Financial Report for the period from 11 July 2016 to 31 December 2016
BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY
Financial Report
for the period from 11 July 2016 to 31 December 2016

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## Board of Directors of Bank of Cyprus Holdings Public Limited Company

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof. Dr. Josef Ackermann</td>
</tr>
<tr>
<td>Maksim Goldman</td>
</tr>
<tr>
<td>Arne Berggren</td>
</tr>
<tr>
<td>Lyn Grobler</td>
</tr>
<tr>
<td>Dr. Michael Heger</td>
</tr>
<tr>
<td>John Patrick Hourican</td>
</tr>
<tr>
<td>Marios Kalochoritis</td>
</tr>
<tr>
<td>Dr. Christodoulos Patsalides</td>
</tr>
<tr>
<td>Michalis Spanos</td>
</tr>
<tr>
<td>Ioannis Zographakis</td>
</tr>
</tbody>
</table>

## Company Secretary

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Katia Santis</td>
</tr>
</tbody>
</table>

## Legal Advisers as to matters of Irish Law

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arthur Cox</td>
</tr>
</tbody>
</table>

## Legal Advisers as to matters of English and US Law

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sidley Austin LLP</td>
</tr>
</tbody>
</table>

## Legal Advisers as to matters of Cypriot Law

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chryssafinis &amp; Polyviou LLC</td>
</tr>
</tbody>
</table>

## Independent Auditors

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ernst and Young Chartered Accountants</td>
</tr>
<tr>
<td>Ernst &amp; Young Building</td>
</tr>
<tr>
<td>Harcourt Centre</td>
</tr>
<tr>
<td>Harcourt Street</td>
</tr>
<tr>
<td>Dublin 2</td>
</tr>
<tr>
<td>Ireland</td>
</tr>
</tbody>
</table>

## Registered Office

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arthur Cox,</td>
</tr>
<tr>
<td>Ten Earlsfort Terrace</td>
</tr>
<tr>
<td>Dublin 2</td>
</tr>
<tr>
<td>D02 T380</td>
</tr>
<tr>
<td>Ireland</td>
</tr>
</tbody>
</table>
The Board of Directors of Bank of Cyprus Holdings Public Limited Company (the Company) presents its report together with the first audited financial statements of the Company for the period from 11 July 2016 to 31 December 2016.

The Company was incorporated in the Republic of Ireland on 11 July 2016 as a public limited company in accordance with the provisions of the Companies Act 2014 of Ireland. The name of the Company on incorporation was Aion Cyprus Public Limited Company and on 10 August 2016 it changed its name to Bank of Cyprus Holdings Public Limited Company following the approval of the Registrar of Companies. Its registered office for the period from 11 July 2016 to 31 December 2016 was at Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland and was changed to Ten Earlsfort Terrace, Dublin 2, D02 T380, Ireland on 20 March 2017. Bank of Cyprus Holdings Public Limited Company is tax resident in Cyprus.

Activities

The Company was incorporated with the intention of becoming the holding company of Bank of Cyprus Public Company Ltd in order for the shares of the Company to become eligible for inclusion in the FTSE UK index series. During the period from 11 July 2016 to 31 December 2016 the Company did not undertake any trading activity.

On 18 January 2017 the Company became the sole shareholder of Bank of Cyprus Public Company Ltd, and on 19 January 2017 the Company was admitted to listing and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE). Further information is disclosed in Note 15.1 of the financial statements.

The Company did not operate through any branches during the period.

Results for the period

The loss of the Company for the period from 11 July 2016 to 31 December 2016 was €20,000. The loss for the period is transferred to accumulated losses. On 31 December 2016 the total assets of the Company were €25,001 and the net assets were €5,001.

Since the Company did not undertake any trading activity from 11 July 2016 to 31 December 2016, no analysis of financial and non-financial key performance indicators is set out in this report for the purposes of an understanding of the development, performance or financial position or assets or liabilities of the Company.

Dividends

No dividend was declared or paid during the period.

Directors

The members of the Board of Directors and the changes in the composition of the Board since 11 July 2016 up to the date of this report are shown in the table below:

<table>
<thead>
<tr>
<th>Directors' Name</th>
<th>Appointed</th>
<th>Resigned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof. Dr. Josef Ackermann</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Wilbur L. Ross Jr.</td>
<td>4 October 2016</td>
<td>1 March 2017</td>
</tr>
<tr>
<td>Maksim Goldman</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Arne Berggren</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Lyn Grobler</td>
<td>7 February 2017</td>
<td>N/a</td>
</tr>
<tr>
<td>Dr. Michael Heger</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Marios Kalochoritis</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Michalis Spanos</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Ioannis Zographakis</td>
<td>4 October 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>John Patrick Hourican</td>
<td>12 July 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Dr. Christodoulos Patsalides</td>
<td>12 July 2016</td>
<td>N/a</td>
</tr>
<tr>
<td>Cormac Kissane</td>
<td>11 July 2016</td>
<td>12 July 2016</td>
</tr>
<tr>
<td>Stephen Ranalow</td>
<td>11 July 2016</td>
<td>12 July 2016</td>
</tr>
</tbody>
</table>
Directors (continued)

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

The present directors are as listed on page 2 and, unless otherwise indicated, have served throughout the period. On 1 March 2017, the Board of Directors decided to appoint Mr James B. Lockhart III as a member of the Board of Directors. His appointment is subject to approval by the European Central Bank (ECB).

Interests of Directors and Secretary

Neither the directors, nor the secretary, who held office at 31 December 2016 had interests in shares in, or debentures of, the Company at 31 December 2016 requiring disclosure in the directors’ report pursuant to section 329 of the Companies Act 2014, except as disclosed in Note 12 of the financial statements.

Going concern

As noted above, the Company did not undertake any trading activity during the period from 11 July 2016 to 31 December 2016. However, on 18 January 2017 the Company became the sole shareholder of Bank of Cyprus Public Company Ltd and its subsidiaries (all together post the date the scheme of arrangement became effective, the ‘Group’; Bank of Cyprus Public Company Ltd and its subsidiaries prior to the date the scheme of arrangement became effective, the ‘BOC Group’) and the principal activities of the Group following the above date are the provision of banking, financial, insurance services and management and disposal of property generally acquired in debt satisfaction. For the going concern assessment of the Company performed by the management for the year ended 31 December 2016 on the Company’s ability to continue as a going concern, refer to Note 2.2 of the financial statements.

Share capital

On incorporation of the Company, the Company issued 1 share of €1.00 each, which was converted on 4 August 2016 into 10 shares of €0.10 each. On 11 August 2016, the Company additionally issued 25,000 deferred ordinary shares of €1.00 each, which are issued free of any pre-emption rights. As at 31 December 2016 only the ordinary shares of €0.10 each carried voting rights.

Treasury shares of the Company

Shares of the Company held by entities controlled by the Company are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the income statement. As at 31 December 2016 there were no treasury shares.

Change of control

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

The Group also has agreements which provide for termination if, upon a change of control of the Company, the Company’s creditworthiness is materially worsened.
Corporate Governance Statement
The Company was not subject to a corporate governance code for the period 11 July 2016 to 31 December 2016, as its shares were not admitted to trading on any stock exchange during that period. The Company disclosed in the Prospectus published by the Company on 30 November 2016, that it would comply with both the UK Corporate Governance Code and the CSE Corporate Governance Code from the date of the admission of its shares to trading on the LSE and CSE. The BOC Group’s Corporate Governance Statement for 2016 is contained on its website (www.bankofcyprus.com).

Relevant audit information
In the case of persons who are directors at the time this report is approved in accordance with Section 332 of the Companies Act, 2014:

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

Events after the reporting date
The events after the reporting period are disclosed in Note 15 of the financial statements.

Political donations
Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during the period from 11 July 2016 to 31 December 2016.

Charitable contributions
The Company made no charitable contributions for the period from 11 July 2016 to 31 December 2016.

Research and development
The Company did not incur any expenditure in research and development for the period from 11 July 2016 to 31 December 2016.

Auditors
The Company has appointed Ernst & Young, Chartered Accountants, as our auditors for the period in accordance with section 382 of the Companies Act, 2014.

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

The accounting records are maintained at the Company’s registered office at Ten Earlsfort Terrace, Dublin 2, D02 T380, Ireland.
Risk management

Like other organisations, the Company is exposed to risks, the most significant of which is the liquidity risk. The Company monitors and manages these risks through various control mechanisms. Detailed information relating to risk management is set out in Notes 13 and 14 of the financial statements.

In addition, details of the significant judgements, estimates and assumptions which may have a material impact on the Company’s financial performance and position are set out in Note 4 of the financial statements.

Given that the Company did not use financial instruments during the period from 11 July 2016 to 31 December 2016, no disclosure is made in this regard in relation to the financial risk management objectives and policies of the Company, including any hedging policy, or on the Company’s exposure to price risk, credit risk, liquidity risk and cash flow risk.

Service termination agreements

The service contract of one of the executive directors in office as at 31 December 2016 includes a clause for termination, by service of four months’ notice to that effect upon the executive director, without cause but at the Company’s sole discretion. In such a case, the Company shall have the obligation to pay the executive director in lieu of notice for immediate termination. The terms of employment of the other executive director are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation based on years of service.

Statement of Directors’ Responsibilities

The Directors are responsible for preparing the Financial Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs.

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions, to disclose with reasonable accuracy at any time the assets, liabilities and financial position of the Company and enable them to ensure that the financial statements comply with the provisions of the Companies Act 2014 and Article 4 of IAS Regulation. The Directors, through the use of appropriate procedures and systems, have also ensured that measures are in place to secure compliance with the Company’s obligations to keep adequate accounting records. These accounting records are kept at the Company’s registered office at Ten Earlsfort Terrace, Dublin 2, D02 T380, Ireland. In compliance with section 283 of the Companies Act 2014, the information and returns relating to the business dealt with in the accounting records for 2016 has been sent to the registered office of the Company. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Company and of the profit or loss of the Company;
- the Directors’ report contained in Financial Report 2016 includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face; and
- the Financial Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Prof. Dr. J. Ackermann
Chairman

John Patrick Hourican
Chief Executive Officer

27 April 2017
Financial Statements
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<td>Balance Sheet</td>
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<td>Statement of Changes in Equity</td>
<td>11</td>
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<tr>
<td>Statement of Cash Flows</td>
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<tr>
<td>Notes to the financial statements</td>
<td>13-25</td>
</tr>
</tbody>
</table>
### Statement of Comprehensive Income
for the period from 11 July 2016 to 31 December 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Notes</th>
<th>For the period from 11 July 2016 to 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other operating expenses</td>
<td>5</td>
<td>(20,000)</td>
</tr>
<tr>
<td><strong>Loss before income tax</strong></td>
<td></td>
<td>(20,000)</td>
</tr>
<tr>
<td>Income tax</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td><strong>Loss and total comprehensive loss for the period</strong></td>
<td></td>
<td>(20,000)</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 25 form an integral part of these financial statements.
BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY
Balance Sheet
as at 31 December 2016

<table>
<thead>
<tr>
<th>Assets</th>
<th>Notes</th>
<th>2016</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables from related parties</td>
<td>7</td>
<td>25,001</td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>25,001</td>
<td></td>
</tr>
<tr>
<td>Equity and liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity and reserves</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>8</td>
<td>25,001</td>
<td></td>
</tr>
<tr>
<td>Accumulated losses</td>
<td>9</td>
<td>(20,000)</td>
<td></td>
</tr>
<tr>
<td>Total equity and reserves</td>
<td></td>
<td>5,001</td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>10</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td></td>
<td>25,001</td>
<td></td>
</tr>
</tbody>
</table>

Prof. Dr. J. Ackermann
Chairman

John Patrick Hourican
Chief Executive Officer

27 April 2017

The notes on pages 13 to 25 form an integral part of these financial statements.
<table>
<thead>
<tr>
<th></th>
<th>Share capital (Note 8)</th>
<th>Accumulated losses (Note 9)</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue of shares</td>
<td>25,001</td>
<td>-</td>
<td>25,001</td>
</tr>
<tr>
<td>Total comprehensive loss after tax</td>
<td>-</td>
<td>(20,000)</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Balance at 31 December 2016</td>
<td>25,001</td>
<td>(20,000)</td>
<td>5,001</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 25 form an integral part of these financial statements.
## Statement of Cash Flows

for the period from 11 July 2016 to 31 December 2016

<table>
<thead>
<tr>
<th></th>
<th>For the period from 11 July 2016 to 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
</tr>
<tr>
<td>Loss before tax</td>
<td>(20,000)</td>
</tr>
<tr>
<td>Changes in working capital:</td>
<td></td>
</tr>
<tr>
<td>Receivables from related parties</td>
<td>(25,001)</td>
</tr>
<tr>
<td>Other payables</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Net cash used in operating activities</strong></td>
<td>(25,001)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
</tr>
<tr>
<td>Issue of share capital</td>
<td>25,001</td>
</tr>
<tr>
<td><strong>Net cash from financing activities</strong></td>
<td>25,001</td>
</tr>
<tr>
<td>Net movement in cash and cash equivalents</td>
<td>-</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 25 form an integral part of these financial statements.
1. **Corporate information**

Bank of Cyprus Holdings Public Limited Company (the Company) was incorporated in the Republic of Ireland on 11 July 2016 as a public limited company in accordance with the provisions of the Companies Act 2014 of Ireland. The name of the Company on incorporation was Aion Cyprus Public Limited Company and on 10 August 2016 it changed its name to Bank of Cyprus Holdings Public Limited Company following the approval of the Registrar of Companies. Its registered office for the period from 11 July 2016 to 31 December 2016 was at Arthur Cox, Earlsfort Centre, Earlsfort Terrace, Dublin 2, Ireland and was changed to Ten Earlsfort Terrace, Dublin 2, D02 T380, Ireland on 20 March 2017. Bank of Cyprus Holdings Public Limited Company is tax resident in Cyprus.

The Company was incorporated with the intention of becoming the holding company of Bank of Cyprus Public Company Ltd. During the period from 11 July 2016 to 31 December 2016 the Company did not undertake any trading activity.

On 18 January 2017 the Company became the sole shareholder of Bank of Cyprus Public Company Ltd, and on 19 January 2017 the shares of the Company were admitted to listing and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE). Further information is disclosed in Note 15.1.

2.1 **Basis of preparation**

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

2.2 **Going concern**

The Company did not undertake any trading activity during the period from 11 July 2016 to 31 December 2016 and on 18 January 2017 it became the sole shareholder of Bank of Cyprus Public Company Ltd and its subsidiaries (all together post the date the scheme of arrangement became effective, the ‘Group’; Bank of Cyprus Public Company Ltd and its subsidiaries prior to the date the scheme of arrangement became effective, the ‘BOC Group’). The principal activities of the Group following the above date are the provision of banking, financial, insurance services and management and disposal of property generally acquired in debt satisfaction. Management’s assessment of the Company’s ability to continue as a going concern is based on the performance of Bank of Cyprus Public Company Ltd and subsidiaries for the year ended 31 December 2016.

Management believes that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

Management, taking into consideration the factors described below and the uncertainties that existed at the reporting date, is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out below, despite the fact that Bank of Cyprus Public Company Ltd is currently not in compliance with its liquidity regulatory requirements with respect to its operations in Cyprus and is therefore dependent on continuing regulatory forbearance. Whilst the the BOC Group was not in compliance with its regulatory liquidity requirements with respect to the Liquidity Coverage Ratio (LCR) at the balance sheet date, subsequent to the period end the Group has become compliant.

- The BOC Group’s Common Equity Tier 1 (CET1) ratio at 31 December 2016 stands at 14.5% (transitional) and the total capital at 14.6%, higher than the minimum required ratios.
- The improving funding structure of the Group as a result of the continuing positive customer flows in Cyprus.
- Bank of Cyprus Public Company Ltd’s Emergency Liquidity Assistance (ELA) funding was repaid in full on 5 January 2017. ELA stood at €200 million at 31 December 2016 compared to €3.8 billion at 31 December 2015 and €11.4 billion at its peak level in April 2013.
2.2 **Going concern** (continued)

- The improved ratings of both the Bank of Cyprus Public Company Ltd (Fitch Ratings upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit rating from Caa3 with stable outlook to Caa3 with positive outlook in June 2016 and to Caa2 with positive outlook in December 2016) and the Republic of Cyprus (Fitch Ratings upgrade by one notch to BB- with a positive outlook in October 2016, S&P Global Rating by one notch to BB with a positive outlook in September 2016 and by one notch to BB+ with a stable outlook in March 2017 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015. In November 2016 Moody's Investors Service improved the outlook on the Republic of Cyprus from stable to positive).

- Bank of Cyprus Public Company Ltd has returned to the debt capital markets in January 2017 with the issue of unsecured and subordinated Tier 2 Capital Note of €250 million.

2.3 **Accounting policies and disclosures**

During the current period the Company adopted all new and revised IFRSs that are relevant to its operations and are effective for accounting periods beginning on 11 July 2016.

2.4 **Standards and interpretations issued but not yet effective**

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 11 July 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

**Classification and measurement**

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity’s own credit risk are to be included in other comprehensive income.

**Impairment**

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

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

**Hedge accounting**

IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, the standard includes an accounting policy choice to remain with IAS 39 hedge accounting.
2.4 Standards and interpretations issued but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

Transition
The classification, measurement and impairment requirements are applied retrospectively by adjusting the balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

IFRS 9 implementation project
An IFRS 9 implementation project is currently under way by the Group. The project is headed by the Group Chief Risk Officer and a Steering Committee was set up to monitor the project, comprising of members of the Executive Management team.

The project covers all aspects of IFRS 9 out of which the majority of the effort is consumed by the development of methodologies for the calculation of impairment of customer loans and advances based on expected credit losses, since IFRS 9 moves away from the current incurred loss model to an expected credit loss model, which requires more judgment in considering information for current and future provisioning. The expected credit losses model will result in earlier recognition of credit losses and thus a higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future. The credit loss expense is also likely to be more volatile as expectations and judgements may change. It is also expected that there will be additional movements within the three stages stipulated by the standard and, thus, further volatility in the provisioning charge. The assessment of the impact of IFRS9 is ongoing and may significantly change upon its full application reflecting business models and balance sheet dynamics at the time, therefore making it not practical to quantify any potential effect at present.

Changes in business models or policies, including as a result of choices made by the Group, could have a material adverse effect on the Group's reported results of operations and financial condition and may have a corresponding material adverse effect on capital ratios. The European Commission has proposed that the capital impact of IFRS 9 is phased-in over a five-year period. The Group will disclose reliable financial impact estimates once it is practicable, which will be no later than in the Annual Financial Report of 2017.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is in the process of assessing the impact of this standard on its results and financial position.

3. Summary of significant accounting policies
The principal accounting policies adopted by the Company for the preparation of its financial statements are set out below.

3.1 Foreign currency translation

3.1.1 Functional and presentation currency
Items included in the Company’s financial statements are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The financial statements are presented in Euro (€), which is the Company’s functional and presentation currency.

3.1.2 Transactions and balances
Transactions in foreign currencies are recorded using the functional currency rate of exchange ruling at the date of the transaction.
3. Summary of significant accounting policies (continued)

3.1 Foreign currency translation (continued)

3.1.2 Transactions and balances (continued)

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

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

3.2 Financial instruments

3.2.1 Date of recognition

All financial assets and liabilities are initially recognised on the trade date. Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are also recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Derivatives are also recognised on a trade date basis.

3.2.2 Initial recognition and measurement of financial instruments

The classification of financial instruments on initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3.2.3 Derivative financial instruments

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

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

3.2.4 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held for trading represent assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing them in the near term and are recognised in the balance sheet at fair value. Changes in the fair value are recognised in ‘Net gains on financial instrument transactions’ in the statement of comprehensive income. Interest income and expense are included in the corresponding captions in the statement of comprehensive income according to the terms of the relevant contract, while dividend income is recognised in ‘Other income’ when the right to receive payment has been established.
3. **Summary of significant accounting policies** (continued)

3.2 **Financial instruments** (continued)

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

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

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

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

3.2.6 **Held-to-maturity investments**

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

3.2.7 **Loans and receivables**

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

**Renegotiated loans**

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

3.2.8 **Available-for-sale investments**

Available-for-sale investments are those which are designated as such or do not qualify for classification as ‘Investments at fair value through profit or loss’, ‘Investments held-to-maturity’ or ‘Loans and receivables’. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.
3. Summary of significant accounting policies (continued)

3.2 Financial instruments (continued)

3.2.8 Available-for-sale investments (continued)

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

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

3.2.9 Other financial liabilities at amortised cost

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

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

3.3 Derecognition of financial assets and financial liabilities

3.3.1 Financial assets

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

3.3.2 Financial liabilities

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

3.4 Impairment of financial assets

3.4.1 Loans and receivables

The Company 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 Company 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 Company 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.
3. **Summary of significant accounting policies** (continued)

3.4 **Impairment of financial assets** (continued)

3.4.1 **Loans and receivables** (continued)

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.

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 statement of comprehensive income. 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 statement of comprehensive income.

3.4.2 **Investments classified as held-to-maturity and loans and receivables**

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

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the ‘Impairment of other financial instruments’ caption in the statement of comprehensive income.
3. **Summary of significant accounting policies** (continued)

3.4 **Impairment of financial assets** (continued)

3.4.3 **Available-for-sale investments**

For available-for-sale investments, the Company assesses whether there is objective evidence of impairment at each reporting date.

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

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

3.5 **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liabilities simultaneously.

3.6 **Tax**

Current tax assets and liabilities for the current period are measured at the period expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the country where the Company operates and generates taxable income.

Deferred tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation authority.

3.7 **Investments in subsidiaries, associates and joint ventures**

Investments in subsidiaries, associates and joint ventures are measured at cost less impairment. The Company did not have any subsidiary undertakings or did not hold an interest equal to 20 per cent or more in an undertaking that is not its subsidiary undertaking during the period from 11 July 2016 to 31 December 2016.

3.8 **Share capital**

Ordinary shares are classified as equity.

Any difference between the issue price of share capital and the nominal value is recognised as share premium. The costs incurred attributable to the issue of share capital are deducted from equity.
4. **Significant accounting estimates, judgements and assumptions**

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

These financial statements do not contain any significant accounting estimates or judgements.

5. **Other operating expenses**

<table>
<thead>
<tr>
<th>For the period from 11 July 2016 to 31 December 2016</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fees</td>
<td>20,000</td>
</tr>
</tbody>
</table>

The above expenses do not include fees for other non-assurance services charged by the Company’s statutory audit firm. The Company did not employ any staff during the period from 11 July 2016 to 31 December 2016.

6. **Tax**

The Company does not have a tax liability due to losses incurred during the period. According to the current tax legislation, current losses can be set off against future profits in the next five years. The balance of losses available to be carried forward and realised against future profits for which no deferred tax asset has been recognised amounts to €20,000 and expires in year 2021.

7. **Receivables from related parties**

<table>
<thead>
<tr>
<th>2016</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables from related parties (Note 12)</td>
<td>25,001</td>
</tr>
</tbody>
</table>

The above balance represents the consideration received by Bank of Cyprus Public Company Ltd on behalf of the Company in relation to the amount of share capital issued by the Company.

The maximum exposure to credit risk at the balance sheet date is the carrying value of other receivables mentioned above.

8. **Share capital**

<table>
<thead>
<tr>
<th>2016</th>
<th>Number of shares</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares of €0.10 each</td>
<td>10,000,000,000</td>
<td>1,000,000,000</td>
</tr>
<tr>
<td>Deferred ordinary shares of €1.00 each</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Issued and fully paid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary shares of €0.10 each</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Deferred ordinary shares of €1.00 each</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25,001</td>
</tr>
</tbody>
</table>

The Company did not provide financial assistance permitted by section 82 of the Companies Act 2014 for the purchase of its shares during the period from 11 July 2016 to 31 December 2016.
8. **Share capital** (continued)

**Issued share capital**

On incorporation of the Company, the Company issued 1 share of €1.00 each, which was converted on 4 August 2016 into 10 shares of €0.10 each. On 11 August 2016, the Company additionally issued 25,000 deferred ordinary shares of €1.00 each, which are issued free of any pre-emption rights. As at 31 December 2016 only the ordinary shares of €0.10 each carried voting rights.

All issued shares are fully paid.

9. **Accumulated losses**

Retained earnings are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 17% is payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals who are domiciled in Cyprus and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer, are directly or indirectly Cyprus tax residents. Deemed distribution does not apply in respect of profits that are directly or indirectly attributable to shareholders that are non-Cyprus tax residents and individual shareholders who are not domiciled in Cyprus.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year.

This special defence contribution is paid by the Company on account of the shareholders.

During the period from 11 July 2016 to 31 December 2016 no deemed dividend distribution was paid by the Company.

10. **Other payables**

<table>
<thead>
<tr>
<th>2016</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accruals</td>
<td>20,000</td>
</tr>
</tbody>
</table>

The fair value of other payables approximates their carrying amount at the balance sheet date.

Other payables are due within 12 months from the balance sheet date.

11. **Fair value measurement**

The following table presents the carrying value and fair value of the Company’s financial assets and liabilities.

<table>
<thead>
<tr>
<th>2016</th>
<th>Carrying value</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>€000</td>
<td>€000</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>25,001</td>
<td>25,001</td>
</tr>
<tr>
<td>Other payables</td>
<td>20,000</td>
<td>20,000</td>
</tr>
</tbody>
</table>

The fair value of financial assets and liabilities in the above table is as at the reporting date and does not represent any expectations about their future value.

The Company uses the following hierarchy for determining and disclosing fair value:

**Level 1**: investments valued using quoted prices in active markets.

**Level 2**: investments valued using models for which all inputs that have a significant effect on fair value are market observable.
11. **Fair value measurement** (continued)

Level 3: investments valued using models for which inputs that have a significant effect on fair value are not based on observable market data.

For assets and liabilities that are recognised in the financial statements at fair value, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

Other receivables and other payables are within Level 3 of the fair value hierarchy.

During the period 11 July 2016 to 31 December 2016 there were no significant transfers between Level 1 and Level 2.

12. **Related party transactions**

The Company’s shareholders as at 31 December 2016 are the following:

- Christodoulos Patsalides, Deputy Chief Executive Officer and Chief Operating Officer, holding 100% of the ordinary issued share capital
- Enceladus Holdings Limited holding 100% of the deferred issued ordinary issued share capital

As at 31 December 2016, the ultimate controlling party of the Company was Christodoulos Patsalides, due to the fact that the shares held by Enceladus Holdings Limited carried no voting rights.

The following transactions were carried out with related parties:

<table>
<thead>
<tr>
<th>Receivables from related parties</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of Cyprus Public Company Ltd</td>
<td>25,001</td>
</tr>
</tbody>
</table>

The above balance represents the consideration received by Bank of Cyprus Public Company Ltd on behalf of the Company in relation to the amount of share capital issued by the Company.

Except as disclosed above, there were no other significant transactions with related parties of the Company and no information to be disclosed under section 307 of the Companies Act 2014 for the period from 11 July 2016 to 31 December 2016.

**Directors’ remuneration**

There are no amounts to be disclosed under section 305 of the Companies Act 2014 in relation to the directors of the Company for the period from 11 July 2016 to 31 December 2016.

13. **Financial risk management**

Like other organisations, the Company is exposed to risks, the most significant of which is the liquidity risk.

**Liquidity risk**

Liquidity risk refers to probable losses that the Company may face, in case of repayment difficulties to its cash flow obligations.

The Company does not consider the liquidity risk as significant since the level of operational costs is low and the Company is expected to have available liquidity when it becomes the holding company of Bank of Cyprus Public Company Ltd.

14. **Capital management**

The Company does not have formal policies and procedures for capital risk management.
15. Events after the reporting date

15.1 Introduction of the Company as the holding company of Bank of Cyprus Public Company Ltd and listing on the London Stock Exchange

The Extraordinary General Meeting (EGM) of the shareholders of Bank of Cyprus Public Company Ltd held on 13 December 2016 approved the scheme of arrangement between the Company, Bank of Cyprus Public Company Ltd and the shareholders of the latter. The scheme of arrangement introduces the Company as the new holding company of Bank of Cyprus Public Company Ltd. Additionally the EGM authorised the directors of Bank of Cyprus Public Company Ltd to take all actions necessary or appropriate to carry the scheme of arrangement into effect.

The EGM also approved:
(i) the reduction in the issued share capital of Bank of Cyprus Public Company Ltd from €892,294,453.30 divided into 8,922,944,533 ordinary shares of a nominal value of €0.10 each to nil by cancelling all the shares comprising the issued share capital of Bank of Cyprus Public Company Ltd (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of Bank of Cyprus Public Company Ltd, equal to the aggregate nominal value of the Existing Shares so cancelled, and which shall be retained as a non-distributable capital reserve in accordance with the provisions of subsection (e) of section 64 of the Companies Law, Cap. 113 (the 'Reduction of Capital');
(ii) the increase in the authorised share capital of Bank of Cyprus Public Company Ltd to €4,767,759,272.00 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 new but unissued ordinary shares with a nominal value of €0.10 each, each of which shall have the same rights and shall rank pari passu with the existing ordinary shares of Bank of Cyprus Public Company Ltd;
(iii) to apply the reserve arising in the books of account of Bank of Cyprus Public Company Ltd as a result of the cancellation of the Existing Shares in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of the Bank of Cyprus Public Company Ltd, which shall be issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement; and
(iv) the authorization of the directors of Bank of Cyprus Public Company Ltd to give effect to this special resolution.

The scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016 and the Existing Shares of Bank of Cyprus Public Company Ltd were suspended from trading on the CSE and ATHEX with effect from and including 10 January 2017.

Following the submission of the Court Order to the Registrar of Companies and the Registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result, all of the shares comprising the issued share capital of Bank of Cyprus Public Company Ltd were cancelled and Bank of Cyprus Public Company Ltd issued and allotted 8,922,944,533 new ordinary shares of nominal value €0.10 each, credited as fully paid to the Company; and the Company issued and allotted New Shares and procured the issue of Depositary Interests representing New Shares, in accordance with the terms of the scheme of arrangement. Each one New Share or one Depositary Interest represents one New Share for each individual holding of 20 Existing Shares. The existing 25,000 deferred ordinary shares of the Company were repurchased and cancelled by the Company for nil consideration concurrently with the issue of the New Shares.

On 19 January 2017 the total issued share capital of 446,199,933 ordinary shares of nominal value €0.10 each of the Company was admitted to the standard listing segment of the official list of the United Kingdom’s Financial Conduct Authority, to trading on the Main Market for listed securities of the LSE, under the ticker symbol "BOCH", to listing on the CSE and to trading on the Main Market of the CSE under the ticker symbol “BOCH/TPKH”, with ISIN IE00BD5B1Y92.
15. **Events after the reporting date** (continued)

15.2 **Share-based payments – share options**

On 24 November 2015, the Annual General Meeting of Bank of Cyprus Public Company Ltd shareholders authorised the Board of Directors to establish and implement a Long Term Incentive Plan and allowed Bank of Cyprus Public Company Ltd 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 Supervisory Review and Evaluation Process (SREP) 2016 decision received in December 2016, the European Central Bank’s prohibition on variable pay was lifted and replaced with a limitation on variable remuneration to 10% of net revenues.

Following the incorporation of the Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan was replaced by the Share Option Plan which operates at the level of the Company.

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 the Company.

The Share Option plan is identical to the Long Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price was set at €5.00 per share. The exercise date was also extended from 3 years to between 4-10 years after the grant date.
INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Opinion on financial statements
We have audited the financial statements of Bank of Cyprus Holdings Public Limited Company ("the Company") for the period from 11 July 2016 to 31 December 2016 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related Notes 1 to 15, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Company's financial statements is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2014.

This report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:
• give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016 and of its loss for the period then ended;
• have been properly prepared in accordance with IFRSs as adopted by the European Union;
• have been prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the IAASB’s Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern
We draw your attention to Note 2.2 ‘Going concern’ which discusses management’s assessment as to the ability of the Company to continue as a going concern and the fact that the Company has acquired the full shareholding of Bank of Cyprus Public Company Limited subsequent to the balance sheet date. Bank of Cyprus Public Company Limited has not consistently maintained compliance with its regulatory liquidity requirements, which indicates the existence of a material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not qualified in respect of this matter.
Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- **Subsequent Events - Acquisition of Bank of Cyprus Public Company Ltd**

  **Risk:** Post year end, on 18 January 2017, the Company became the sole shareholder of Bank of Cyprus Public Company Limited and its subsidiaries. Material disclosures to provide users with the details of the transaction have been included in Note 15.1 of the financial statements. Based on the material nature of this transaction, we have determined the completeness and accuracy of these disclosures to be a key audit matter.

  **Our response to the Risk:** To ensure completeness and accuracy of the disclosures contained in Note 15.1 we reviewed the minutes of all board meetings up to and including the date of this opinion, the Prospectus filed with the London Stock Exchange, and all public pronouncements and shareholder circulars, verifying that information contained in the note referred to above is both complete and correctly reflective of the substance of those post balance sheet transactions. In addition, we received a representation letter from directors to confirm that all subsequent events have been disclosed. We are satisfied that subsequent events have been adequately disclosed.

- **Going concern**

  **Risk:** As detailed in Note 2.2 'Going concern', the going concern of the Company is dependent on the performance of Bank of Cyprus Public Company Limited and its subsidiaries following the shareholding acquisition by the Company in January 2017. Bank of Cyprus Public Company Limited was not in compliance with its liquidity regulatory requirements with respect to its operations in Cyprus and the Group was not in compliance with its regulatory liquidity requirements with respect to the Liquidity Coverage Ratio (LCR) at the date of issuing its financial statements, 27 March 2017. This resulted in a reliance on continued regulatory forbearance, which was deemed a material uncertainty as to its ability to continue as a going concern.

  **Our response to the Risk:** We evaluated the LCR compliance plan submitted to the European Central Bank by Bank of Cyprus Public Company Limited on 31 January 2017. We reviewed the performance per the first quarter Liquidity Requirements assessment as presented by management to the Board, dated 12th April 2017. We draw attention to the Going Concern assessment of management with the inclusion of an Emphasis of Matter paragraph on our Auditor's Report.

- **Related party transactions and disclosures**

  **Risk:** All of the Company’s assets at the balance sheet date relate to transactions with related parties. There is a risk that such transactions are not complete or adequately disclosed on the financial statements.
Our response to the Risk: We received and reviewed related party confirmations confirming the balance as at the balance sheet date and that all transactions have been adequately reflected. Throughout the performance of our audit procedures, we remained alert for any related party transactions outside the normal course of business. We reviewed the minutes of all board meetings and the treatment of transactions during the period. We verified that related party disclosures in the financial statements are consistent with the results of our audit procedures.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

We determined materiality for the Company to be €150, which is approximately 3% of equity. As the Company was not trading during the period, equity was deemed to be the most appropriate performance metric on which to base our materiality calculation as we consider it to be the most relevant performance measure to the stakeholders of the Company.

An overview of the scope of our audit
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors’ Report and the Director’s Responsibilities Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other information
The directors are responsible for the other information. The other information comprises the information included in the financial report, other than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014
Based solely on the work undertaken in the course of the audit, we report that:

- we have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- in our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited.
- the financial statements are in agreement with the accounting records.
- in our opinion, the information given in the directors’ report is consistent with the financial statements.
Matters on which we are required to report by exception

We have nothing to report in respect of sections 305 to 312 of the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors’ remuneration and transactions specified by law are not made.

Responsibilities of directors

As explained more fully in the directors’ responsibilities statement set out in the Director’s report on pages 5 and 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors through its Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Other matters which we are required to address**

We were appointed by the Directors to act as auditors for the period ending 31 December 2016. Our total uninterrupted period of engagement is six months, covering the period 11 July 2016 to 31 December 2016.

The non-audit services prohibited by the IAASA’s Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit. Our audit opinion is consistent with the additional report to the audit committee.

Eoin MacManus
for and on behalf of Ernst & Young
Chartered Accountants and Statutory Audit Firm

Dublin

Date **27 April 2017**