credit Valuation Adjustment
CF	Corporate finance
CB	Commercial Banking
CSA	Credit Support Annex
Code	Corporate Governance Code
CISCO	The Cyprus Investment and Securities Corporation Ltd
CCC	Collection Call Center
CRR	Capital Requirements Regulation
CCyB	Countercyclical Capital Buffer
CRA	Credit Risk Assessment
CCB	Capital Conservation Buffer
CRAD	Credit Risk Assessment Department
CRM	Credit Risk Mitigation
CCF	Credit Conversion Factor
CRR&C	Credit Risk Reporting & Control
CCR	Counterparty Credit Risk
D	
DR	Disaster Recovery
DTA	Deferred Tax Asset

GLOSSARY (continued)

E	
EXCO	Executive Committee
ECB	European Central Bank
EBA	European Banking Authority
ELA	Emergency Liquidity Assistance
ERC	Expected Replacement Cost
ECAIs	External Credit Assessment Institutions
EMTN	Euro Medium Term Note
ECP	Euro Commercial Paper
EEPE	Effective expected positive exposure
EAD	Exposure at default
F	
FX	Foreign Exchange
FVtPL	Fair Value through Profit and Loss
FLS	Funding for Lending Scheme
G	
GIC	General Insurance of Cyprus
Group	Bank of Cyprus Group
GCRO	Group Chief Risk Officer
H	
HR	Human Resources
HRRC	Human Resources & Remuneration Committee
HQLA	High Quality Liquid Assets
I	
IFRS	International Financial Reporting Standards
IT	Information technology
ICAAP	Internal Capital Adequacy Assessment Process
IRS	Interest Rate Swaps
IWM	Institutional Wealth Management
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
ICMA	International Capital Market Association
ISDA	International Swaps and Derivatives Association, Inc.
K	
KRIs	Key Risk Indicators
KPIs	Key Performance Indicators
L	
LCR	Liquidity Coverage Ratio
LTV	Loan to Value
LSE	London Stock Exchange
LRO	Long Term Refinancing operations
M	
MR	Market Risk
MM	Money Market
MRO	Main Refinancing Operations
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
N	
NCGC	Nominations and Corporate Governance Committee
NPEs	Non Performing Exposures
NPV	Net Present Value
NRS	Non Rate Sensitive
NSFR	Net Stable Funding Ratio

GLOSSARY (continued)

O	
OECD	Organisation for Economic Co-operation and Development
OCI	Other Comprehensive Income
ORM	Operational Risk Management
OTC	Over-the-Counter
O-SIIs	Other Systemically Important Institutions
OPCO	Operational Committee
OR&DG	Operational Risk & Data Governance Department
P	
PS	Payment and Settlement
PD	Probability of default
PRA	Prudential Regulation Authority
Plan	Three year plan
Q	
QIS	Quantitative Impact Study
R	
Report	Pillar 3 Disclosures 2016
RMD	Risk Management Division
RRD	Restructuring and Recoveries Division
RCSA	Risk Control Self-Assessment
RAM	Retail Arrears Management Department
RBr	Retail Brokerage
RB	Retail Banking
REMU	Real Estate Management Unit
RC	Board Risk Committee
RAS	Risk Appetite Statement
RAG	Red Amber Green
RCMS	Risk Compliance Management System
S	
SREP	Supervisory Review and Evaluation Process
SMEs	Small Medium Enterprises
SFTs	Securities Financing Transactions
T	
T2	Tier 2
TC	Total capital
TS	Trading and Sales
TLTRO	Targeted-long term refinancing operations
V	
VaR	Value at Risk