Annual Financial Report 2016

This Annual Financial 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 statutory financial statements of Bank of Cyprus Holdings Public Limited Company for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland. Bank of Cyprus Holdings Public Limited Company's statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the period 11 July 2016 to 31 December 2016 are expected to be published by 30 April 2017 and delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2017 (as at the date of this report, such statutory financial statements have not been prepared nor have they been reported on by the independent auditors of Bank of Cyprus Holdings Public Limited Company).

Bank of Cyprus

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Board of Directors of Bank of Cyprus Public Company Ltd	Prof. Dr. Josef Ackermann CHAIRMAN Maksim Goldman VICE CHAIRMAN Arne Berggren Lyn Grobler Dr. Michael Heger John Patrick Hourican Marios Kalochoritis Dr. Christodoulos Patsalides Michalis Spanos Ioannis Zographakis
Executive Committee	John Patrick Hourican CHIEF EXECUTIVE OFFICER Dr. Christodoulos Patsalides DEPUTY CHIEF EXECUTIVE OFFICER AND CHIEF OPERATING OFFICER Michalis Athanasiou CHIEF RISK OFFICER Nick Fahy CHIEF EXECUTIVE OFFICER, BANK OF CYPRUS UK Eliza Livadiotou FINANCE DIRECTOR Panicos Nicolaou DIRECTOR CORPORATE BANKING Louis Pochanis DIRECTOR INTERNATIONAL BANKING SERVICES AND WEALTH, BROKERAGE AND ASSET MANAGEMENT Dr. Charis Pouangare DIRECTOR CONSUMER AND SME BANKING Nicolas Scott Smith DIRECTOR RESTRUCTURING AND RECOVERIES DIVISION Anna Sofroniou DIRECTOR REAL ESTATE MANAGEMENT UNIT Aristos Stylianou EXECUTIVE CHAIRMAN, INSURANCE BUSINESSES
Internal Auditor	George Zornas
Director Group Compliance	Marios Skandalis
Company Secretary	Katia Santis
Legal Advisers	Chryssafinis & Polyviou
Independent Auditors	Ernst & Young Cyprus Ltd
Registered Office	51 Stassinos Street Ayia Paraskevi, Strovolos CY-2002 Nicosia, Cyprus Telephone: +357 22122100, Telefax: +357 22336258

We, the members of the Board of Directors and the Company officials responsible for the drafting of the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2016, the names of which are listed below, confirm that, to the best of our knowledge:

(a) the consolidated financial statements on pages 16 to 184:

   (i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law,

   (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidated financial statements taken as a whole, and

(b) the Management Report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the consolidated financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Prof. Dr. Josef Ackermann	Chairman
Maksim Goldman	Vice Chairman
Arne Berggren	Non-executive Director
Lyn Grobler	Non-executive Director
Dr. Michael Heger	Non-executive Director
Marios Kalochoritis	Non-executive Director
Michalis Spanos	Non-executive Director
Ioannis Zographakis	Non-executive Director
John Patrick Hourican	Executive Director
Dr. Christodoulos Patsalides	Executive Director
Eliza Livadiotou	Finance Director

27 March 2017

The Board of Directors submits to the shareholders of the Company their Report together with the audited consolidated financial statements for the year ended 31 December 2016.

The Annual Financial Report relates to the Bank of Cyprus Public Company Ltd (the 'Company') and together with its subsidiaries (the 'Group') which was listed on the Cyprus Stock Exchange (CSE) and the Athens Exchange 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 holding company of the Group. On 19 January 2017, Bank of Cyprus Holdings Public Limited Company was admitted to listing and trading on the London Stock Exchange and the CSE.

The Company was the holding company of the Group as at the balance sheet date. Bank of Cyprus Holdings Public Limited Company was incorporated on 11 July 2016 and is the new holding company of the Group as from 18 January 2017. Further information is disclosed in Note 53.1 of the consolidated financial statements.

Activities

The principal activities of the Company and its subsidiary companies during the year continued to be the provision of banking, financial, insurance services and management and disposal of property generally acquired in debt satisfaction.

All Group companies and branches are set out in Note 49 of the consolidated financial statements. Acquisitions and disposals made during the year 2016 are detailed in Note 50 of the consolidated financial statements.

Operating environment in Cyprus

Cyprus exited its economic adjustment programme at the end of March 2016 after a successful return to markets and having utilised only about 70% of the €10 billion funding resources made available by the European Union (EU) and the International Monetary Fund (IMF). Based on the Ministry of Finance Stability Programme 2016-2019 (May 2016), in the area of public finances, the government carried out a strong fiscal adjustment and the budget returned to near balance, public spending was reduced and tax collection was made more efficient.

Unemployment dropped to 13,3% during 2016 compared to an average unemployment rate of 14,9% for 2015 and a peak of 16,5% in the fourth quarter of 2014 as per the Cyprus Statistical Service.

Real GDP rose by 2,8% in 2016 according to the Cyprus Statistical Service, compared to an increase of 1,7% during 2015.

Consumer prices continued to decline for the fourth consecutive year, down by 1,4% in 2016, as per the Cyprus Statistical Service.

Tourist arrivals increased by 19,8% during 2016. The index of industrial production increased by 8,7% in 2016. In real gross value added terms, industrial output in 2016 increased by 5,9% in the first three quarters of 2016 after an increase of 2,9% in 2015 as per data by the Cyprus Statistical Service.

In the property market, the Central Bank's residential property price index continued to decline year-on-year but at a slowing pace. On a yearly basis the index dropped by 1,3% in the third quarter of 2016 after dropping by 1,7% and 1,6% in the second and first quarter respectively.

Downside risks to the growth projections are associated with high levels of non-performing loans, loss of momentum in structural reforms with associated risks for public finances, and a return of inflation. Downside risks may also be associated with a deterioration of the external environment for Cyprus. These would involve slower growth in the UK with a weakening of the pound following the Brexit referendum. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Upside risks to the outlook relate to a possible better growth performance in the EU and stronger investment spending as property prices are stabilising and various projects especially in tourism are implemented.

Operating environment in Cyprus (continued)

The international credit rating agencies have upgraded the rating of the country. Fitch Ratings upgraded the rating of the Republic of Cyprus 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.

In July 2016 the Cyprus government accessed international capital markets for the third time since the start of the economic adjustment programme to date, issuing a seven year Eurobond of €1 billion at a yield of 3,8%.

Financial results[1]

The main financial highlights for 2016 are set out below:

Consolidated Income Statement		
€ million	**2016**	2015
Net interest income	**686**	842
Net fee and commission income	**167**	154
Net foreign exchange gains and net gains on other financial instruments	**48**	31
Insurance income net of insurance claims	**44**	48
Gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	**6**	(53)
Other income	**12**	18
Total income	**963**	1.040
Staff costs	**(224)**	(234)
Other operating expenses	**(173)**	(174)
Total expenses	**(397)**	(408)
Profit before provisions and impairments, gains on derecognition of loans and changes in expected cash flows, restructuring costs and discontinued operations	**566**	632
Provisions for impairment of customer loans, net of gains on loans derecognition and changes in expected cash flows	**(370)**	(959)
Impairments of other financial and non-financial assets	**(47)**	(62)
Provisions for litigation, claims and regulatory matters	**(18)**	(8)
Share of profit from associates and joint ventures	**8**	6
Profit/(loss) before tax, restructuring costs and discontinued operations	**139**	(391)
Tax	**(16)**	(9)
(Profit)/loss attributable to non-controlling interests	**(4)**	6
Profit/(loss) after tax and before restructuring costs, discontinued operations and net gain on disposal of non-core assets	**119**	(394)
Advisory, voluntary exit plan and other restructuring costs	**(114)**	(43)
Loss from disposal groups held for sale/discontinued operations	**-**	(38)
Net gain on disposal of non-core assets	**59**	37
Profit/(loss) after tax attributable to the owners of the Company	**64**	(438)

[1] The financial results relate to the Company and together with its subsidiaries, the 'Group' which was listed on the Cyprus Stock Exchange (CSE) and the Athens Exchange 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 Company. On 19 January 2017, the shares of Bank of Cyprus Holdings Public Limited Company were admitted to listing and trading on the London Stock Exchange and the CSE.

Financial results (continued)

	2016	2015
Net interest margin	**3,47%**	3,79%
Cost to income ratio	**41%**	39%

Key Balance Sheet figures and ratios	**31 December 2016**	31 December 2015
Gross loans (€ million)	**20.130**	22.592
Customer deposits (€ million)	**16.510**	14.181
Loans to deposits ratio (net)	**95%**	121%
90+ DPD ratio	**41%**	50%
90+ DPD provision coverage ratio	**54%**	48%
Return on average assets	**0,3%**	-1,7%
Return on average equity	**2,1%**	-12,9%
Capital		
Common Equity Tier 1 capital ratio (CET 1) (transitional)	**14,5%**	14,0%
Total capital ratio	**14,6%**	14,1%
CET1 (€ million)	**2.728**	2.748
Risk weighted assets (€ million)	**18.865**	19.666

Balance Sheet

Shareholders' equity totalled €3.071 million at 31 December 2016. The CET1 ratio improved to 14,5% at 31 December 2016, and increased by 50 basis points during the year compared to 14,0% at 31 December 2015. Adjusting for deferred tax assets[2], the CET1 ratio on a fully-loaded basis totalled 13,9% at 31 December 2016 (31 December 2015: 13,1%). As at 31 December 2016 the Total Capital ratio stood at 14,6%, above the minimum required as from 1 January 2017 of 13%, and adjusted to 15,7% (pro-forma)[3] after including the Tier 2 capital note issued in January 2017.

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) and based on the Supervisory Review and Evaluation Process (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%[4]. 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%[5].

The Company has returned to the debt capital markets in January 2017 with the issue of €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 has 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).

[2] The deferred tax assets 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 Company until 2028 at a tax rate of 12,5%.
[3] Based on the preliminary group financial results as at and for the year ended 31 December 2016.
[4] In accordance with the legislation in Cyprus which has been set for all credit institutions through the requirements of the Capital Requirement Directive (CRR)/CRD IV.
[5] See note 4.

Financial results (continued)

Balance Sheet (continued)

At 31 December 2016, the Company's funding from central banks totalled €850 million, comprising ELA of €200 million and ECB funding of €650 million including an amount of €600 million through the new series of Targeted Longer Term Refinancing Operations (TLTRO II) announced by the ECB in March 2016. Post 31 December 2016, the Company has fully repaid ELA. In March 2017 the Company has borrowed an additional amount of €230 million through the new series of TLTRO II, to be received on 29 March 2017.

Gross loans[6] totalled €20.130 million at 31 December 2016 compared to €22.592 million at 31 December 2015. The reduction is, to a large extent, driven by the restructuring activity, including debt-for-property swaps, debt-for-equity swaps and write offs. Gross loans in Cyprus totalled €18.269 million at 31 December 2016 and accounted for 91% of Group gross loans.

Loans in arrears for more than 90 days (90+ DPD)[7] were reduced by €3,0 billion or by 27% in 2016. The provisioning coverage ratio of 90+ DPD[8] improved to 54,4% at 31 December 2016 (2015: 48,1%). When taking into account tangible collateral at fair value, 90+ DPD loans are fully covered.

Non-performing exposures (NPEs)[9] as defined by the European Banking Authority (EBA) were reduced to €11.034 million at 31 December 2016, accounting for 55% of gross loans, compared to 62% at 31 December 2015. The provisioning coverage ratio of NPEs stood at 41% at 31 December 2016, up from 39% at 31 December 2015.

The Group has set up the Real Estate Management Unit (REMU) in late 2015, to manage properties acquired through debt-for-property swaps and certain other properties already held for sale by the Group, and to execute exit strategies in order to monetise these assets.

Group customer deposits totalled €16.510 million at 31 December 2016 (compared to €14.181 million at 31 December 2015), and recorded an increase of 16% since 31 December 2015. As at 31 December 2016 customer deposits accounted for 74% of total assets (2015: 61%). The loans to deposits ratio stood at 95% at 31 December 2016 (2015: 121%).

The remaining non-core overseas exposures include:

- Greek net exposures of €170 million (net on-balance sheet exposure), €113 million off-balance sheet and lending exposures to Greek entities in the normal course of business in Cyprus totalling €82 million and lending exposures in Cyprus with collaterals in Greece totalling €107 million.
- Romania net exposures of €206 million
- Serbia net exposures of €42 million
- Russia net exposures of €44 million

Income Statement

- Net interest income (NII) and net interest margin (NIM) for 2016 amounted to €686 million (2015: €842 million) and 3,47% (2015: 3,79%) respectively.

- Non-interest income for 2016 was €277 million, including net fee and commission income of €167 million and net insurance income of €44 million.

- Total income[10] for 2016 was €963 million compared to €1.040 million for 2015.

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[6] Gross loan are reported before the fair value adjustment on initial recognition relating to loans acquired form Laiki Bank (difference between the outstanding contractual amount and the fair value of loan acquired) amounting to €928 million at 31 December 2016 (2015: €1.207 million).

[7] 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.

[8] Provisioning coverage ratio for 90+ DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, over 90+ DPD.

[9] In 2014 the European Banking Authority (EBA) published its reporting standards on forbearance and non-performing exposures (NPEs). According to the EBA standards, a loan is considered a non-performing exposure if: (i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due, for example in case of a write off, a legal action against the borrower, or bankruptcy, or (ii) the exposures are impaired i.e. in cases where there is a specific provision, or (iii) there are material exposures which are more than 90 days past due, or (iv) there are performing forborne exposures under probation for which additional forbearance measures are extended, or (v) there are performing forborne exposures under probation that present more than 30 days past due within the probation period.

[10] Total income includes Net Interest Income and Non-Interest Income.

Financial results (continued)

Income Statement (continued)

- Total expenses for 2016 were €397 million (2015: €408 million), and the cost to income ratio was 41% (2015: 39%).

- Profit before provisions and impairments[11], advisory, voluntary exit plans, other restructuring costs and discontinued operations for 2016 was €566 million compared to €632 million for 2015.

- Provisions for impairment of customer loans net of gain on derecognition of loans and advances to customers and changes in expected cash flows for 2016 totalled €370 million (2015: €959 million). The elevated provisioning charge for 2015 reflects the assumption changes in the Group's provisioning methodology, taking into account the ongoing dialogue with the regulators within the context of the SREP at the time. The provisioning charge for 2016 accounted for 1,7%[12] of gross loans, compared to 4,3% for 2015.

- Impairments of other financial and non-financial assets for 2016 totalled €47 million and primarily relate to impairment losses of stock of properties of €36 million.

- Provisions for litigation, claims and regulatory matters for 2016 totalled €18 million. The increase compared to 2015 is primarily driven by matters relating to redress charges for the UK operations.

- Profit after tax excluding advisory, voluntary exit plan cost, other restructuring costs, discontinued operations and net profit on disposal of non-core assets for 2016 totalled €119 million (2015: loss of €394 million).

- Restructuring costs[13] for 2016 totalled €114 million (2015: €43 million).

- Loss from disposal groups held for sale/discontinued operations for 2015 was €38 million and mainly relates to the disposal of the majority of the Russian operations.

- Net gains on disposal of non-core assets for 2016 were €59 million (2015: €37 million). Net gains on disposal of non-core assets primarily relate to the gain on disposal of the investment in Visa Europe Limited during 2016.

- Profit after tax attributable to the owners of the Company for 2016 was €64 million (2015: loss of €438 million).

Going concern

Management has made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during 2016 and the developments up to the date of approval of these consolidated financial statements that have been considered in management's going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4).

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.

[11] Comprising provision for impairments of customer loans and impairments of other financial and non-financial assets, net of gains/(losses) on derecognition and changes in expected cash flows.
[12] Defined as provisions for impairment of customer loans and gains/(losses) on derecognition of loans and changes in expected cash flows over average gross loans (as defined in Note 43 of the consolidated financial statements).
[13] Advisory, voluntary exit plan and other restructuring costs comprise mainly: 1) fees of external advisors in relation to: (i) disposal of operations and non-core assets (ii) customer loan restructuring activities which are not part of the effective interest rate and (iii) the listing on the London Stock Exchange, 2) litigation provisions related to the operations of Laiki Bank acquired in 2013 and 3) the voluntary exit plan cost.

Going concern (continued)

Management, taking into consideration the factors described below and the uncertainties that existed at the reporting date, is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out below, despite the fact that, as disclosed in Notes 4.2.3 and 45 the Company is currently not in compliance with its liquidity regulatory requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the Liquidity Coverage Ratio (LCR), which can be considered as a material uncertainty as to its ability to continue as a going concern.

- The Group's Common Equity Tier 1 (CET1) ratio at 31 December 2016 stands at 14,5% (transitional) and the total capital at 14,6%, higher than the minimum required ratios (Note 4.2.1).
- The improving funding structure of the Group as a result of the continuing positive customer flows in Cyprus.
- The increase in Group customer deposits by €2.329 million during 2016. Customer deposits stood at €16.510 million at 31 December 2016.
- The 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 (Note 4.2.3).
- The improved ratings of both the Company (Fitch Ratings upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit 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).
- The Company has returned to the debt capital markets in January 2017 with the issue of unsecured and subordinated Tier 2 Capital Note of €250 million.

Strategy and priorities

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

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

With the Cypriot operations accounting for 91% of both gross loans and customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's recovery. According to the Statistical Service of the Republic of Cyprus, real GDP increased by 2,8% year-on year in the fourth quarter of 2016 (when seasonally adjusted), bringing the yearly growth to 2,8% (compared with 1,7% the year before), thereby achieving the highest growth rate since 2008. Growth drivers for the fourth quarter of 2016 continued to be the tourist and international business services sectors on the supply side, and the gradually recovering private consumption, fixed investments and net exports on the expenditure side. This was supported by the depreciation of the Euro against the US Dollar and the drop in oil prices. Tourist activity was strong, with arrivals up by 19,8% in the year to October and revenue from tourism up by 12,3% in the year to November. Fiscal developments in the crisis years have been better than expected due to both changes in the revenue and expenditure sides of the fiscal equation.

Strategy and priorities (continued)

The outlook for the Cyprus economy over the medium term remains positive. The recovery is broadly based, funding conditions in the banking system have improved markedly, the stock of non-performing loans is decreasing and the unemployment rate has been declining at a significant pace. Official forecasts by the European Commission in its Winter 2017 Economic Forecast are for real GDP growth to remain robust but to decelerate to 2,5% in 2017 and 2,3% in 2018.

Upside risks to the outlook relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and implementation of projects in tourism, energy and public projects.

Downside risks to the growth projections are associated with high levels of non-performing exposures and a potential deterioration of the external environment. This would involve a continuation of the recession in Russia in conditions of protracted declines in oil prices; weaker than expected growth in the euro area as a result of worsening global economic conditions; and slower growth in the UK with a weakening of the pound as a result of uncertainty resulting from Brexit. Consequently, the direct consequences on Cyprus of Brexit, will mostly emanate from tourist activity. The possible loss of UK tourist arrivals may be mitigated at least in part, by increases in arrivals of tourists from other destinations as airline connectivity improves. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Tackling the Group's loan portfolio quality remains the top priority for management. The Group continues to make steady progress across all asset quality metrics and the strong momentum in the loan restructuring activity continues. The Group has been successful in engineering restructuring solutions at an average of approximately €1 billion a quarter since January 2015 across the spectrum of its loan portfolio. There is a shift of focus to the recoveries and retail portfolios, with recoveries via foreclosures to unlock solutions with problematic cases and non-cooperative borrowers, and collections via the specialised unit Retail Arrears Management and other available tools to ensure early and continuous engagement with clients. During 2016 the recoveries portfolio was deleveraged by €0,8 billion. Overall, the Company is responsible for approximately two-thirds of the reduction of NPEs in Cyprus during the period from 1 January 2015 to 31 October 2016, demonstrating the effectiveness of its strategy to tackle asset quality via a dedicated RRD division.

In order to further improve its funding structure, the Group has stepped up its efforts to maintain and increase deposits at a lower cost, leveraging increasing customer confidence towards the Group and improving macroeconomic conditions. During the year the Group introduced new deposit products aimed at attracting local and international depositors. The Group's capital position and overall improvement in its financial position enhance its funding options. On 5 January 2017, the Group has fully repaid ELA funding. During 2016 and up to its full repayment the Company repaid €3,8 billion of ELA. With the issuance of Tier 2 Capital Note in January 2017, the Company has returned to the debt capital markets.

The Group strategically focuses and reshapes its business model to grow in core Cypriot market through prudent new lending and developing of the UK franchise. Growth in new lending is focused on selected industries that are more in line with the Group's target risk profile, such as tourism, trade, professional services, information/communication technology, energy, education and green projects. The Group is also aiming to pursue a focused growth strategy in the UK, targeting entrepreneurs and owner-managed businesses.

Management is also placing emphasis on diversifying its income streams by boosting fee income from international transaction services, wealth management and insurance. The Group's insurance companies, constitute a leading player in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Group's income streams. The insurance income net of insurance claims for 2016 amounted to €44 million compared to €48 million for 2015.

The Company continues to have a leading position in the Cypriot banking system, with market shares of 31,1% of deposits and 39,4% of loans as at 31 December 2016. The Group's strengthened capital position and its improving liquidity, support its efforts to provide credit to promising sectors of the domestic economy through its core operations, to support entrepreneurs in the UK through its UK subsidiary company, and to deliver value to shareholders and other stakeholders. During 2016, the Group has provided approximately €1,5 billion of new loans mainly to promising sectors of the domestic economy through its core operations and to entrepreneurs in the UK through its UK subsidiary.

Strategy and priorities (continued)

On 19 January 2017, Bank of Cyprus Holdings Public Limited Company, the Group's new holding company as of 18 January 2017, the effective date of the Scheme of Arrangement, announced that its total issued share capital of 446.199.933 ordinary shares of nominal value €0,10 each 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 London Stock Exchange ('LSE'), to listing on the CSE and to trading on the Main Market of the CSE. Bank of Cyprus Holdings Public Limited Company works towards a premium listing on the LSE, and intends to apply for a step up to the premium segment of the LSE at a future date, with the intention of becoming eligible for inclusion in the FTSE UK Index series.

Capital base

Shareholders' equity totalled €3.071 million at 31 December 2016. The CET1 ratio (transitional basis) totalled 14,5% at 31 December 2016 (2015: 14,0%). Adjusting for Deferred Tax Assets, the CET1 ratio on a fully-loaded basis totalled 13,9% at 31 December 2016 (2015: 13,1%). The Total Capital ratio, at 31 December 2016, stood at 14,6%.

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

Share capital

There were no changes on the issued share capital of the Company during 2016. Information about the changes on issued share capital after 31 December 2016 is disclosed in Note 53 of the consolidated financial statements.

Share-based payments - share options

The Long Term Incentive Plan approved by the shareholders at the annual general meeting on 24 November 2015 as described in Note 34 of the consolidated financial statements, was replaced on 18 January 2017 by the Share Option Plan implemented by Bank of Cyprus Holdings Public Limited Company following the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group. The Share Option plan is identical to the Long Term Incentive Plan except that the number of shares in Bank of Cyprus Holdings Public Limited 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.

Treasury shares of the Company

Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. During 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). The cost of acquisition of these shares was €25.333 thousand (2015: €25.333 thousand).

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.

Other information

During 2016 and 2015 there were no restrictions on the transfer of the Company's ordinary shares other than the provisions of the Banking Law of Cyprus which requires Central Bank of Cyprus (CBC) approval prior to acquiring shares of the Company in excess of certain thresholds and the requirements of the Directive on Insider Dealing and Market Manipulation, which relates to transactions with related parties.

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

Shareholders holding more than 5% of the share capital of the Company

As at 31 December 2016 the following shareholders held more than 5% of the share capital at the Company:

	31 December 2016
Cyprus Popular Bank Public Co Ltd	9,62%
Lamesa Holdings S.A. (affiliate of Renova Group)	9,27%
TD Asset Management	5,24%
European Bank for Reconstruction and Development	5,02%

As at 27 March 2017 all the shares of the Company are held by Bank of Cyprus Holdings Public Limited Company (Note 53.1).

Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividend was declared or paid during years 2016 and 2015.

Events after the reporting date

New holding company and listing on the London Stock Exchange
Bank of Cyprus Holdings Public Limited Company was incorporated in the Republic of Ireland on 11 July 2016 for the purposes of the Group's listing on the London Stock Exchange (LSE). The Republic of Ireland was considered to be the most suitable jurisdiction as it is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for listing on the LSE. The Company's headquarters, management and operations remain in Cyprus. Bank of Cyprus Holdings Public Limited Company is tax resident in Cyprus.

The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved the scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and the shareholders of the Company. The scheme of arrangement introduces Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group. Additionally the EGM authorised the directors of the Company 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 the Company 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 the Company (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of the Company, 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 the Company 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 the Company;

Events after the reporting date (continued)

New holding company and listing on the London Stock Exchange (continued)

(iii) to apply the reserve arising in the books of account of the Company 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 Company, which shall be issued and allotted, credited as fully paid, to Bank of Cyprus Holdings Public Limited Company or its nominee(s) in accordance with the Scheme; and

(iv) the authorization of the directors of the Company 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 the Company were suspended from trading on the CSE and Athens Exchange (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 the Company were cancelled and the Company issued and allotted 8.922.944.533 new ordinary shares of nominal value €0,10 each, credited as fully paid to Bank of Cyprus Holdings Public Limited Company; and Bank of Cyprus Holdings Public Limited 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 Depository Interest represents one New Share for each individual holding of 20 Existing Shares.

On 19 January 2017 the total issued share capital of 446.199.933 ordinary shares of nominal value €0,10 each of Bank of Cyprus Holdings Public Limited 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.

Share - based payments – share options

The Long Term Incentive Plan approved by the shareholders at the annual general meeting on 24 November 2015 as described in Note 34 of the consolidated financial statements, was replaced on 18 January 2017 by the Share Option Plan implemented by Bank of Cyprus Holdings Public Limited Company following the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group. The Share Option plan is identical to the Long Term Incentive Plan except that the number of shares in Bank of Cyprus Holdings Public Limited 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.

Full repayment of ELA

ELA was fully repaid on 5 January 2017. All ELA collateralised loans have subsequently been released, but ELA pledged properties remain pledged as of 27 March 2017.

Issue of Tier 2 Capital

In January 2017, the Company issued €250 million unsecured and subordinated Tier 2 Capital Note (Note) under the Company's EMTN Programme. The Note was priced at par with a coupon of 9,25%. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents.

Funding through the new series of TLTRO II

In March 2017 the Company has borrowed an additional amount of €230 million through the new series of TLTRO II, to be received on 29 March 2017.

Risk management

Like other financial organisations, the Group is exposed to risks, the most significant of which are credit risk, liquidity risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and insurance risk. The Group monitors and manages these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 43 to 46 of the consolidated financial statements and in the Additional Risk and Capital Management Disclosures which form part of this 2016 Annual Financial Report.

Additionally, the Group is exposed to the risk on changes in the fair value of property which is held either for own use or as stock of property or as investment property. Stock of property is generally acquired in debt satisfaction and is intended to be disposed of in line with the Group's strategy. Further information is disclosed in Notes 22, 25 and 27.

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

The Pillar 3 disclosures required by the Capital Requirements Regulation (EU) No 575/2013 are published on the Group's website www.bankofcyprus.com (Investor Relations).

Preparation of periodic reporting

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

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

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports. Internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.

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

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

Corporate Governance Statement

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

The Company has also chosen to comply with the UK Corporate Governance Code 2014 published by the Financial Reporting Council in the UK (the UK Code) following the decision to proceed with a Listing on the London Stock Exchange.

Corporate Governance Statement (continued)

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

Regarding the second part of the Report, the Company complies with the provisions of the CSE Code. Throughout the Corporate Governance Report for 2016 a narrative statement is provided on how the principles of the CSE Code have been applied.

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

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in section 1 of the Corporate Governance Report for 2016. The powers of the executive and supervisory bodies of the Group are also set out in the Corporate Governance Report.

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

The Board of Directors may issue share capital if there is sufficient authorised share capital and as long as the new shares to be issued are offered first to existing shareholders, pro-rata to their percentage shareholding. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares are not offered to existing shareholders, the approval of the shareholders in a general meeting must be obtained. Under Cyprus Companies Law, the Board of Directors also has the right to propose to the general meeting of shareholders a share buyback scheme.
Details of restrictions in voting rights and special control rights in relation to the shares of the Company are set out in the section on 'Other information' above.

The Corporate Governance Report for 2016 is included within this Annual Financial Report.

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.

Board of Directors

The members of the Board of Directors of the Company as at the date of this Report are listed on page 1. All Directors were members of the Board throughout the year and up to the date of this Report except from Dr. Michael Heger who was appointed as a member of the Board of Directors following ECB approval on 10 June 2016 and Ms Lyn Grobler who was appointed as Director following ECB approval on 7 February 2017. Mr Wilbur L. Ross Jr. submitted his resignation from his position as member and Vice Chairman of the Board of Directors on 1 March 2017. The Board of Directors have accepted Mr Ross' resignation and expressed their warmest thanks for his valuable contribution to the Group which he has served since 2014. On the same date, 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 ECB.

The Articles of Association of the Company provides for one third of the Directors to retire and offer themselves for re-election. The Articles of Association of the Company will be amended prior to the next Annual General Meeting so that henceforth all Directors will retire every year and offer themselves for re-election if they wish.

The remuneration of the Board of Directors is disclosed in Note 48 of the consolidated financial statements.

Board of Directors (continued)

The interest in the share capital of the Company held by each member of the Board of Directors at 31 December 2016 is presented in the table below:

	31 December 2016
Non-executives	**%**
Prof. Dr. Josef Ackermann	0,03
Wilbur L. Ross Jr.	1,63
Maksim Goldman	-
Arne Berggren	0,01
Dr. Michael Heger	-
Marios Kalochoritis	-
Michalis Spanos	0,01
Ioannis Zographakis	-
Executives	
John Patrick Hourican	-
Dr. Christodoulos Patsalides	-
	1,68

As from 18 January 2017, the date that the Scheme of Arrangement became effective as disclosed in Note 53.1 of the consolidated financial statements. As at 27 March 2017, none of the members of the Board of Directors held any interest in the share capital of the Company.

Prof. Dr. Josef Ackermann

Chairman

27 March 2017

Consolidated Financial Statements

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Consolidated Income Statement

for the year ended 31 December 2016

	Notes	**2016**	2015
		€000	€000
Continuing operations			
Turnover	*2.9*	**1.234.098**	1.425.989
Interest income	*7*	**886.582**	1.122.105
Interest expense	*8*	**(200.400)**	(279.665)
Net interest income		**686.182**	842.440
Fee and commission income	*9*	**176.865**	162.557
Fee and commission expense	*9*	**(10.207)**	(9.100)
Net foreign exchange gains	*10*	**43.471**	38.367
Net gains on financial instrument transactions	*11*	**63.373**	47.129
Insurance income net of claims and commissions	*12*	**44.432**	47.905
Gains/(losses) from revaluation and disposal of investment properties	*22*	**4.974**	(53.080)
Gains on disposal of stock of property		**1.361**	882
Other income	*13*	**14.905**	16.725
		1.025.356	1.093.825
Staff costs	*14*	**(287.172)**	(233.631)
Other operating expenses	*15*	**(242.955)**	(225.038)
		495.229	635.156
Gain on derecognition of loans and advances to customers and changes in expected cash flows	*16*	**63.315**	305.089
Provisions for impairment of loans and advances to customers and other customer credit losses	*16*	**(433.609)**	(1.264.554)
Impairment of other financial instruments	*16*	**(11.293)**	(43.503)
Impairment of non-financial instruments	*16*	**(36.220)**	(18.103)
Profit/(loss) before share of profit from associates and joint ventures		**77.422**	(385.915)
Share of profit from associates and joint ventures	*51*	**8.194**	5.923
Profit/(loss) before tax from continuing operations		**85.616**	(379.992)
Income tax	*17*	**(18.385)**	(9.203)
Profit/(loss) after tax from continuing operations		**67.231**	(389.195)
Discontinued operations			
Loss after tax from discontinued operations	*6*	**-**	(65.107)
Profit/(loss) for the year		**67.231**	(454.302)

Attributable to:			
Owners of the Company-continuing operations		**63.656**	(382.513)
Owners of the Company-discontinued operations		**-**	(55.839)
Total profit/(loss) attributable to the owners of the Company		**63.656**	(438.352)
Non-controlling interests-continuing operations		**3.575**	(6.682)
Non-controlling interests-discontinued operations		**-**	(9.268)
Total profit/(loss) attributable to non-controlling interests		**3.575**	(15.950)
Profit/(loss) for the year		**67.231**	(454.302)

Basic and diluted earnings/(losses) per share (cent) attributable to the owners of the Company-continuing operations	*18*	**0,7**	(4,3)
Basic and diluted earnings/(losses) per share (cent) attributable to the owners of the Company	*18*	**0,7**	(4,9)

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016	2015
		€000	€000
Profit/(loss) for the year		**67.231**	(454.302)
Other comprehensive income (OCI)			
OCI to be reclassified in the consolidated income statement in subsequent periods			
Foreign currency translation reserve			
(Loss)/profit on translation of net investments in foreign branches and subsidiaries		**(43.763)**	19.597
Profit/(loss) on hedging of net investments in foreign branches and subsidiaries	*21*	**53.408**	(22.860)
Transfer to the consolidated income statement on dissolution/disposal of foreign operations		**(3.958)**	21.020
		5.687	17.757
Available-for-sale investments			
Net gains from fair value changes before tax		**842**	52.056
Share of net gains/(losses) from fair value changes of associates		**1.677**	(2.060)
Transfer to the consolidated income statement on impairment		**839**	1.515
Transfer to the consolidated income statement on sale		**(47.960)**	(3.016)
		(44.602)	48.495
		(38.915)	66.252
OCI not to be reclassified in the consolidated income statement in subsequent periods			
Property revaluation			
Fair value loss before tax		**-**	(4.795)
Share of fair value gain of associates		**-**	4
Tax	*17*	**219**	3.923
		219	(868)
Actuarial (losses)/gains on the defined benefit plans			
Remeasurement (losses)/gains on defined benefit plans	*14*	**(14.255)**	2.328
		(14.036)	1.460
Other comprehensive (loss)/income after tax		**(52.951)**	67.712
Total comprehensive income/(loss) for the year		**14.280**	(386.590)

Attributable to:			
Owners of the Company		**15.321**	(378.679)
Non-controlling interests		**(1.041)**	(7.911)
Total comprehensive income/(loss) for the year		**14.280**	(386.590)

Assets	*Notes*	**2016**	2015
		€000	€000
Cash and balances with central banks	*19*	**1.506.396**	1.422.602
Loans and advances to banks	*19*	**1.087.837**	1.314.380
Derivative financial assets	*21*	**20.835**	14.023
Investments	*20*	**373.879**	588.255
Investments pledged as collateral	*20*	**299.765**	421.032
Loans and advances to customers	*23*	**15.649.401**	17.191.632
Life insurance business assets attributable to policyholders	*24*	**499.533**	475.403
Prepayments, accrued income and other assets	*28*	**269.911**	281.780
Stock of property	*27*	**1.427.272**	515.858
Investment properties	*22*	**38.059**	34.628
Property and equipment	*25*	**280.893**	264.333
Intangible assets	*26*	**146.963**	133.788
Investments in associates and joint ventures	*51*	**109.339**	107.753
Deferred tax assets	*17*	**450.441**	456.531
Non-current assets and disposal group held for sale	*29*	**11.411**	48.503
Total assets		**22.171.935**	23.270.501
Liabilities			
Deposits by banks		**434.786**	242.137
Funding from central banks	*30*	**850.014**	4.452.850
Repurchase agreements		**257.367**	368.151
Derivative financial liabilities	*21*	**48.625**	54.399
Customer deposits	*31*	**16.509.741**	14.180.681
Insurance liabilities	*32*	**583.997**	566.925
Accruals, deferred income and other liabilities	*33*	**335.925**	282.831
Debt securities in issue		**-**	712
Deferred tax liabilities	*17*	**45.375**	40.807
Non-current liabilities and disposal group held for sale	*29*	**-**	3.677
Total liabilities		**19.065.830**	20.193.170
Equity			
Share capital	*34*	**892.294**	892.294
Share premium	*34*	**552.618**	552.618
Capital reduction reserve	*34*	**1.952.486**	1.952.486
Revaluation and other reserves		**218.678**	258.709
Accumulated losses	*36*	**(544.930)**	(601.152)
Equity attributable to the owners of the Company		**3.071.146**	3.054.955
Non-controlling interests		**34.959**	22.376
Total equity		**3.106.105**	3.077.331
Total liabilities and equity		**22.171.935**	23.270.501

Prof. Dr. J. Ackermann Chairman

Mr. J. P. Hourican Chief Executive Officer

Mr. I. Zographakis Director

Mrs. E. Livadiotou Finance Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Attributable to the owners of the Company												Non-controlling interests	Total equity
	Share capital (Note 34)	Share premium (Note 34)	Capital reduction reserve (Note 34)	Treasury shares (Note 34)	Accumulated losses (Note 36)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale (Note 29)	**Total**		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2016	**892.294**	**552.618**	**1.952.486**	**(41.301)**	**(601.152)**	**99.218**	**47.125**	**6.059**	**99.050**	**30.939**	**17.619**	**3.054.955**	**22.376**	**3.077.331**
Profit for the year	-	-	-	-	63.656	-	-	-	-	-	-	**63.656**	3.575	**67.231**
Other comprehensive (loss)/income after tax for the year	-	-	-	-	(14.255)	219	(39.986)	-	-	5.687	-	**(48.335)**	(4.616)	**(52.951)**
Total comprehensive income/(loss) for the year	-	-	-	-	49.401	219	(39.986)	-	-	5.687	-	**15.321**	(1.041)	**14.280**
Increase in value of in-force life insurance business	-	-	-	-	(4.680)	-	-	-	4.680	-	-	**-**	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	-	479	-	-	-	(479)	-	-	**-**	-	**-**
Transfer of realised profits on disposal of properties	-	-	-	-	8.501	(8.501)	-	-	-	-	-	**-**	-	**-**
Disposal of subsidiary (Note 50.2.1)	-	-	-	-	17.619	-	-	-	-	-	(17.619)	**-**	-	**-**
Acquisition of subsidiary (Note 50.1.1)	-	-	-	-	-	-	-	-	-	-	-	**-**	18.753	**18.753**
Disposals of treasury shares	-	-	-	41.301	(40.560)	-	-	-	-	-	-	**741**	-	**741**
Change in presentation of life insurance subsidiary's treasury shares	-	-	-	(25.333)	25.333	-	-	-	-	-	-	**-**	-	**-**
Increase in shareholding of subsidiary	-	-	-	-	129	-	-	-	-	-	-	**129**	(129)	**-**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	**-**	(5.000)	**(5.000)**
31 December 2016	**892.294**	**552.618**	**1.952.486**	**(25.333)**	**(544.930)**	**90.936**	**7.139**	**6.059**	**103.251**	**36.626**	**-**	**3.071.146**	**34.959**	**3.106.105**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Attributable to the owners of the Company													**Non-controlling interests**	**Total equity**
	Share capital (Note 34)	Share premium (Note 34)	Capital reduction reserve (Note 34)	Shares subject to interim orders	Treasury shares (Note 34)	Accumulated losses (Note 36)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal groups and assets held for sale (Note 29)	**Total**		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2015	**892.238**	**552.539**	**1.952.486**	**441**	**(88.051)**	**(79.021)**	**98.211**	**2.226**	**6.059**	**97.698**	**22.929**	**7.737**	**3.465.492**	**15.555**	**3.481.047**
Loss for the year	-	-	-	-	-	(438.352)	-	-	-	-	-	-	**(438.352)**	(15.950)	**(454.302)**
Other comprehensive income/(loss) after tax for the year	-	-	-	-	-	2.328	(906)	44.899	-	-	(15.307)	28.659	**59.673**	8.039	**67.712**
Total comprehensive (loss)/income for the year	-	-	-	-	-	(436.024)	(906)	44.899	-	-	(15.307)	28.659	**(378.679)**	(7.911)	**(386.590)**
Issue of shares	56	79	-	-	-	-	-	-	-	-	-	-	**135**	-	**135**
Acquisition of non-controlling interest	-	-	-	-	-	(68)	-	-	-	-	-	-	**(68)**	68	**-**
Disposal of subsidiaries (Note 50.4.1)	-	-	-	-	-	6.805	-	-	-	-	-	(6.805)	**-**	(18.112)	**(18.112)**
Increase in shareholding of subsidiary (Note 49)	-	-	-	-	-	(37.094)	-	-	-	-	11.693	-	**(25.401)**	25.401	**-**
Debt capitalisation for subsidiary non-controlling interests	-	-	-	-	-	(9.293)	-	-	-	-	-	-	**(9.293)**	9.293	**-**
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	**-**	(1.918)	**(1.918)**
Transfer of realised losses on disposal of property	-	-	-	-	-	(1.565)	1.641	-	-	-	-	(76)	**-**	-	**-**
Increase in value of in-force life insurance business	-	-	-	-	-	(1.499)	-	-	-	1.499	-	-	**-**	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	-	-	147	-	-	-	(147)	-	-	**-**	-	**-**
Disposals of treasury shares	-	-	-	(441)	46.750	(43.540)	-	-	-	-	-	-	**2.769**	-	**2.769**
Reclassification from assets held-for-sale	-	-	-	-	-	-	272	-	-	-	11.624	(11.896)	**-**	-	**-**
31 December 2015	**892.294**	**552.618**	**1.952.486**	**-**	**(41.301)**	**(601.152)**	**99.218**	**47.125**	**6.059**	**99.050**	**30.939**	**17.619**	**3.054.955**	**22.376**	**3.077.331**

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016	2015
		€000	€000
Net cash flow from operating activities	*39*	**3.162.625**	2.359.442
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(213.032)**	(32.670)
Proceeds on disposal/redemption of investments:			
- debt securities		**466.640**	1.551.748
- equity securities		**50.143**	4.446
Interest received from debt securities		**28.084**	14.937
Dividend income from equity securities		**343**	900
Dividend income from associates		**4.939**	2.641
Proceeds on disposal of subsidiaries and operations		**26.500**	3.396
Proceeds on disposal of joint ventures		**-**	89.011
Purchases of property and equipment	25	**(12.096)**	(8.709)
Proceeds on disposals of property and equipment and intangible assets		**210**	343
Purchases of intangible assets	26	**(16.363)**	(15.045)
Proceeds on disposals of investment properties and investment properties held for sale		**14.076**	30.996
Net cash flow from investing activities		**349.444**	1.641.994
Cash flows from financing activities			
Proceeds from the issue of shares		**-**	135
Net repayment of funding from central banks		**(3.602.836)**	(3.830.923)
Redemption of debt securities in issue		**(712)**	(1.733)
Interest on debt securities in issue		**-**	(25)
Interest on funding from central banks		**(29.656)**	(78.187)
Proceeds from disposal of treasury shares		**741**	2.769
Dividend paid by subsidiaries to non-controlling interests		**(5.000)**	(1.918)
Net cash flow used in financing activities		**(3.637.463)**	(3.909.882)
Net (decrease)/increase in cash and cash equivalents for the year		**(125.394)**	91.554
Cash and cash equivalents			
1 January		**2.347.408**	2.238.601
Foreign exchange adjustments		**9.014**	17.253
Net (decrease)/increase in cash and cash equivalents for the year		**(125.394)**	91.554
31 December	*40*	**2.231.028**	2.347.408

Details on the non-cash transactions are presented in Note 39.

1. Corporate information

Bank of Cyprus Public Company Ltd (the Company) was the holding company of the Bank of Cyprus Group (the Group) during 2016 and as at the balance sheet date. The principal activities of the Company and its subsidiary companies during the year continued to be the provision of banking, financial, insurance services and management and disposal of property generally acquired in debt satisfaction.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. As at the balance sheet date the Company had a primary listing on the Cyprus Stock Exchange (CSE) and a secondary listing on the Athens Exchange (ATHEX). Its shares were suspended from trading on the CSE and ATHEX with effect from and including 10 January 2017 and were subsequently cancelled pursuant to a Scheme of Arrangement that became effective on 18 January 2017. On the same date Bank of Cyprus Holdings Public Limited Company became the sole shareholder of the Company, and on 19 January 2017 Bank of Cyprus Holdings Public Limited Company was admitted to listing and trading on the London Stock Exchange (LSE) and the CSE. Further information is disclosed in Note 53.1. The Company remains a public company for the purposes of the Cyprus Income Tax Laws.

The consolidated financial statements are available at the Bank of Cyprus Public Company Ltd Registered Office (51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations).

Consolidated financial statements
The consolidated financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2016 were authorised for issue by a resolution of the Board of Directors on 27 March 2017.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

Presentation of consolidated financial statements
The consolidated financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated. A dot is used to separate thousands and a comma is used to separate decimals.

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 42.

Statement of compliance
The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 below.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

2.2.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments were applied for the first time in 2016, they did not have a material impact on the consolidated financial statements of the Group. The nature of each new standard or amendment is described below:

International Accounting Standard (IAS) 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortisation
This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. This amendment did not result in any changes in the Group financial statements.

IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations
IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. This amendment did not have an impact on the Group financial statements.

IAS 27 Separate Financial Statements
This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and helps some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors. This amendment did not have an impact on the Group financial statements.

IAS 1Disclosure Initiative (Amendment)
The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. The narrow-focus amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of OCI arising from equity accounted investments. This amendment did not result in any changes in the Group financial statements.

Annual Improvements IFRSs 2012-2014 Cycle
The International Accounting Standards Board (IASB) has issued the Annual Improvements IFRSs 2012-2014 Cycle which is a collection of amendments to IFRSs. These did not have an impact on the Group financial statements. They include:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, but rather as a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- *IFRS 7 Financial Instruments - Disclosures*: The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.

- *IAS 19 Employee Benefits*: The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

2.2.1 New and amended standards and interpretations (continued)

Annual Improvements IFRSs 2012-2014 Cycle (continued)

- *IAS 34 Interim Financial Reporting:* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

IAS 19 Employee benefits (Amended): Employee Contributions
The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This amendment did not have an impact on the Group's results and financial position.

Annual Improvements IFRSs 2010–2012 Cycle
The IASB has issued the Annual Improvements IFRSs 2010–2012 Cycle, which is a collection of amendments to IFRSs. These did not have an impact on the Group financial statements, with the exception of IAS 24 Related Party Disclosures, which resulted in additional disclosures in the consolidated financial statements. They include:

- *IFRS 2 Share-based Payment:* This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').

- *IFRS 3 Business combinations:* This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.

- *IFRS 8 Operating Segments:* This improvement requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.

- *IFRS 13 Fair Value Measurement:* This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.

- *IAS 16 Property Plant & Equipment:* The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

- *IAS 24 Related Party Disclosures:* The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

- *IAS 38 Intangible Assets:* The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

2. Summary of significant accounting policies (continued)

2.3 Standards and Interpretations that are issued but not yet effective

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

IFRS 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.

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.

2. Summary of significant accounting policies (continued)

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

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

IFRS 9 Financial Instruments (continued)
IFRS 9 implementation project (continued)
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.

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

IFRS 15 Revenue from Contracts with Customers (Clarifications)
The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the 'separately identifiable' principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Group is in the process of assessing the impact of this standard on its results and financial position.

IFRS 16 Leases
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). The new standard requires lessees to recognise most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group is in the process of assessing the impact of this standard on its results and financial position. Existing operating lease commitments are disclosed in Note 41.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Group does not expect these amendments to have a material impact on its results and financial position.

2. Summary of significant accounting policies (continued)

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

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

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
The objective of the amendments is to clarify the requirements of deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combine versus separate assessment. The Group does not expect these amendments to have a material impact on its results and financial position. The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted.

Amendments to IAS 7: Disclosure Initiative
The objective of the amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The Group expects this to give rise to additional disclosures. There is no impact on its results and financial position. These amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

Amendments IFRS 2: Classification and Measurement of Share based Payment Transactions
The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Group is in the process of assessing the impact of these amendments on its results and financial position.

IAS 40: Transfers to Investment Property (amendments)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

International Financial Reporting Interpretations Committee (IFRIC) Interpretation 22: Foreign Currency Transactions and Advance Consideration
The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Group does not expect this interpretation to have a material impact on its results and financial position.

2. Summary of significant accounting policies (continued)

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

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

Annual Improvements IFRSs 2014–2016 Cycle
The IASB has issued the *Annual Improvements to IFRSs 2014–2016 Cycle*, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of IFRS and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. The Group does not expect these to have material impact on its results and financial position.

- IFRS 1 First-time Adoption of IFRS: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.

- IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

2.4 Basis of consolidation

The consolidated financial statements comprise the consolidated financial statements of the Group as at and for the year ended 31 December 2016. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

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

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

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

2.5 Business combinations

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

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

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

2.6 Investments in associates and joint ventures

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

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

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

In the consolidated financial statements, the Group's investments in associates and joint ventures are accounted for using the equity method of accounting.

Under the equity method, the investment in an associate or a joint venture is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate or joint venture. The Group's share of the results of the associate or joint venture is included in the consolidated income statement. Losses of the associate or joint venture in excess of the Group's cost of the investment are recognised as a liability only when the Group has incurred obligations on behalf of the associate or joint venture. Goodwill relating to an associate or joint venture is included in the carrying amount of the investment and is not amortised. Any excess of the Group's share of the net fair value of the associate's or joint venture's identifiable assets over the cost of the investment (i.e. negative goodwill) is included as income in the determination of the Group's share of the associate's or joint venture's profit or loss in the period in which the investment is acquired. The aggregate of the Group's share of profit or loss of an associate or a joint venture is shown on the face of the consolidated income statement outside operating profit and represent profit or loss after tax.

2. Summary of significant accounting policies (continued)

2.6 Investments in associates and joint ventures (continued)

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

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

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

2.7 Foreign currency translation

The consolidated financial statements are presented in Euro (€), which is the functional and presentation currency of the Company and its subsidiaries in Cyprus. Each overseas branch or subsidiary of the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle in the consolidated statement of comprehensive income the gain or loss that arises from using this method.

2.7.1 Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to 'Net foreign exchange gains/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.

2.7.2 Subsidiary companies and branches

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

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

2.8 Segmental reporting

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

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

2.9 Turnover

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

2. Summary of significant accounting policies (continued)

2.10 Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

2.10.1 Interest income

For all financial assets measured at amortised cost and interest bearing financial assets classified as available-for-sale investments or at fair value through profit or loss, interest income is recognised using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or where appropriate a shorter period, to the carrying amount of the financial instruments. Interest income is recognised on the recoverable portion of impaired loans.

The carrying amount of a financial asset or liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded in 'Net gains on financial instrument transactions for debt securities', or 'Gain on derecognition of loans and advances to customers and changes in expected cash flows' for loans and advances to customers.

2.10.2 Fee and commission income

Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised using the effective interest rate method as part of interest income.

2.10.3 Dividend income

Dividend income is recognised in the consolidated income statement when the Group's right to receive payment is established i.e. upon approval by the general meeting of the shareholders.

2.10.4 Rental income

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

2.10.5 Gains from the disposal of investment property

Gains on disposal of investment property are recognised in the consolidated income statement in 'Gains/(losses) from revaluation and disposal of investment properties' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.10.6 Gains on the disposal of stock of property

Net gains on disposal of stock of property are recognised in the consolidated income statement when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.11 Retirement benefits

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

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

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

2. Summary of significant accounting policies (continued)

2.11 Retirement benefits (continued)

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

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

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

2.12 Tax

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

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

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

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

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

2. Summary of significant accounting policies (continued)

2.12 Tax (continued)

Indirect Tax Value Added Tax (VAT)
Expenses and assets are recognised net of the amount of VAT, except:

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

2.13 Financial instruments

2.13.1 Date of recognition

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

2.13.2 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.

2.13.3 Derivative financial instruments

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

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

2.13.4 Financial assets or financial liabilities held for trading

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

2. Summary of significant accounting policies (continued)

2.13 Financial instruments (continued)

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

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

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

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

2.13.6 Held-to-maturity investments

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

2.13.7 Loans and receivables

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

2. Summary of significant accounting policies (continued)

2.13 Financial instruments (continued)

2.13.7 Loans and receivables (continued)

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

2.13.8 Available-for-sale investments

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

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

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

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

2.14 Derecognition of financial assets and financial liabilities

2.14.1 Financial assets

A financial asset is derecognised when: (a) the contractual rights to receive cash flows from the asset have expired, or (b) the Group has transferred its contractual rights to receive cash flows from the asset or (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.

2.14.2 Financial liabilities

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

2. Summary of significant accounting policies (continued)

2.15 Impairment of financial assets

2.15.1 Loans and receivables

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

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of the estimated future cash flows including the cash flows which may arise from guarantees and tangible 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.

2. Summary of significant accounting policies (continued)

2.15 Impairment of financial assets (continued)

2.15.1 Loans and receivables (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.

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

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

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

2.15.3 Available-for-sale investments

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

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

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

2.16 Hedge accounting

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

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

2. Summary of significant accounting policies (continued)

2.16 Hedge accounting (continued)

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

2.16.1 Fair value hedges

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

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

2.16.2 Cash flow hedges

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

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

2.16.3 Hedges of net investments in foreign operations

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

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

2.17 Offsetting financial instruments

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

2.18 Cash and cash equivalents

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

2. Summary of significant accounting policies (continued)

2.19 Insurance business

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

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

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

2.19.1 Life insurance business

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

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

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

2.19.2 Life insurance in-force business

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

2.19.3 General insurance business

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

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

2.19.4 Investment contracts

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

2. Summary of significant accounting policies (continued)

2.19 Insurance business (continued)

2.19.5 Liability adequacy test

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

2.20 Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell (reverse repos) at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest rate method. Reverse repos outstanding at the reporting date relate to agreements with banks. The investments received as security under reverse repurchase agreements can either be sold or repledged by the Group.

2.21 Finance leases – The Group as lessor

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

2.22 Operating leases

2.22.1 Group as lessee

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

2.22.2 Group as lessor

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

2.23 Property and equipment

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

2. Summary of significant accounting policies (continued)

2.23 Property and equipment (continued)

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

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

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

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

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

2.24 Investment properties

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

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from owner-occupied property to investment property, the Group accounts for such property in accordance with the policy described in Note 2.23 'Property and equipment' up to the date of change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

2.25 Stock of property

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

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

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

2. Summary of significant accounting policies (continued)

2.26 Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

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

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

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

Additional disclosures are provided in Note 6. All other notes to the financial statements include amounts from continuing operations, unless otherwise stated.

2.27 Intangible assets

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

2. Summary of significant accounting policies (continued)

2.27 Intangible assets (continued)

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 3 to 8 years for computer software. For the accounting policy of in-force life insurance business, refer to Note 2.19.2.

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

2.28 Share capital

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

2.29 Treasury shares

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

2.30 Provisions

2.30.1 Provisions for pending litigation, claims and regulatory matters

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

2.30.2 Provisions for undrawn loan commitments

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

2.31 Financial guarantees

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

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

2.32 Comparative information

Comparatives have been reclassified to reflect the change in presentation of 'Gains on disposal of stock of property' within the consolidated income statement, previously included within 'Other income'. This change in presentation did not have any impact on the profit for the year.

In addition reclassifications to comparative information were made to conform to current year presentation. Such reclassification did not have an impact on the profit for the year or equity of the Group.

3. Going concern

Management has made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during 2016 and the developments up to the date of approval of these consolidated financial statements that have been considered in management's going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4).

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, as disclosed in Notes 4.2.3 and 45 the Company is currently not in compliance with its liquidity regulatory requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the Liquidity Coverage Ratio (LCR), which can be considered as a material uncertainty as to its ability to continue as a going concern.

- The Group's Common Equity Tier 1 (CET1) ratio at 31 December 2016 stands at 14,5% (transitional) and the total capital at 14,6%, higher than the minimum required ratios (Note 4.2.1).
- The improving funding structure of the Group, as a result of the continuing positive customer flows in Cyprus.
- The increase in Group customer deposits by €2.329 million during 2016. Customer deposits stood at €16.510 million at 31 December 2016.
- The 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 (Note 4.2.3).
- The improved ratings of both the Company (Fitch Ratings upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit 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).
- The Company has returned to the debt capital markets in January 2017 with the issue of unsecured and subordinated Tier 2 Capital Note of €250 million.

4. Operating environment

4.1 Cyprus

Cyprus exited its economic adjustment programme at the end of March 2016 after a successful return to markets and having utilised only about 70% of the €10 billion funding resources made available by the European Union (EU) and the International Monetary Fund (IMF). Based on the Ministry of Finance Stability Programme 2016-2019 (May 2016), in the area of public finances, the government carried out a strong fiscal adjustment and the budget returned to near balance, public spending was reduced and tax collection was made more efficient.

Unemployment dropped to 13,3% during 2016 compared to an average unemployment rate of 14,9% for 2015 as a whole and a peak of 16,5% in the fourth quarter of 2014 as per the Cyprus Statistical Service.

Real GDP rose by 2,8% in 2016 according to the Cyprus Statistical Service, compared to an increase of 1,7% during 2015.

Consumer prices continued to decline for the fourth consecutive year, down by 1,4% in 2016, as per the Cyprus Statistical Service.

Tourist arrivals increased by 19,8% during 2016. The index of industrial production increased by 8,7% in 2016. In real gross value added terms, industrial output in 2016 increased by 5,9% in the first three quarters of 2016 after an increase of 2,9% in 2015 as per data by the Cyprus Statistical Service.

4. Operating environment (continued)

4.1 Cyprus (continued)

In the property market, the Central Bank's residential property price index continued to decline year-on-year but at a slowing pace. The index dropped by 1,3% in the third quarter of 2016 after dropping by 1,7% and 1,6% in the second and first quarter respectively.

Downside risks to the growth projections are associated with high levels of non-performing loans, loss of momentum in structural reforms with associated risks for public finances, and a return of inflation. Downside risks may also be associated with a deterioration of the external environment for Cyprus. These would involve slower growth in the UK with a weakening of the pound following the Brexit referendum. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Upside risks to the outlook relate to a possible better growth performance in the EU and stronger investment spending as property prices are stabilising and various projects especially in tourism are implemented.

The international credit rating agencies have upgraded the rating of the country. Fitch Ratings upgraded the rating of the Republic of Cyprus 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.

In July 2016 the Cyprus government accessed international capital markets for the third time since the start of the economic adjustment programme to date, issuing a seven year Eurobond of €1 billion at a yield of 3,8%.

4.2 The Group

4.2.1 Regulatory capital ratios

The CET1 ratio of the Group at 31 December 2016 stands at 14,5% (transitional) and the total capital 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) and based on the Supervisory Review and Evaluation Process (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.

4. Operating environment (continued)

4.2 The Group (continued)

4.2.2 Asset quality

The Group's loans that are individually impaired or past due for more than 90 days (90+ DPD) have decreased by 27% during 2016 and totalled €8.309 million at 31 December 2016, representing 41% of gross loans before fair value adjustment on initial recognition (Note 43). The provisioning coverage ratio improved to 54% at 31 December 2016 compared to 48% at 31 December 2015. The Group non-performing exposures (NPEs), as defined by the European Banking Authority (EBA), totalled €11.034 million at 31 December 2016 and accounted for 55% of gross loans. The provisioning coverage ratio of NPEs totalled 41% at 31 December 2016 compared to 39% at 31 December 2015.

The Group addresses the asset quality challenge through the operation of the Restructuring and Recoveries Division which is actively seeking to find innovative solutions to manage distressed exposures. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. 90+ DPD have decreased by 36% since their peak of €13.003 million as at 31 December 2013. NPEs have decreased by 27% since their peak of €15.175 million as at 31 December 2013.

4.2.3 Liquidity

The Group's funding position continues to improve with customer deposits increasing by €2.329 million or 16% in the year ended 31 December 2016.

Group customer deposits totalled €16.510 million at 31 December 2016 compared to €14.181 million at 31 December 2015. Customer deposits in Cyprus reached €15.043 million at 31 December 2016 from €12.691 million at 31 December 2015. Customer deposits stood at 74% of total assets as at 31 December 2016 (compared to 61% at 31 December 2015 and a low of 48% at 31 March 2014). The net loans to deposit ratio stood at 95% as at 31 December 2016 (compared to 121% at 31 December 2015).

The level of ELA funding at 31 December 2016 amounted to €200 million (Note 30), down from €3,8 billion at 31 December 2015 and its peak level of €11,4 billion in April 2013. ELA was fully repaid on 5 January 2017. ELA is available to solvent Euro area credit institutions and although the Company has received no specific assurance, management expects that the Company will continue to have access to the central bank liquidity facilities, in line with applicable rules if it were to face a 'stress event' that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Company would seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

It is noted that the Group's Restructuring Plan approved in 2013 by the Central Bank of Cyprus (CBC) included ELA funding throughout the Restructuring Plan period (2013-2017).

The 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.

The credit ratings of the Republic of Cyprus by the main credit rating agencies albeit improving, continue to be below investment grade. As a result, the ECB is not able to include Cyprus Government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed.

In January 2017 the Company issued €250 million unsecured and subordinated Tier 2 Capital Note under the Company's EMTN Programme. The note was priced at par, with a coupon of 9,25% (Note 53.4).

The Company is currently not in compliance with the regulatory liquidity requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the LCR and is therefore dependent on continuing regulatory forbearance. Additional information on liquidity and details on certain liquidity ratios are disclosed in Note 45.

4. Operating environment (continued)

4.2 The Group (continued)

4.2.4 Pending litigation, claims and regulatory matters

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

Despite the novelty of many of the claims such as the bail-in of depositors and the absorption of losses by the holders of equity and debt instruments of the Company and the uncertainties inherent in a unique situation, based on the information available at present and on the basis of the law as it currently stands, management considers that the said claims as well as other pending litigation, claims and regulatory matters are unlikely to have a material adverse impact on the financial position and capital adequacy of the Group (Note 38).

5. Significant judgements, estimates and assumptions

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

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

5.1 Provision for impairment of loans and advances to customers

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

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

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

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

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases for which, based on specific facts and circumstances, a different period has been used and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero.

5. Significant judgements, estimates and assumptions (continued)

5.1 Provision for impairment of loans and advances to customers (continued)

The average liquidity haircut and selling expenses used in the provisions calculation is 10% of the current market value of the property for those collaterals for which the increase in their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop.

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

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

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

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

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

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

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

5. Significant judgements, estimates and assumptions (continued)

5.1 Provision for impairment of loans and advances to customers (continued)

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

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

Further details on impairment allowances and related credit information are set out in Note 43.

5.2 Fair value of investments and derivatives

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

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

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

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

Further details on the fair value of assets and liabilities are disclosed in Note 22.

5.3 Impairment of available-for-sale investments

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

5. Significant judgements, estimates and assumptions (continued)

5.3 Impairment of available-for-sale investments (continued)

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

Further details on impairment of available-for-sale investments are presented in Notes 16 and 20.

5.4 Retirement benefits

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

Further details on retirement benefits are disclosed in Note 14.

5.5 General insurance business

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

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

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

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

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

Further information on general insurance business is disclosed in Note 12.

5. Significant judgements, estimates and assumptions (continued)

5.6 Life insurance business

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

Further information on life insurance business is disclosed in Note 12.

5.6.1 Value of in-force business

The value of the in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets. The methodology used and the key assumptions that have been made in determining the carrying value of the in-force business asset at 31 December 2016, are set out in Note 24.

5.6.2 Insurance liabilities

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

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

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

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

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

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

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

5. Significant judgements, estimates and assumptions (continued)

5.6 Life insurance business (continued)

5.6.2 Insurance liabilities (continued)

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

Further details on insurance liabilities are disclosed in Note 32.

5.7 Tax

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

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

The assumptions with greater influence on deferred tax are disclosed in Note 17.

5.8 Classification of properties

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

- Investment properties comprise land and buildings that are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.
- Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013. The Group has set up the 'Real Estate Management Unit (REMU) in late 2015, to manage these assets (including selective investments and development) and to execute exit strategies in order to monetise these assets.

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

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

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

Further information on inputs used is disclosed in Note 22.

5. Significant judgements, estimates and assumptions (continued)

5.10 Stock of property – estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined with reference to the fair value of properties adjusted for any impact of specific circumstances on the sale process of each property. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainly due to the relatively low level of market activity.

More details on the stock of property are presented in Note 27.

5.11 Provisions

The accounting policy for provisions is described in Note 2.30.1. Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Provisions for pending litigations, claims and regulatory matters usually require a higher degree of judgement than other types of provisions. It is expected that the Group will continue to have a material exposure to litigation and regulatory proceedings and investigations relating to legacy issues in the medium term. The matters for which the Group determines that the probability of a future loss is more than remote will change from time to time, as will the matters as to which a reliable estimate can be made and the estimated possible loss for such matters. Actual results may prove to be significantly higher or lower than the estimate of possible loss in those matters, where an estimate was made. In addition, loss may be incurred in matters with respect to which the Group believed the probability of loss was remote.

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims and regulatory matters refer to Note 38.

5.12 Exercise of significant influence

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

6. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit. The main geographical location that the Group operates is Cyprus. In addition, the Cyprus segment is further organised into operating segments based on the line of business.

The remaining Group's activities in Greece, United Kingdom, Romania and Russia are separate operating segments for which information is provided to management but, due to their size, have been grouped for disclosure purposes into one segment, namely 'Other countries'.

The Group's activities in Cyprus and other countries include mainly the provision of banking, financial and insurance services, as well as management of properties either held as stock or as investment property.

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

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

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

6. **Segmental analysis** (continued)

The disposal of the majority of the Russian operations was completed in September 2015 and the results of the Russian operations which have been disposed of are presented as discontinued operations in the comparative period. The results of the remaining Russian operations, being the management of a distressed loan portfolio, are presented within continuing operations of the 'Other countries' segment.

In September 2015, the Group also completed the disposal of 65% of the shares of Aphrodite group. The results of the Aphrodite group acquired in November 2014 and disposed of in September 2015 are presented as discontinued operations in the comparative period.

Continuing operations

2016	Cyprus	Other countries	**Total**
	€000	€000	**€000**
Net interest income	643.259	42.923	**686.182**
Net fee and commission income	159.181	7.477	**166.658**
Net foreign exchange gains	28.013	15.458	**43.471**
Net gains on financial instrument transactions	63.204	169	**63.373**
Insurance income net of claims and commissions	43.713	719	**44.432**
Gains/(losses) from revaluation and disposal of investment properties	5.315	(341)	**4.974**
Gains/(losses) on disposal of stock of property	2.050	(689)	**1.361**
Other income	12.530	2.375	**14.905**
	957.265	68.091	**1.025.356**
Staff costs (excluding voluntary exit plan and other termination benefits) (Note 14)	(207.045)	(17.380)	**(224.425)**
Staff costs – voluntary exit plan and other termination benefits (Note 14)	(62.521)	(226)	**(62.747)**
Other operating expenses (excluding advisory and other restructuring costs) (Note 15)	(150.074)	(41.339)	**(191.413)**
Other operating expenses - advisory and other restructuring costs (Note 15)	(48.579)	(2.963)	**(51.542)**
	489.046	**6.183**	**495.229**
Gain on derecognition of loans and advances to customers and changes in expected cash flows	63.258	57	**63.315**
Provisions for impairment of loans and advances to customers and other customer credit losses	(379.984)	(53.625)	**(433.609)**
(Impairment)/reversal of impairment of other financial instruments	(12.316)	1.023	**(11.293)**
Impairment of non-financial instruments	(23.087)	(13.133)	**(36.220)**
Share of profit from associates and joint ventures	8.194	-	**8.194**
Profit/(loss) before tax	**145.111**	**(59.495)**	**85.616**
Income tax	(18.230)	(155)	**(18.385)**
Profit/(loss) after tax	**126.881**	**(59.650)**	**67.231**
Non-controlling interests-profit	(3.575)	-	**(3.575)**
Profit/(loss) after tax attributable to the owners of the Company	**123.306**	**(59.650)**	**63.656**

6. Segmental analysis (continued)

Continuing operations (continued)

2015	Cyprus	Other countries	**Total**
	€000	€000	**€000**
Net interest income	788.389	54.051	**842.440**
Net fee and commission income	146.636	6.821	**153.457**
Net foreign exchange gains/(losses)	48.021	(9.654)	**38.367**
Net gains/(losses) on financial instrument transactions	48.205	(1.076)	**47.129**
Insurance income net of claims and commissions	46.961	944	**47.905**
Losses from revaluation and disposal of investment properties	(14.900)	(38.180)	**(53.080)**
Gains/(losses) on disposal of stock of property	1.000	(118)	**882**
Other income	7.303	9.422	**16.725**
	1.071.615	22.210	**1.093.825**
Staff costs	(218.057)	(15.574)	**(233.631)**
Other operating expenses (excluding advisory and other restructuring costs) (Note 15)	(164.950)	(16.958)	**(181.908)**
Other operating expenses – advisory and other restructuring costs (Note 15)	(38.357)	(4.773)	**(43.130)**
	650.251	**(15.095)**	**635.156**
Gain on derecognition of loans and advances to customers and changes in expected cash flows	298.752	6.337	**305.089**
Provisions for impairment of loans and advances to customers and other customer credit losses	(1.145.460)	(119.094)	**(1.264.554)**
Impairment of other financial instruments	(29.757)	(13.746)	**(43.503)**
Impairment of non-financial instruments	(11.326)	(6.777)	**(18.103)**
Share of profit from associates and joint ventures	5.923	-	**5.923**
Loss before tax	**(231.617)**	**(148.375)**	**(379.992)**
Income tax	(5.695)	(3.508)	**(9.203)**
Loss after tax	**(237.312)**	**(151.883)**	**(389.195)**
Non-controlling interests-loss	794	5.888	**6.682**
Loss after tax attributable to the owners of the Company	**(236.518)**	**(145.995)**	**(382.513)**

6. Segmental analysis (continued)

Discontinued operations

2015	Russia	Subsidiary acquired with the view to sale	**Total**
	€000	€000	**€000**
Net interest income	16.353	-	**16.353**
Net fee and commission income	8.108	-	**8.108**
Net foreign exchange gains	1.537	-	**1.537**
Losses from revaluation and disposal of investment properties	(160)	-	**(160)**
Losses on disposal of stock of property	(66)	-	**(66)**
Other income	1.222	18.833	**20.055**
	26.994	18.833	**45.827**
Staff costs	(17.010)	(5.433)	**(22.443)**
Other operating expenses	(17.147)	(7.954)	**(25.101)**
	(7.163)	**5.446**	**(1.717)**
Provisions for impairment of loans and advances to customers and other customer credit losses	(42.665)	-	**(42.665)**
Impairment upon re-measurement of disposal group at fair value less costs to sell	(3.288)	-	**(3.288)**
(Loss)/profit on disposal of discontinued operations	(23.032)	5.640	**(17.392)**
(Loss)/profit before tax	**(76.148)**	**11.086**	**(65.062)**
Income tax	(45)	-	**(45)**
(Loss)/profit after tax	**(76.193)**	**11.086**	**(65.107)**
Non-controlling interests – loss/(profit)	10.630	(1.362)	**9.268**
(Loss)/profit after tax attributable to the owners of the Company	**(65.563)**	**9.724**	**(55.839)**

6. Segmental analysis (continued)

Analysis of total revenue

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

Continuing operations

2016	Cyprus	Other countries	**Total**
	€000	€000	**€000**
Total revenue from third parties	941.929	83.427	**1.025.356**
Inter-segment revenue/(expense)	15.336	(15.336)	**-**
Total revenue	**957.265**	**68.091**	**1.025.356**

2015			
Total revenue from third parties	1.055.559	37.242	**1.092.801**
Inter-segment revenue/(expense)	16.056	(15.032)	**1.024**
Total revenue	**1.071.615**	**22.210**	**1.093.825**

The revenue for Cyprus operating segment is further analysed in analysis by business line in this note. The revenue for Other countries segment mainly relates to banking and financial services for both 2016 and 2015.

Discontinued operations

2015	Russia	Subsidiary acquired with the view to sale	**Total**
	€000	€000	**€000**
Total revenue from third parties	28.018	18.833	**46.851**
Inter-segment expenses	(1.024)	-	**(1.024)**
Total revenue	**26.994**	**18.833**	**45.827**

The revenue of Russia operating segment relates mainly to banking and financial services. The revenue of the subsidiary acquired with the view to sale relates to property and hotel business.

6. Segmental analysis (continued)

Analysis of assets

2016	Cyprus	Other countries	**Total**
	€000	€000	**€000**
Assets	20.851.999	2.412.982	**23.264.981**
Inter-segment assets			**(1.093.046)**
Total assets			**22.171.935**

2015			
Assets	21.666.656	2.746.202	**24.412.858**
Inter-segment assets			**(1.142.357)**
Total assets			**23.270.501**

Analysis of liabilities

2016	Cyprus	Other countries	**Total**
	€000	€000	**€000**
Liabilities	17.577.993	2.584.262	**20.162.255**
Inter-segment liabilities			**(1.096.425)**
Total liabilities			**19.065.830**

2015			
Liabilities	18.665.209	2.672.612	**21.337.821**
Inter-segment liabilities			**(1.144.651)**
Total liabilities			**20.193.170**

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 31 and 43, respectively.

Analysis by business line

In addition to monitoring operations by geographical location, management also monitors the operating results of each business line for the Cyprus segment of the Group, and such information is presented to the Group Executive Committee.

Income and expenses directly associated with each business line are included in determining the line's performance. Transfer pricing methodologies are applied between the business lines to present their results on an arm's length basis. Total other operating income includes net foreign exchange gains, net gains on financial instrument transactions, insurance income net of claims and commissions, gains/(losses) from revaluation and disposal of investment properties, gains on disposal of stock of property and other income. Total other operating income, staff costs and other operating expenses incurred directly by the business lines are allocated to the business lines as incurred. Indirect other operating income and indirect other operating expenses are allocated to the head office function. Notional tax at the 12,5% Cyprus tax rate is charged/credited on profit or loss before tax of each business line.

The business line 'Other' includes Group and head office functions such as treasury, finance, risk management, compliance, legal, corporate affairs and human resources. Head office functions provide services to the operating segments. From 2016 onwards, following the establishment of REMU in December 2015, its results are presented as a separate business line as REMU is considered a separate operating segment and reported as such to management. No comparative information has been disclosed for the results of this new business line as this was only set up in December 2015.

6. **Segmental analysis** (continued)

Analysis by business line (continued)

2016	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	**Total Cyprus**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Net interest income/(expense)	81.408	61.547	246.923	201.743	62.292	10.861	(12.757)	417	(9.175)	**643.259**
Net fee and commission income/(expense)	9.959	8.825	45.832	12.105	65.072	2.032	-	(4.366)	19.722	**159.181**
Total other operating income	559	602	4.637	506	7.403	4.146	4.124	44.470	88.378	**154.825**
	91.926	70.974	297.392	214.354	134.767	17.039	(8.633)	40.521	98.925	**957.265**
Staff costs and other operating expenses	(11.475)	(11.490)	(117.175)	(32.959)	(23.365)	(4.409)	(9.253)	(14.461)	(132.532)	**(357.119)**
Restructuring costs–voluntary exit plan and other termination benefits	(968)	(1.139)	(22.930)	(8.237)	(4.468)	(224)	(97)	(3.269)	(21.189)	**(62.521)**
Restructuring costs–other operating expenses	(18)	(6)	(253)	(14.473)	(65)	(8)	(4.548)	-	(29.208)	**(48.579)**
	79.465	58.339	157.034	158.685	106.869	12.398	(22.531)	22.791	(84.004)	**489.046**
Gain on derecognition of loans and advances to customers and changes in expected cash flows	3.049	4.030	11.710	41.423	1.953	859	-	-	234	**63.258**
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	30.083	(14.690)	7.370	(393.740)	(8.006)	(1.965)	-	-	964	**(379.984)**
Impairment of other financial instruments	-	-	-	-	-	-	-	-	(12.316)	**(12.316)**
Impairment of non-financial instruments	-	-	-	-	-	-	(19.542)	-	(3.545)	**(23.087)**
Share of profit from associates and joint ventures	-	-	-	-	-	-	-	-	8.194	**8.194**
Profit/(loss) before tax	112.597	47.679	176.114	(193.632)	100.816	11.292	(42.073)	22.791	(90.473)	**145.111**
Income tax	(14.075)	(5.960)	(22.014)	24.204	(12.602)	(1.412)	5.259	(2.992)	11.362	**(18.230)**
Profit/(loss) after tax	98.522	41.719	154.100	(169.428)	88.214	9.880	(36.814)	19.799	(79.111)	**126.881**
Non-controlling interests-profit	-	-	-	-	-	-	-	-	(3.575)	**(3.575)**
Profit/(loss) after tax attributable to the owners of the Company	**98.522**	**41.719**	**154.100**	**(169.428)**	**88.214**	**9.880**	**(36.814)**	**19.799**	**(82.686)**	**123.306**

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6. **Segmental analysis** (continued)

Analysis by business line (continued)

2015	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	**Total Cyprus**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Net interest income	76.307	68.833	243.461	285.823	62.145	6.576	670	44.574	**788.389**
Net fee and commission income/(expense)	7.953	9.154	54.146	14.774	47.020	1.806	(2.951)	14.734	**146.636**
Total other operating income	627	615	4.511	345	7.579	3.956	47.651	71.306	**136.590**
	84.887	78.602	302.118	300.942	116.744	12.338	45.370	130.614	**1.071.615**
Staff costs and other operating expenses	(10.709)	(12.250)	(120.618)	(32.673)	(22.629)	(5.159)	(15.510)	(163.459)	**(383.007)**
Restructuring costs – other operating expenses	-	-	-	-	-	-	-	(38.357)	**(38.357)**
	74.178	66.352	181.500	268.269	94.115	7.179	29.860	(71.202)	**650.251**
Gain on derecognition of loans and advances to customers and changes in expected cash flows	35.676	30.336	65.537	152.863	2.725	1.797	-	9.818	**298.752**
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	9.930	(7.020)	(33.706)	(1.098.916)	(11.665)	(3.863)	-	(220)	**(1.145.460)**
Impairment of other financial instruments	-	-	-	-	-	-	-	(29.757)	**(29.757)**
Impairment of non-financial instruments	-	-	-	-	-	-	-	(11.326)	**(11.326)**
Share of profit from associates and joint ventures	-	-	-	-	-	-	-	5.923	**5.923**
Profit/(loss) before tax	119.784	89.668	213.331	(677.784)	85.175	5.113	29.860	(96.764)	**(231.617)**
Income tax	(14.973)	(11.209)	(26.666)	84.723	(10.647)	(639)	(1.522)	(24.762)	**(5.695)**
Profit/(loss) after tax	104.811	78.459	186.665	(593.061)	74.528	4.474	28.338	(121.526)	**(237.312)**
Non-controlling interests-loss	-	-	-	-	-	-	-	794	**794**
Profit/(loss) after tax attributable to the owners of the Company	**104.811**	**78.459**	**186.665**	**(593.061)**	**74.528**	**4.474**	**28.338**	**(120.732)**	**(236.518)**

In addition loans and advances to customers and deposits of the above business lines are reported to the Group Executive Committee. Such an analysis is disclosed in Notes 43 and 31 respectively.

7. Interest income

	2016	2015
	€000	€000
Loans and advances to customers	**853.906**	1.009.766
Loans and advances to banks and central banks	**5.356**	4.534
Investments available-for-sale	**10.905**	13.664
Investments classified as loans and receivables	**11.209**	88.456
	881.376	1.116.420
Trading investments	**12**	148
Derivative financial instruments	**4.557**	4.798
Other investments at fair value through profit or loss	**637**	739
	886.582	1.122.105

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances as defined in Note 43 amounting to €201.604 thousand (2015: €215.145 thousand).

8. Interest expense

	2016	2015
	€000	€000
Customer deposits	**137.973**	154.796
Funding from central banks and deposits by banks	**39.588**	95.633
Repurchase agreements	**6.476**	7.583
	184.037	258.012
Derivative financial instruments	**16.363**	21.653
	200.400	279.665

9. Fee and commission income and expense

Fee and commission income

	2016	2015
	€000	€000
Credit-related fees and commissions	**80.755**	82.161
Other banking commissions	**75.300**	64.277
Mutual funds and asset management fees	**2.524**	2.262
Brokerage commissions	**819**	1.183
Other commissions	**17.467**	12.674
	176.865	162.557

Mutual funds and asset management fees include income of €2.342 thousand (2015: €1.964 thousand) relating to fiduciary and other similar activities.

9. Fee and commission income and expense (continued)

Fee and commission expense

	2016	2015
	€000	€000
Banking commissions	**9.825**	8.731
Mutual funds and asset management fees	**128**	184
Brokerage commissions	**254**	185
	10.207	9.100

10. Net foreign exchange gains

Net foreign exchange gains comprise the conversion of monetary assets in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluation of foreign exchange derivatives.

11. Net gains on financial instrument transactions

	2016	2015
	€000	€000
Trading portfolio:		
- equity securities	**(273)**	710
- debt securities	**14**	24
- derivative financial instruments	**998**	(13.145)
Other investments at fair value through profit or loss:		
- debt securities	**(400)**	466
- equity securities	**283**	26
Net gains/(losses) on disposal of available-for-sale investments:		
- equity securities	**58.368**	1.075
- debt securities	**22**	(9)
Net gains on disposal/repayment of loans and receivables:		
- debt securities	**8.419**	49.513
Realised gains on disposal of loans	**64**	35
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	**3.889**	9.746
- hedged items	**(3.910)**	(11.317)
Loss on dissolution of subsidiaries (Note 49)	**(4.101)**	-
Gain on disposal of joint ventures	**-**	10.005
	63.373	47.129

11. Net gains on financial instrument transactions (continued)

The gains on disposal of available-for-sale equity securities for 2016, primarily relate to gain on sale of shares held in Visa Europe Limited following the approved purchase of Visa Europe Limited by Visa Inc.

The gains on disposal of debt securities classified as loans and receivables for 2016, related to the Company's participation in the Cyprus Government buyback process of Cyprus government bonds.

In the comparative period, the gain on disposal of joint ventures mainly related to the disposal of Marfin Diversified Strategy Fund Plc (MDSF) in April 2015 and represents the recycling of the related foreign currency reserves into the consolidated income statement.

12. Insurance income net of claims and commissions

	2016			2015		
	Income	**Claims and commissions**	**Insurance income net of claims and commissions**	Income	Claims and commissions	Insurance income net of claims and commissions
	€000	**€000**	**€000**	€000	€000	€000
Life insurance business	**104.261**	**(80.257)**	**24.004**	89.575	(63.759)	25.816
General insurance business	**39.341**	**(18.913)**	**20.428**	37.664	(15.575)	22.089
	143.602	**(99.170)**	**44.432**	127.239	(79.334)	47.905

	2016		2015	
	Life insurance	**General insurance**	Life insurance	General insurance
Income	**€000**	**€000**	€000	€000
Gross premiums	**83.951**	**60.215**	85.212	64.828
Reinsurance premiums	**(14.671)**	**(27.544)**	(14.399)	(36.927)
Net premiums	**69.280**	**32.671**	70.813	27.901
Change in the provision for unearned premiums	**-**	**(1.589)**	-	613
Total net earned premiums	**69.280**	**31.082**	70.813	28.514
Investment income and other income	**25.324**	**8**	12.167	18
Commissions from reinsurers and other income	**4.977**	**8.251**	5.096	9.132
	99.581	**39.341**	88.076	37.664
Change in value of in-force business before tax (Note 26)	**4.680**	**-**	1.499	-
	104.261	**39.341**	89.575	37.664

12. Insurance income net of claims and commissions (continued)

	2016		2015	
	Life insurance	**General insurance**	Life insurance	General insurance
Claims and commissions	**€000**	**€000**	€000	€000
Gross payments to policyholders	**(59.168)**	**(25.864)**	(63.912)	(28.175)
Reinsurers' share of payments to policyholders	**8.858**	**12.004**	10.376	14.423
Gross change in insurance contract liabilities	**(19.346)**	**931**	3.340	5.562
Reinsurers' share of gross change in insurance contract liabilities	**(2.017)**	**(1.845)**	(5.147)	(4.019)
Commissions paid to agents and other direct selling costs	**(8.584)**	**(4.143)**	(8.416)	(3.373)
Changes in equalisation reserve	**-**	**4**	-	7
	(80.257)	**(18.913)**	(63.759)	(15.575)

In addition to the above, the following income and expense items related to the insurance operations have been recognised in the consolidated income statement:

	2016		2015	
	Life insurance	**General insurance**	Life insurance	General insurance
	€000	**€000**	€000	€000
Net (expense)/income from non-linked insurance business assets	**(78)**	**342**	(145)	478
Net gains/(losses) on financial instrument transactions and other non-linked insurance business income	**16**	**(31)**	(455)	78
Staff costs	**(4.560)**	**(4.170)**	(4.830)	(5.098)
Staff costs – restructuring costs	**(1.874)**	**(1.395)**	-	-
Other operating expenses	**(4.186)**	**(2.049)**	(3.973)	(2.295)

13. Other income

	2016	2015
	€000	€000
Profit on disposal of disposal group held for sale (Notes 29 and 50.2.1)	**2.545**	-
Dividend income	**343**	885
Loss on sale and write-off of property and equipment and intangible assets	**(67)**	(50)
Rental income from investment properties	**1.626**	889
Rental income from stock of property	**1.460**	-
Profit from hotel activities	**646**	2.353
Other income	**8.352**	12.648
	14.905	16.725

14. Staff costs

	2016	2015
	€000	€000
Salaries	**181.175**	184.797
Employer's contributions to state social insurance	**27.154**	28.759
Retirement benefit plan costs	**16.096**	20.075
	224.425	233.631
Restructuring costs – voluntary exit plans and other termination benefits	**62.747**	-
	287.172	233.631

The number of persons employed by the Group as at 31 December 2016 was 4.284 (2015: 4.605). In February and June 2016 the Group proceeded with voluntary exit plans for its employees in Cyprus, the cost of which is included in staff costs and amounted to €62.521 thousand. In total, 429 employees accepted the voluntary exit plan and left the Group during the year. Additionally, restructuring costs include staff termination benefits amounting to €226 thousand related to the closure of the operations of Bank of Cyprus (Channel Islands) Ltd.

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance, the Group operates plans for the provision of additional retirement benefits as described below:

	2016	2015
	€000	€000
Defined benefit plans	**406**	636
Defined contribution plans	**15.690**	19.439
	16.096	20.075

Cyprus
The main retirement plan for the Group's permanent employees in Cyprus (85% of total Group employees) is a defined contribution plan. This plan provides for employer contributions of 9% (2015: up until 31 May 2015 14% and 9% thereafter) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

A small number of employees of Group subsidiaries in Cyprus are also members of defined benefit plans. These plans are funded with assets backing the obligations held in separate legal vehicles.

Greece
After the disposal of the Greek operations in 2013, a small number of employees of the Group's Greek subsidiaries and the Greek branch of the Company continue to be members of the defined benefit plans.

14. Staff costs (continued)

Retirement benefit plan costs (continued)

United Kingdom
The Group's employees in the United Kingdom (5% of total Group employees) are covered by a defined contribution plan for all current employees which provides for employee contributions of 0%-7,5% on the employees' gross salaries and employer contributions of 7,5% plus matching contributions by the employer of up to 7,5% depending on the employee contributions. In addition, a defined benefit plan (which was closed in December 2008 to future accrual of benefits) remains for active members.

Other countries
The Group does not operate any retirement benefit plans in Romania and Russia.

Analysis of the results of the actuarial valuations for the defined benefit plans

Amounts recognised in the consolidated balance sheet	**2016**	2015
	€000	€000
Liabilities (Note 33)	**22.776**	12.588
Assets (Note 28)	**(668)**	(1.203)
	22.108	11.385

One of the plans has a funded status surplus of €13.999 thousand (2015: €15.065 thousand) that is not recognised as an asset on the basis that the Group has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

The amounts recognised in the consolidated balance sheet and the movements in the net defined benefit obligation over the years are presented below:

14. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/ asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2016	94.115	(97.795)	(3.680)	15.065	**11.385**
Current service cost	469	-	469	-	**469**
Gains on curtailment and settlement	(80)	-	(80)	-	**(80)**
Net interest expense/(income)	2.927	(2.910)	17	-	**17**
Total amount recognised in the consolidated income statement	3.316	(2.910)	406	-	**406**
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	(6.357)	(6.357)	-	**(6.357)**
- Actuarial loss from changes in financial assumptions	21.979	-	21.979	-	**21.979**
- Experience adjustments	(301)	-	(301)	-	**(301)**
- Change in asset ceiling	-	-	-	(1.066)	**(1.066)**
Total amount recognised in the consolidated OCI	21.678	(6.357)	15.321	(1.066)	**14.255**
Exchange differences	(9.699)	8.028	(1.671)	-	**(1.671)**
Contributions:					
- Employer	-	(2.195)	(2.195)	-	**(2.195)**
- Plan participants	177	(177)	-	-	**-**
Benefits paid from the plans	(6.560)	6.560	-	-	**-**
Benefits paid directly by the employer	(72)	-	(72)	-	**(72)**
31 December 2016	**102.955**	**(94.846)**	**8.109**	**13.999**	**22.108**

14. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/ asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2015	97.164	(94.926)	2.238	13.921	**16.159**
Current service cost	499	-	499	-	**499**
Gains on curtailment and settlement	(126)	-	(126)	-	**(126)**
Net interest expense/(income)	3.173	(2.910)	263	-	**263**
Total amount recognised in the consolidated income statement	3.546	(2.910)	636	-	**636**
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	2.487	2.487	-	**2.487**
- Actuarial loss from changes in demographic assumptions	16	-	16	-	**16**
- Actuarial gain from changes in financial assumptions	(5.396)	-	(5.396)	-	**(5.396)**
- Experience adjustments	(579)	-	(579)	-	**(579)**
- Change in asset ceiling	-	-	-	1.144	**1.144**
Total amount recognised in the consolidated OCI	(5.959)	2.487	(3.472)	1.144	**(2.328)**
Exchange differences	3.988	(3.037)	951	-	**951**
Contributions:					
- Employer	-	(3.946)	(3.946)	-	**(3.946)**
- Plan participants	187	(187)	-	-	**-**
Benefits paid from the plans	(4.724)	4.724	-	-	**-**
Benefits paid directly by the employer	(87)	-	(87)	-	**(87)**
31 December 2015	**94.115**	**(97.795)**	**(3.680)**	**15.065**	**11.385**

14. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)
The actual return on plan assets for year 2016 was a gain of €9.267 thousand (2015: gain of €423 thousand).

The assets of funded plans are generally held in separately administered entities, either as specific assets or as a proportion of a general fund, or as insurance contracts and are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Group is exposed to a number of risks as outlined below:

Interest rate risk	The Group is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities.
Changes in bond yields	A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings.
Inflation risk	The Group faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases) exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increase with increasing inflation) could be used for better match with the expected increases in liabilities.
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, a deficit will be created.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2016	2015
Equity securities	**46%**	43%
Debt securities	**44%**	46%
Loans and advances to banks	**10%**	11%
	100%	100%

The assets held by the funded plans include equity securities issued by the Company, the fair value of which is as at 31 December 2016 €2.433 thousand (2015: €2.412 thousand).

The Group expects to make additional contributions to defined benefit plans of €2.265 thousand during 2017.

At the end of the reporting period, the average duration of the defined benefit obligation was 18,7 years.

14. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations

The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Group during 2016 and 2015 are set out below:

2016	**Cyprus**	**Greece**	**UK**
Discount rate	1,56%-1,83%	1,50%-2,00%	2,70%
Inflation rate	1,75%	1,75%	3,30%
Future salary increases	2,00%	2,00%	n/a
Rate of pension increase	2,00%	n/a	3,15%
Life expectancy for pensioners at age 60	23,5 years M 29,6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23,9 years M 25,4 years F

2015			
Discount rate	2,21%-2,32%	2,30%-2,80%	3,90%
Inflation rate	1,75%	1,75%	3,10%
Future salary increases	0% for 2016 and 2% thereafter	0% for 2016 and 2% thereafter	n/a
Rate of pension increase	0% for 2016 and 2% thereafter	n/a	3,05%
Life expectancy for pensioners at age 60	23,5 years M 29,6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23,9 years M 25,4 years F

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 24% of the defined benefit obligations, the Group adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Group's plan in the UK which comprises 76% of the defined benefit obligations, the Group adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Group, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 and 2015 is presented below.

14. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

Variable	2016		2015	
	Change +0,5%	**Change -0,5%**	Change +0,5%	Change -0,5%
Discount rate	**-10,0%**	**10,9%**	-8,2%	9,1%
Inflation growth rate	**8,7%**	**-8,0%**	5,7%	-5,4%
Salary growth rate	**0,8%**	**-0,7%**	0,5%	-0,2%
Pension growth rate	**0,8%**	**-0,7%**	0,8%	-0,8%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**-1,3%**	**1,7%**	-1,2%	1,6%

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the consolidated balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

15. Other operating expenses

	2016	2015
	€000	€000
Repairs and maintenance of property and equipment	**21.705**	25.819
Other property-related costs	**14.728**	16.934
Operating lease rentals for property and equipment	**10.512**	10.176
Special levy on deposits of credit institutions in Cyprus	**19.968**	17.347
Consultancy and other professional services fees	**13.972**	16.445
Insurance	**10.697**	14.941
Advertising and marketing	**17.502**	13.375
Depreciation of property and equipment (Note 25)	**11.558**	12.257
Amortisation of intangible assets (Note 26)	**7.263**	7.001
Communication expenses	**8.118**	8.543
Provisions and settlements of litigations, claims and provisions for regulatory matters (Note 33)	**17.840**	7.604
Printing and stationery	**3.485**	3.988
Local cash transfer expenses	**2.848**	2.749
Contribution to depositor protection scheme	**329**	381
Other operating expenses	**30.888**	24.348
	191.413	181.908
Advisory and other restructuring costs	**51.542**	43.130
	242.955	225.038

Advisory and other restructuring costs comprise mainly: (a) fees of external advisors in relation to: (i) customer loan restructuring activities which are not part of the effective interest rate, (ii) the listing on the London Stock Exchange, (iii) disposal of operations and non-core assets and (b) litigation provisions related to the operations of Laiki Bank acquired in 2013.

15. Other operating expenses (continued)

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Group, for audit and other professional services provided both in Cyprus and overseas, as follows:

	2016	2015
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**2.615**	1.918
Other audit-related services	**423**	464
Tax services	**598**	423
Services related to the listing on the London Stock Exchange	**4.879**	1.491
Other services	**1.032**	435
	9.547	4.731
Continuing operations	**9.547**	4.633
Discontinued operations	**-**	98
	9.547	4.731

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

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

Provisions net of reversals of provisions for impairment of loans and advances to customers and other customer credit losses		
Loans and advances to customers (Note 43)	**439.761**	1.305.957
Financial guarantees and commitments (Note 33)	**(6.152)**	(41.403)
	433.609	1.264.554

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

Impairment of non-financial instruments		
Property held for own use (Note 25)	**-**	311
Stock of property (Note 27)	**36.220**	17.792
	36.220	18.103

17. Income tax

	2016	2015
	€000	€000
Current tax:		
- Cyprus	**4.776**	3.271
- overseas	**1.986**	1.502
Cyprus special defence contribution	**212**	193
Deferred tax	**6.657**	338
Prior years' tax adjustments	**2.668**	3.899
Other tax charges	**2.086**	-
	18.385	9.203

The Group's share of income tax charge from associate for 2016 amounts to €1.244 thousand. The Group had no material share of income tax charge from associates for 2015.

The reconciliation between the income tax expense and the profit/(loss) before tax as estimated using the current income tax rates is set out below:

	2016	2015
	€000	€000
Profit/(loss) before tax from continuing operations	**85.616**	(379.992)
Income tax at the normal tax rates in Cyprus	**10.916**	(47.306)
Income tax effect of:		
- expenses not deductible for income tax purposes	**14.255**	22.368
- income not subject to income tax	**(21.566)**	(20.550)
- differences between overseas income tax rates and Cyprus income tax rates	**6.428**	7.756
- reversal of previously recognised deferred tax	**3.598**	43.036
	13.631	5.304
Prior years' tax adjustments	**2.668**	3.899
Other tax charges	**2.086**	-
	18.385	9.203

The loss on disposal of the Russian operations and Aphrodite group in 2015 is included in discontinued operations and is partially income tax deductible, whereas the impairment loss on measurement to fair value less costs to sell of the Russian operations, which is included in discontinued operations, is non-income tax deductible.

Income tax in Cyprus is calculated at the rate of 12,5% on taxable income (2015: 12,5%).

For life insurance business there is a minimum income tax charge of 1,5% on gross premiums. Special defence contribution is payable on rental income at a rate of 3% (2015: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2015: 30%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2016 were: Greece 29% (2015: 29%), Romania 16% (2015: 16%), Russia 20% (2015: 20%), UK 20% (2015: 21% until 31 March 2015 and 20% thereafter).

17. Income tax (continued)

The Group is subject to income taxes in the various jurisdictions it operates and the calculation of the Group's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Group has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters, which are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The accumulated income tax losses are presented in the table below:

2016	**Total income tax losses**	**Income tax losses for which a deferred tax asset was recognised**	**Income tax losses for which no deferred tax asset was recognised**
	€000	**€000**	**€000**
Expiring within 4 years	**4.675.399**	**266.800**	**4.408.599**
Expiring between 5 and 10 years	**16.306**	**-**	**16.306**
Expiring between 11 and 15 years	**7.378.801**	**3.336.000**	**4.042.801**
	12.070.506	**3.602.800**	**8.467.706**

2015			
Expiring within 4 years	4.307.396	295.584	4.011.812
Expiring between 5 and 10 years	401.156	-	401.156
Expiring between 11 and 15 years	7.378.801	3.336.000	4.042.801
	12.087.353	3.631.584	8.455.769

The majority of the deferred tax asset relates to the Laiki Bank income tax losses transferred to the Company as a result of the acquisition of certain operations on 29 March 2013. The income tax losses were transferred under 'The Resolution of Credit and Other Institutions Law' which states that any accumulated losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the Group's acquisition of certain operations of Laiki Bank, these losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of the Company by 2028 at an income tax rate of 12,5%.

Recognition of deferred tax assets on unutilised income tax losses is supported by management's business forecasts, taking into account available information and making various assumptions on future growth rates of customer loans, deposits, funding evolution, loan impairment and pricing, and considering the recoverability of the deferred tax assets within their expiry period.

The Group performed its regular assessment regarding the recoverability of its deferred tax asset as at 31 December 2016, taking into account the actual results for the year ended 31 December 2016, the declining trend of loans that are impaired or past due for more than 90 days, the improved funding structure with the loans to deposits ratio of 95%, the significant inflow of deposits and the significant decrease of ELA funding.

17. Income tax (continued)

The Group performed its assessment for the recoverability of its deferred tax asset as at 31 December 2016 taking into account the Group's actual performance, the key objectives of the Group's strategy as well as the macroeconomic environment in Cyprus, and the analytical financial projections up to the end of 2019 which had been also used to roll out assumptions thereafter until year 2028. The key assumptions, amongst others, include the following:

- New loan originations and repayments
- Loan and deposit interest income/expense evolution
- Funding structure and associated cost
- Diversified income streams
- Level of operating expenses
- Level of loans that are impaired or past due for more than 90 days (new defaults, curing, cost of risk)

The financial projections have taken into account the key objectives of the Group's strategy which are set out below:

- Materially reduce the level of delinquent loans
- Normalise the funding structure and fully repay the ELA in January 2017
- Focus on the core markets in Cyprus by providing credit to promising sectors and exit from non-core markets
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital through profitability, deleveraging and disposing of non-core assets
- Deliver value to shareholders and other stakeholders

Based on the above, management has concluded that the deferred tax asset of €450.441 thousand for the Group as at 31 December 2016 is recoverable.

The tax losses of prior years utilised during 2016 amount to €28.784 thousand (2015: €905 thousand).

The income tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Deferred tax

The net deferred tax assets arises from:

	2016	2015
	€000	€000
Difference between capital allowances and depreciation	**7.794**	7.773
Property revaluation	**17.038**	16.658
Investment revaluation and stock of property	**3.807**	90
Unutilised income tax losses carried forward	**(450.350)**	(453.948)
Value of in-force life insurance business	**14.750**	14.271
Other temporary differences	**1.895**	(568)
Net deferred tax assets	**(405.066)**	(415.724)

17. Income tax (continued)

Deferred tax (continued)

	2016	2015
	€000	€000
Deferred tax assets	**(450.441)**	(456.531)
Deferred tax liabilities	**45.375**	40.807
Net deferred tax assets	**(405.066)**	(415.724)

The table below sets out the geographical analysis of the deferred tax assets:

	2016	2015
	€000	€000
Cyprus	**(450.356)**	(456.531)
United Kingdom	**(85)**	-
Deferred tax assets	**(450.441)**	(456.531)
Deferred tax liabilities	**45.375**	40.807
Net deferred tax assets	**(405.066)**	(415.724)

The movement of the net deferred tax assets is set out below:

	2016	2015
	€000	€000
1 January	**(415.724)**	(412.130)
Deferred tax recognised in the consolidated income statement – continuing operations	**6.657**	338
Acquisition of subsidiary (Note 50.1.1)	**3.807**	-
Deferred tax recognised in the consolidated statement of comprehensive income	**(219)**	(3.923)
Deferred tax on disposal of subsidiaries	**-**	(510)
Foreign exchange adjustments	**413**	501
31 December	**(405.066)**	(415.724)

The Group offsets income tax assets and liabilities if and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities.

17. **Income tax** (continued)

Deferred tax (continued)

The analysis of the net deferred tax expense recognised in the consolidated income statement is set out below:

	2016	2015
	€000	€000
Difference between capital allowances and depreciation	**207**	1.057
Investment revaluation	**(90)**	(895)
Unutilised income tax losses carried forward	**3.598**	203
Value of in-force life insurance business	**479**	147
Other temporary differences	**2.463**	(174)
	6.657	338

The analysis of the net deferred tax recognised in the consolidated statement of comprehensive income is set out below:

	2016	2015
	€000	€000
Timing differences on property revaluation – income	**219**	3.923

18. **Earnings per share**

	2016	2015
Basic and diluted earnings/(losses) per share attributable to the owners of the Company		
Profit/(loss) for the year attributable to the owners of the Company (€ thousand)	**63.656**	(438.352)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8.921.069**	8.911.574
Basic and diluted earnings/(losses) per share (€ cent)	**0,7**	(4,9)

Basic and diluted earnings/(losses) per share attributable to the owners of the Company–continuing operations		
Profit/(loss) for the year attributable to the owners of the Company –continuing operations (€ thousand)	**63.656**	(382.513)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8.921.069**	8.911.574
Basic and diluted earnings/(losses) per share–continuing operations (€ cent)	**0,7**	(4,3)

Basic and diluted losses per share attributable to the owners of the Company – discontinued operations		
Loss for the year attributable to the owners of the Company –discontinued operations (€ thousand)	**-**	(55.839)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8.921.069**	8.911.574
Basic and diluted losses per share–discontinued operations (€ cent)	**-**	(0,6)

19. Cash, balances with central banks and loans and advances to banks

	2016	2015
	€000	€000
Cash	132.594	154.017
Balances with central banks	1.373.802	1.268.585
Cash and balances with central banks	1.506.396	1.422.602

Loans and advances to banks	1.087.837	1.314.380

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2016 which amount to €142.697 thousand (2015: €122.807 thousand).

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 43.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

20. Investments

	2016	2015
	€000	€000
Investments		
Investments at fair value through profit or loss	43.016	50.785
Investments available-for-sale	262.789	100.535
Investments classified as loans and receivables	68.074	436.935
	373.879	588.255

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	2016	2015
	€000	€000
Investments pledged as collateral		
Investments available-for-sale	299.765	421.032

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

The maximum exposure to credit risk for debt securities is disclosed in Note 43.

20. **Investments** (continued)

Investments at fair value through profit or loss

	Trading investments		Other investments at fair value through profit or loss		Total	
	2016	2015	**2016**	2015	**2016**	2015
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**476**	317	**10.426**	17.430	**10.902**	17.747
Equity securities	**2.601**	3.832	**4.030**	4.018	**6.631**	7.850
Mutual funds	**9.396**	9.205	**16.087**	15.983	**25.483**	25.188
	12.473	13.354	**30.543**	37.431	**43.016**	50.785

Debt securities						
Cyprus government	**476**	316	**10.426**	17.430	**10.902**	17.746
Banks and other corporations	**-**	1	**-**	-	**-**	1
	476	317	**10.426**	17.430	**10.902**	17.747
Listed on the Cyprus Stock Exchange	**1**	1	**10.426**	17.430	**10.427**	17.431
Listed on other stock exchanges	**475**	316	**-**	-	**475**	316
	476	317	**10.426**	17.430	**10.902**	17.747

Equity securities						
Listed on the Cyprus Stock Exchange	**2.159**	3.384	**3.102**	3.310	**5.261**	6.694
Listed on other stock exchanges	**442**	448	**-**	-	**442**	448
Unlisted	**-**	-	**928**	708	**928**	708
	2.601	3.832	**4.030**	4.018	**6.631**	7.850

The debt securities classified as other investments at fair value through profit or loss were originally classified as such, to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

Mutual funds classified as other investments at fair value through profit or loss represent a group of financial assets managed by the Group and their performance is evaluated on a fair value basis according to the Group's investment strategy. Mutual funds are unlisted and issued in other European countries.

20. **Investments** (continued)

Investments available-for-sale

	2016	2015
	€000	€000
Debt securities	**540.592**	461.934
Equity securities	**21.683**	59.292
Mutual funds	**279**	341
	562.554	521.567

Debt securities		
Cyprus government	**178.520**	4.478
French government	**287.324**	290.205
Other governments	**41.887**	130.832
Banks and other corporations	**32.861**	36.419
	540.592	461.934
Listed on the Cyprus Stock Exchange	**178.520**	4.478
Listed on other stock exchanges	**362.072**	457.456
	540.592	461.934
Geographic dispersion by country of issuer		
Cyprus	**178.520**	4.478
France	**287.324**	290.205
Germany	**-**	45.686
Italy	**12.507**	23.234
Other European countries	**10.473**	61.912
European Financial Stability Facility and European Investment Fund	**11.823**	11.928
Supranational organisations	**9.365**	10.890
Other countries	**30.580**	13.601
	540.592	461.934

Equity securities		
Listed on the Cyprus Stock Exchange	**4.883**	5.427
Listed on other stock exchanges	**430**	271
Unlisted	**16.370**	53.594
	21.683	59.292

At 31 December 2016 and 2015 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

Available-for-sale mutual funds are unlisted and issued in other countries.

20. **Investments** (continued)

Investments classified as loans and receivables

	2016	2015
	€000	€000
Debt securities	**68.074**	436.935
Cyprus government	**68.074**	436.935
Listed on the Cyprus Stock Exchange`	**68.074**	436.935
Geographic dispersion by country of issuer		
Cyprus	**68.074**	436.935

Loans and receivables at 31 December 2016 include €49.185 thousand (2015: €146.444 thousand) of debt securities which have been determined to be individually impaired.

Reclassification of investments

Reclassification of trading investments to loans and receivables
On 1 April 2010, in light of the crisis prevailing in global markets, the Group identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading investments to loans and receivables.

Reclassification of available-for-sale investments to loans and receivables
On 1 October 2008 and 30 June 2011 the Group reclassified certain available-for-sale debt securities to investments classified as loans and receivables, in view of the fact that there was no active market for these debt securities and the Group had the intention and ability to hold these securities in the foreseeable future.

Reclassification of held–to-maturity investments to available-for-sale investments
On 1 November 2012, the Group reassessed its policies in respect of the management of its investment portfolio in view of its efforts to strengthen its liquidity and capital adequacy ratios and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Group's accounting policies and IFRSs, the Group was not allowed to classify any investments as held-to-maturity until November 2014.

20. Investments (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2016		31 December 2015		Year 2016		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the consolidated income statement had the debt securities not been reclassified	Additional gain in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	49.800	49.185	50.329	48.021	50.232	-	1.144	4,6%-4,7%

20. **Investments** (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2015		31 December 2014		Year 2015		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the consolidated income statement had the debt securities not been reclassified	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	35.255	35.227	36.722	35.056	171	-	1,2%-4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	129.497	119.683	126.913	120.235	120.289	-	7.230	4,6%-4,7%
- loans and receivables	30 June 2011	151.967	90.600	87.327	92.613	84.046	-	(3.273)	2,8%-6,3%
Reclassification of held-to-maturity investments to:									
- available-for-sale	1 November 2012	42.151	41.763	41.763	43.358	43.358	-	-	0,4%-3,1%

21. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2016			2015		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**43.820**	**794**	**589**	90.870	1.113	2.103
Currency swaps	**1.774.916**	**15.875**	**8.215**	1.484.763	12.235	5.720
Interest rate swaps	**230.874**	**480**	**1.901**	34.511	141	2.305
Currency options	**7.986**	**85**	**198**	175	8	167
Equity options	**-**	**-**	**-**	1.515	477	441
Interest rate caps/floors	**-**	**-**	**-**	6.562	-	53
	2.057.596	**17.234**	**10.903**	1.618.396	13.974	10.789
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**418.293**	**87**	**37.463**	425.900	45	39.570
Net investments – forward exchange rate contracts	**178.605**	**3.514**	**259**	151.246	4	4.040
	596.898	**3.601**	**37.722**	577.146	49	43.610
Total	**2.654.494**	**20.835**	**48.625**	2.195.542	14.023	54.399

The use of derivatives is an integral part of the Group's activities. Derivatives are used to manage the Group's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

21. Derivative financial instruments (continued)

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Group's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the consolidated balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Group's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

The Group applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Group also uses derivatives for economic hedging (hedging the changes in interest rates, exchange rates or other risks) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the consolidated income statement.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement.

Fair value hedges
The Group uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate available-for-sale debt securities and fixed rate customer loans and deposits.

Hedges of net investments
The Group's consolidated balance sheet is affected by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas subsidiaries and branches and other foreign operations. The Group hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas subsidiaries and branches, as well as overseas associates and joint ventures and forward exchange rate contracts.

As at 31 December 2016, deposits and forward exchange rate contracts amounting to €100.756 thousand and €178.605 thousand respectively (2015: €178.101 thousand and €151.246 thousand respectively) have been designated as hedging instruments and have given rise to a gain of €53.408 thousand (2015: loss of €22.860 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

22. Fair value measurement

The following table presents the carrying value and fair value of the Group's financial assets and liabilities.

	2016		2015	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**€000**	**€000**	€000	€000
Cash and balances with central banks	**1.506.396**	**1.506.396**	1.422.602	1.422.602
Loans and advances to banks	**1.087.837**	**1.092.964**	1.314.380	1.303.414
Investments at fair value through profit or loss	**43.016**	**43.016**	50.785	50.785
Investments available-for-sale	**562.554**	**562.554**	521.567	521.567
Investments classified as loans and receivables	**68.074**	**69.451**	436.935	445.521
Derivative financial assets	**20.835**	**20.835**	14.023	14.023
Loans and advances to customers	**15.649.401**	**16.791.164**	17.191.632	18.150.401
Life insurance business assets attributable to policyholders	**485.633**	**485.633**	462.613	462.613
Other assets	**131.811**	**131.811**	179.661	179.661
	19.555.557	**20.703.824**	21.594.198	22.550.587
Financial liabilities				
Obligations to central banks and deposits by banks	**1.284.800**	**1.284.800**	4.694.987	4.694.987
Repurchase agreements	**257.367**	**292.752**	368.151	406.014
Derivative financial liabilities	**48.625**	**48.625**	54.399	54.399
Customer deposits	**16.509.741**	**16.492.715**	14.180.681	14.185.996
Debt securities in issue	**-**	**-**	712	712
Other liabilities	**168.422**	**168.422**	141.357	141.357
	18.268.955	**18.287.314**	19.440.287	19.483.465

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

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

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

Level 2: investments valued using models for which all inputs that have a significant effect on fair value are market observable.

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

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

22. **Fair value measurement** (continued)

The following is a description of the determination of fair value for financial instruments and non-financial assets which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments and non-financial assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments
Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)
The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and the Company's own credit quality respectively.

The Group calculates the CVA by applying the probability of default (PD) of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying its own PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to Group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

The expected exposure of derivatives is calculated as per the Capital Requirement Regulations (CRR) and takes into account the netting agreements where they exist. A standard loss given default (LGD) assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Group does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments available-for-sale and other investments at fair value through profit or loss
Available-for-sale investments and other investments at fair value through profit or loss which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data.

Loans and advances to customers
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the funding cost and the cost of capital.

Customer deposits
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

Repurchase agreements
Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Group is greater than the amount borrowed, the fair value calculation of these repurchase agreements only takes into account the time value of money.

22. Fair value measurement (continued)

Loans and advances to banks
Loans and advances to banks with maturity over one year are discounted using an appropriate risk free rate plus the credit spread of each counterparty. For short-term lending, the fair value is approximated by the carrying value.

Deposits by banks
Since almost all deposits by banks are very short-term, the fair value is an approximation of the carrying value.

Investment properties
The fair value of investment properties is determined using valuations performed by external accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this Note.

Property and equipment
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this Note.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

22. Fair value measurement (continued)

Model inputs for valuation (continued)

The following table presents the fair value measurement hierarchy of the Group's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of the fair value hierarchy:

2016	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Assets measured at fair value				
Investment properties				
Offices and other commercial properties	-	-	20.548	**20.548**
Manufacturing and industrial	-	-	2.791	**2.791**
Land (fields and plots)	-	-	14.720	**14.720**
	-	-	38.059	**38.059**
Investment properties held for sale				
Offices and other commercial properties	-	346	3.071	**3.417**
Hotels	-	-	7.994	**7.994**
	-	346	11.065	**11.411**
Freehold property				
Offices and other commercial properties	-	10.340	246.215	**256.555**
Trading derivatives				
Forward exchange rate contracts	-	794	-	**794**
Currency swaps	-	15.875	-	**15.875**
Interest rate swaps	-	480	-	**480**
Currency options	-	85	-	**85**
	-	17.234	-	**17.234**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	87	-	**87**
Net investments-forward exchange rate contracts	-	3.514	-	**3.514**
	-	3.601	-	**3.601**
Investments at fair value through profit or loss				
Trading investments	11.787	-	686	**12.473**
Other investments at fair value through profit or loss	19.189	11.176	178	**30.543**
	30.976	11.176	864	**43.016**
Investments available-for-sale	545.898	41	16.615	**562.554**
	576.874	42.738	312.818	**932.430**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1.092.964	-	**1.092.964**
Loans and receivables-investments	-	69.451	-	**69.451**
Loans and advances to customers	-	-	16.791.164	**16.791.164**
	-	1.162.415	16.791.164	**17.953.579**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €8.740 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €874 thousand.

22. Fair value measurement (continued)

Model inputs for valuation (continued)

2016	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	589	-	**589**
Currency swaps	-	8.215	-	**8.215**
Interest rate swaps	-	1.901	-	**1.901**
Currency options	-	198	-	**198**
	-	10.903	-	**10.903**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	37.463	-	**37.463**
Net investments-forward exchange rate contracts	-	259	-	**259**
	-	37.722	-	**37.722**
	-	48.625	**-**	**48.625**
Other financial liabilities not measured at fair value				
Deposits by banks	-	434.786	-	**434.786**
Repurchase agreements	-	292.752	-	**292.752**
Customer deposits	-	-	16.492.715	**16.492.715**
	-	727.538	16.492.715	**17.220.253**

22. Fair value measurement (continued)

Model inputs for valuation (continued)

2015	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Assets measured at fair value				
Investment properties				
Offices and other commercial properties	-	-	20.325	**20.325**
Manufacturing and industrial	-	-	583	**583**
Land (fields and plots)	-	-	13.720	**13.720**
	-	-	34.628	**34.628**
Investment properties held for sale				
Residential	-	2.095	-	**2.095**
Offices and other commercial properties	-	5.222	6.552	**11.774**
Hotels	-	-	8.466	**8.466**
	-	7.317	15.018	**22.335**
Freehold property				
Offices and other commercial properties	-	12.364	227.945	**240.309**
Freehold property held for sale				
Hotels	-	-	25.400	**25.400**
Trading derivatives				
Forward exchange rate contracts	-	1.113	-	**1.113**
Currency swaps	-	12.235	-	**12.235**
Interest rate swaps	-	141	-	**141**
Currency options	-	8	-	**8**
Equity options	-	477	-	**477**
	-	13.974	-	**13.974**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	45	-	**45**
Net investments-forward exchange rate contracts	-	4	-	**4**
	-	49	-	**49**
Investments at fair value through profit or loss				
Trading investments	12.865	-	489	**13.354**
Other investments at fair value through profit or loss	19.293	17.905	233	**37.431**
	32.158	17.905	722	**50.785**
Investments available-for-sale	466.995	41	54.531	**521.567**
	499.153	51.650	358.244	**909.047**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1.303.414	-	**1.303.414**
Loans and receivables-investments	-	424.070	-	**424.070**
Loans and advances to customers	-	-	18.150.401	**18.150.401**
	-	1.727.484	18.150.401	**19.877.885**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €51.263 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €750 thousand.

22. **Fair value measurement** (continued)

Model inputs for valuation (continued)

2015	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	2.103	-	**2.103**
Currency swaps	-	5.720	-	**5.720**
Interest rate swaps	-	2.305	-	**2.305**
Currency options	-	167	-	**167**
Equity options	-	441	-	**441**
Interest rate caps/floors	-	53	-	**53**
	-	10.789	-	**10.789**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	39.570	-	**39.570**
Net investments-forward exchange rate contracts	-	4.040	-	**4.040**
	-	43.610	-	**43.610**
	-	54.399	-	**54.399**
Other financial liabilities not measured at fair value				
Deposits by banks	-	242.137	-	**242.137**
Repurchase agreements	-	406.014	-	**406.014**
Customer deposits	-	-	14.185.996	**14.185.996**
	-	648.151	14.185.996	**14.834.147**

The cash and balances with central banks, the funding from central banks and the treasury bills are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently. Other assets and other liabilities are of a financial nature and their carrying value is a close approximation of fair value. Disclosures for life insurance business assets attributable to policyholders by level are disclosed in Note 24.

During the years 2016 and 2015 there were no significant transfers between Level 1 and Level 2.

22. Fair value measurement (continued)

Movements in Level 3 financial instruments measured at fair value

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Group requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 assets which are measured at fair value is presented below:

	2016					2015				
	Investment properties	**Investment properties held for sale**	**Own use properties**	**Own use properties held for sale**	**Financial instruments**	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Financial instruments
	€000	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000
1 January	**34.628**	**15.018**	**227.945**	**25.400**	**55.253**	488.598	44.566	251.491	25.681	3.688
Additions	**2.114**	**-**	**2.107**	**10**	**13.867**	114.404	1.927	1.456	-	339
Acquisition of subsidiary (Note 50.1.1)		**-**	**19.952**	**-**	**-**	-	-	-	-	-
Disposals	**(612)**	**(3.480)**	**-**	**(25.410)**	**(51.937)**	(13.923)	(18.238)	(191)	-	(45)
Disposal of Russian operations	**-**	**-**	**-**	**-**	**-**	-	(31.051)	-	-	-
Transfers from own use properties to investment properties	**-**	**-**	**-**	**-**	**-**	16.782	-	(16.782)	-	-
Transfers to stock of property (Note 27)	**-**	**-**	**(1.371)**	**-**	**-**	(492.927)	(247)	(541)	-	-
Transfers from non-current assets and disposal group held for sale	**-**	**-**	**-**	**-**	**-**	-	-	25.681	(25.681)	-
Transfers to non-current assets and disposal group held for sale	**-**	**-**	**-**	**-**	**-**	(21.908)	21.908	(25.400)	25.400	-
Transfers (to)/from Levels 1 and 2	**-**	**-**	**-**	**-**	**-**	(7.317)	-	-	-	321
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	**-**	**-**	**-**	**-**	**485**	-	-	-	-	50.695
Depreciation charge for the year–continuing operations	**-**	**-**	**(2.404)**	**-**	**-**	-	-	(2.688)	-	-
Impairment charge for the year–continuing operations	**-**	**-**	**-**	**-**	**-**	-	-	(311)	-	-
Revaluation gains/(losses) – continuing operations	**1.482**	**(442)**	**-**	**-**	**-**	(49.801)	(2.774)	(4.795)	-	-
Foreign exchange adjustments	**447**	**(31)**	**(14)**	**-**	**(189)**	720	(1.073)	25	-	255
31 December	**38.059**	**11.065**	**246.215**	**-**	**17.479**	34.628	15.018	227.945	25.400	55.253

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis

Investment properties, investment properties held for sale and own use properties

The valuation technique mainly applied by the Group is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Group also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties, investment properties held for sale and own use properties are presented in the tables below.

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2016	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	23.266	€54-€353	n/a	€821-€1.130	4%-6%	€1.060-€7.059	€80-€1.053	1.591-30.001	68—7.078	6-33
UK	346	€97	n/a	n/a	n/a	n/a	n/a	n/a	304	87
Russia	353	n/a	n/a	n/a	n/a	€133	n/a	2.773	1.644	13
	23.965									
Manufacturing and industrial										
Russia	2.791	n/a	n/a	n/a	n/a	€55-€380	€10-€282	570-3.639	259-998	6-9
Hotels										
Romania	7.994	n/a	n/a	n/a	9%	n/a	n/a	10.337	16.642	42
Land (fields and plots)										
Cyprus	14.720	n/a	n/a	€900	n/a	n/a	€272-€750	4.627-21.053	n/a	n/a
Total	**49.470**									

Analysis of own use properties

Type and country	2016	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	242.792	€27-€434	n/a	€588-€2.102	5%-6%	€566-€8.860	€139-€3.381	390-53.155	94-10.985	9-37
Romania	3.423	n/a	n/a	n/a	9%	n/a	n/a	660	2.284	9
UK	10.340	€141-€524	0%-6%	n/a	5%-7%	€2.460-€12.715	n/a	173-1.740	173-1.689	Re-furnished in 2009
Total	**256.555**									

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2015	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Residential	**€000**							**m²**	**m²**	**Years**
UK	2.095	€548	n/a	n/a	n/a	€12.965	n/a	n/a	156	46
Offices and other commercial properties										
Cyprus	24.427	€54-€353	n/a	€658-€1.302	4%-6%	€1.060-€7.059	€95-€1.053	1.591-30.001	68-4.788	5-32
Greece	2.450	€480	n/a	n/a	7%-10%	€3.926	n/a	447	624	8
UK	5.222	€110-€230	n/a	n/a	n/a	€1.013-€3.123	n/a	n/a	233-954	26-116
	32.099									
Manufacturing and industrial										
Russia	583	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hotels										
Romania	8.466	n/a	n/a	n/a	n/a	n/a	n/a	10.337	4.789	40
Land (fields and plots)										
Cyprus	13.720	n/a	n/a	n/a	n/a	n/a	€248-€750	4.627-29.398	n/a	n/a
Total	**56.963**									

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties and own use properties held for sale

Type and country	2015	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	224.479	€23-€434	n/a	€674-€2.102	5%-6%	€566-€8.860	€139-€3.007	390-53.155	94-10.985	8-36
Romania	3.466	n/a	n/a	n/a	n/a	n/a	n/a	648	2.284	n/a
UK	12.364	€181-€671	5%-6%	n/a	5%-7%	€2.704-€13.982	n/a	173-1.740	173-1.689	Re-furbished in 2009
	240.309									
Hotels										
Cyprus	25.400	n/a	n/a	n/a	n/a	€2.485	n/a	91.887	10.222	33
Total	**265.709**									

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Sensitivity analysis
Most of the Group's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach would result in a significantly higher/lower fair value of the properties.

23. Loans and advances to customers

	2016	2015
	€000	€000
Gross loans and advances to customers	**19.201.642**	21.385.065
Provisions for impairment of loans and advances to customers (Note 43)	**(3.552.241)**	(4.193.433)
	15.649.401	17.191.632

Loans and advances to customers pledged as collateral are disclosed in Note 45.

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 43.

24. Life insurance business assets attributable to policyholders

	2016	2015
	€000	€000
Equity securities	**8.298**	9.288
Debt securities	**56.389**	58.440
Mutual funds	**367.096**	344.331
Mortgages and other loans	**1.489**	1.668
Bank deposits	**52.361**	48.886
	485.633	462.613
Property	**13.900**	12.790
	499.533	475.403

Financial assets of life insurance business attributable to policyholders are classified as investments at fair value through profit or loss.

In addition to the above assets, the life insurance subsidiary of the Group holds shares of the Company, as part of the assets attributable to policyholders with a carrying value as at 31 December 2016 of €404 thousand (2015: €425 thousand). Such shares are presented in the consolidated financial statements as treasury shares (Note 34).

24. Life insurance business assets attributable to policyholders (continued)

The analysis of the financial assets of life insurance business attributable to policyholders measured at fair value by level, is presented below:

2016	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Equity securities	**7.090**	**-**	**1.208**	**8.298**
Debt securities	**31.886**	**24.503**	**-**	**56.389**
Mutual funds	**367.096**	**-**	**-**	**367.096**
Mortgages and other loans	**1.489**	**-**	**-**	**1.489**
	407.561	**24.503**	**1.208**	**433.272**

2015				
Equity securities	7.852	-	1.436	9.288
Debt securities	27.881	30.559	-	58.440
Mutual funds	344.331	-	-	344.331
Mortgages and other loans	1.668	-	-	1.668
	381.732	30.559	1.436	413.727

Bank deposits are financial instruments whose carrying amount is a reasonable approximation of fair value, because they are short-term in nature or are repriced to current market rates frequently.

The movement of financial assets classified as Level 3 is presented below:

	2016	2015
	€000	€000
1 January	**1.436**	1.443
Unrealised losses recognised in the consolidated income statement	**(228)**	(7)
31 December	**1.208**	1.436

During years 2016 and 2015 there were no significant transfers between Level 1 and Level 2.

25. Property and equipment

2016	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	242.941	21.392	**264.333**
Acquisition of subsidiary (Note 50.1.1)	19.952	356	**20.308**
Additions	2.572	9.524	**12.096**
Transfers to stock of property (Note 27)	(1.371)	-	**(1.371)**
Transfers from intangible assets (Note 26)	-	456	**456**
Disposals and write-offs	(80)	(184)	**(264)**
Disposal of subsidiary (Note 50.2.1)	-	(952)	**(952)**
Depreciation charge for the year (Note 15)	(3.692)	(7.866)	**(11.558)**
Foreign exchange adjustments	(1.770)	(385)	**(2.155)**
Net book value at 31 December	**258.552**	**22.341**	**280.893**

1 January 2016			
Cost or valuation	278.285	147.602	**425.887**
Accumulated depreciation	(35.344)	(126.210)	**(161.554)**
Net book value	**242.941**	**21.392**	**264.333**

31 December 2016			
Cost or valuation	298.743	152.838	**451.581**
Accumulated depreciation	(40.191)	(130.497)	**(170.688)**
Net book value	**258.552**	**22.341**	**280.893**

25. **Property and equipment** (continued)

2015	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	267.126	23.294	**290.420**
Additions	2.620	6.089	**8.709**
Revaluation	(4.795)	-	**(4.795)**
Transfers to investment properties (Note 22)	(16.782)	-	**(16.782)**
Transfers to stock of property (Note 27)	(541)	-	**(541)**
Transfers from disposal group held for sale	25.681	-	**25.681**
Transfers to disposal group held for sale	(25.400)	-	**(25.400)**
Disposals and write-offs	(191)	(222)	**(413)**
Depreciation charge for the year – continuing operations (Note 15)	(4.689)	(7.568)	**(12.257)**
Impairment charge for the year – continuing operations	(311)	-	**(311)**
Foreign exchange adjustments	223	(201)	**22**
Net book value at 31 December	**242.941**	**21.392**	**264.333**

1 January 2015			
Cost or valuation	301.535	165.080	**466.615**
Accumulated depreciation	(34.409)	(141.786)	**(176.195)**
Net book value	**267.126**	**23.294**	**290.420**

31 December 2015			
Cost or valuation	278.285	147.602	**425.887**
Accumulated depreciation	(35.344)	(126.210)	**(161.554)**
Net book value	**242.941**	**21.392**	**264.333**

The net book value of the Group's property comprises:

	2016	2015
	€000	€000
Freehold property	**256.555**	240.309
Improvements on leasehold property	**1.997**	2.632
	258.552	242.941

Freehold property includes land amounting to €92.818 thousand (2015: €89.272 thousand) for which no depreciation is charged.

25. Property and equipment (continued)

The Group's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. As a consequence of the economic conditions in Cyprus, and their impact on the real estate market, the Group performed revaluations as at 31 December 2015. As a result, a net loss on revaluation of €4.795 thousand was recognised in the consolidated statement of comprehensive income and an impairment loss of €311 thousand was recognised in the consolidated income statement for the year ended 31 December 2015. The valuations are carried out by qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 22.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2016 would have amounted to €190.241 thousand (2015: €164.503 thousand).

26. Intangible assets

2016	Computer software	In-force life insurance business	**Total**
	€000	€000	**€000**
Net book value at 1 January	20.464	113.324	**133.788**
Additions	16.363	-	**16.363**
Transfers to equipment (Note 25)	(456)	-	**(456)**
Increase in value of in-force life insurance business (Note 12)	-	4.680	**4.680**
Disposals and write-offs	(13)	-	**(13)**
Amortisation charge for the year (Note 15)	(7.263)	-	**(7.263)**
Foreign exchange adjustments	(136)	-	**(136)**
Net book value at 31 December	**28.959**	**118.004**	**146.963**

1 January 2016			
Cost	130.151	113.324	**243.475**
Accumulated amortisation and impairment	(109.687)	-	**(109.687)**
Net book value	**20.464**	**113.324**	**133.788**

31 December 2016			
Cost	144.898	118.004	**262.902**
Accumulated amortisation and impairment	(115.939)	-	**(115.939)**
Net book value	**28.959**	**118.004**	**146.963**

26. Intangible assets (continued)

2015	Computer software	In-force life insurance business	**Total**
	€000	€000	**€000**
Net book value at 1 January	15.577	111.825	**127.402**
Additions	11.827	-	**11.827**
Increase in value of in-force life insurance business (Note 12)	-	1.499	**1.499**
Amortisation charge for the year - continuing operations (Note 15)	(7.001)	-	**(7.001)**
Foreign exchange adjustments	61	-	**61**
Net book value at 31 December	**20.464**	**113.324**	**133.788**

1 January 2015			
Cost	123.027	111.825	**234.852**
Accumulated amortisation and impairment	(107.450)	-	**(107.450)**
Net book value	**15.577**	**111.825**	**127.402**

31 December 2015			
Cost	130.151	113.324	**243.475**
Accumulated amortisation and impairment	(109.687)	-	**(109.687)**
Net book value	**20.464**	**113.324**	**133.788**

Valuation of in-force life insurance business

The actuarial assumptions made to determine the value of in-force life insurance business relate to future mortality, redemptions, level of administration and selling expenses and investment returns. The main assumptions used in determining the value of the in-force business are:

	2016	2015
Discount rate (after tax)	**10,0%**	10,0%
Return on investments	**5,0%**	5,0%
Expense inflation	**4,0%**	4,0%

27. Stock of property

The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2016 an impairment loss of €36.220 thousand was recognised in 'Impairment of non-financial instruments' in the consolidated income statement arising from measuring items at lower of cost and net realisable value (2015: impairment of €17.792 thousand). At 31 December 2016, stock of €608.985 thousand (2015: €496.594 thousand) is carried at net realisable value which is approximately the fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. The stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA amounts to €22.055 thousand (2015: €21.875 thousand).

The carrying value of the stock of property is analysed in the tables below:

	2016	2015
	€000	€000
Net book value at 1 January	**515.858**	12.662
Acquisition of subsidiaries (Note 50.1)	**75.632**	-
Additions	**1.010.059**	32.216
Disposals	**(139.316)**	(4.298)
Transfers from investment properties (Note 22)	**-**	492.927
Transfers from own use properties (Note 25)	**1.371**	541
Transfers from disposal group held for sale	**-**	247
Impairment (Note 16)	**(36.220)**	(17.792)
Foreign exchange adjustments	**(112)**	(645)
Net book value at 31 December	**1.427.272**	515.858

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2016	**€000**	**€000**	**€000**	**€000**
Residential properties	90.308	36.810	9.641	**136.759**
Offices and other commercial properties	256.152	55.676	12.340	**324.168**
Manufacturing and industrial properties	81.572	53.735	511	**135.818**
Hotels	74.578	544	-	**75.122**
Land (fields and plots)	739.058	5.732	9.824	**754.614**
Properties under construction	791	-	-	**791**
Total	**1.242.459**	**152.497**	**32.316**	**1.427.272**

2015				
Residential properties	17.664	39.222	13.030	**69.916**
Offices and other commercial properties	122.885	63.934	13.553	**200.372**
Manufacturing and industrial properties	18.174	59.279	513	**77.966**
Hotels	73.630	2.221	-	**75.851**
Land (fields and plots)	75.494	6.347	9.547	**91.388**
Properties under construction	365	-	-	**365**
Total	**308.212**	**171.003**	**36.643**	**515.858**

28. Prepayments, accrued income and other assets

	2016	2015
	€000	€000
Receivables relating to disposal of operations	**57.056**	98.454
Reinsurers' share of insurance contract liabilities (Note 32)	**49.973**	56.763
Taxes refundable	**33.582**	38.204
Debtors	**24.571**	23.020
Prepaid expenses	**1.765**	1.411
Retirement benefit plan assets (Note 14)	**668**	1.203
Other assets	**102.296**	62.725
	269.911	281.780

As at 31 December 2016, the receivables relating to disposal of operations related to the disposal of the Ukrainian operations during 2014 which is secured and repayable in June 2019, whereas at 31 December 2015 they related to the disposal of the Ukrainian and Russian operations during 2014 and 2015 respectively.

During 2016, a reversal of impairment of €3.869 thousand was recognised in relation to other assets (2015: impairment loss of €21.571 thousand) (Note 16).

29. Non-current assets and disposal group held for sale

Non-current assets and disposal group held for sale

	2016	2015
	€000	€000
Disposal group held for sale	**-**	26.168
Investment properties held for sale	**11.411**	22.335
	11.411	48.503

Non-current liabilities and disposal group held for sale

Disposal group held for sale	**-**	3.677

The following non-current assets and disposal group were classified as held for sale as at 31 December 2016 and 2015:

Non-current assets held for sale

Investment properties

The investment properties classified as held for sale are properties which management is committed to sell and has proceeded with an active programme to complete this plan. The disposals are expected to take place within 12 months from the date of classification. Investment properties classified as held for sale are measured at fair value. The results of the fair value changes are presented within 'Gains/(losses) from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment for investment properties in Cyprus and in the Other countries operating segment for Greek, UK and Romanian investment properties. An analysis of investment properties held for sale by country and key valuation inputs are disclosed in Note 22.

29. Non-current assets and disposal group held for sale (continued)

Disposal group held for sale

As at 31 December 2015, the disposal group held for sale relates to the Kermia Hotel business of the Group. In June 2016, the Group completed the sale of Kermia Hotels Ltd and adjacent land for a consideration of €26.500 thousand (Note 50.2.1).

30. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations and ELA from the CBC, as set out in the table below:

	2016	2015
	€000	€000
Emergency Liquidity Assistance (ELA)	**200.014**	3.802.058
Main Refinancing Operations (MRO)	**-**	150.000
Longer-Term Refinancing Operations (LTRO)	**50.000**	-
Targeted Longer-Term Refinancing Operations (TLTRO)	**600.000**	500.792
	850.014	4.452.850

In 2014, the Company participated in the TLTRO of the ECB for an amount of €500 million. On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount from the MRO. In December 2016, the Group borrowed an amount of €600 million through the new series of TLTRO (TLTRO II) announced by the ECB in March 2016. Additionally, an amount of €50 million was borrowed through the LTRO. As a result, in December 2016 all the ECB funding that was borrowed through the MRO, was switched to longer term funding.

In May 2016, the Company raised new funding from the ECB 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.

The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the MRO prevailing at the time of allotment and is subject to a lower rate for counterparties whose eligible net lending in the pre-specified period exceeds their benchmark. This lower rate will be linked to the interest rate on the deposit facility prevailing at the time of the allotment of each operation.

The Company's ELA funding bears interest at a rate equal to the ruling marginal lending facility rate (MLF rate) of the Eurosystem, plus a margin. ELA funding was repaid in full by the Company on 5 January 2017.

Details on encumbered assets related to the above funding facilities are disclosed in Note 45.

31. Customer deposits

	2016	2015
	€000	€000
By type of deposit		
Demand	**6.182.096**	4.987.078
Savings	**1.061.786**	1.033.991
Time or notice	**9.265.859**	8.159.612
	16.509.741	14.180.681
By geographical area		
Cyprus	**15.043.362**	12.691.090
United Kingdom	**1.464.651**	1.486.551
Romania	**1.728**	3.040
	16.509.741	14.180.681

By customer sector	Cyprus	United Kingdom	Romania	**Total**
2016	€000	€000	€000	**€000**
Corporate	1.184.681	53.457	1.446	**1.239.584**
SMEs	566.172	204.166	178	**770.516**
Retail	7.778.136	1.207.028	104	**8.985.268**
Restructuring				
– Corporate	192.442	-	-	**192.442**
– SMEs	27.685	-	-	**27.685**
Recoveries				
– Corporate	11.176	-	-	**11.176**
International banking services	4.494.755	-	-	**4.494.755**
Wealth management	788.315	-	-	**788.315**
	15.043.362	**1.464.651**	**1.728**	**16.509.741**
2015				
Corporate	978.672	40.425	2.242	**1.021.339**
SMEs	455.133	236.616	461	**692.210**
Retail	6.995.757	1.134.334	337	**8.130.428**
Restructuring				
– Corporate	189.196	-	-	**189.196**
– SMEs	35.363	-	-	**35.363**
Recoveries				
– Corporate	7.865	-	-	**7.865**
International banking services	3.710.742	-	-	**3.710.742**
Wealth management	318.362	75.176	-	**393.538**
	12.691.090	**1.486.551**	**3.040**	**14.180.681**

Deposits by geographical area are based on the originator country of the deposit.

32. Insurance liabilities

	2016			2015		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Life insurance	**€000**	**€000**	**€000**	€000	€000	€000
Life insurance contract liabilities	**530.075**	**(28.379)**	**501.696**	510.729	(30.396)	480.333
General insurance						
Provision for unearned premiums	**22.690**	**(8.605)**	**14.085**	24.029	(11.533)	12.496
Other liabilities						
Claims outstanding	**31.009**	**(12.989)**	**18.020**	32.083	(14.834)	17.249
Unexpired risks reserve	**204**	**-**	**204**	61	-	61
Equalisation reserve	**19**	**-**	**19**	23	-	23
General insurance contract liabilities	**53.922**	**(21.594)**	**32.328**	56.196	(26.367)	29.829
	583.997	**(49.973)**	**534.024**	566.925	(56.763)	510.162

Reinsurance balances receivable are included in 'Prepayments, accrued income and other assets' (Note 28).

Life insurance contract liabilities

The movement of life insurance contract liabilities and reinsurance assets during the year is analysed as follows:

	2016			2015		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	€000	**€000**	**€000**	€000	€000	€000
1 January	**510.729**	**(30.396)**	**480.333**	514.074	(35.542)	478.532
New business	**8.389**	**(1.150)**	**7.239**	8.403	(1.035)	7.368
Change in existing business	**10.957**	**3.167**	**14.124**	(11.748)	6.181	(5.567)
31 December	**530.075**	**(28.379)**	**501.696**	510.729	(30.396)	480.333

General insurance contract liabilities

The movement in general insurance contract liabilities and reinsurance assets for the year is analysed as follows:

	2016			2015		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Liabilities for unearned premiums	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**24.029**	**(11.533)**	**12.496**	24.891	(11.782)	13.109
Premium income	**60.215**	**(27.544)**	**32.671**	64.828	(36.927)	27.901
Earned premiums	**(61.554)**	**30.472**	**(31.082)**	(65.690)	37.176	(28.514)
31 December	**22.690**	**(8.605)**	**14.085**	24.029	(11.533)	12.496

32. **Insurance liabilities** (continued)

General insurance contract liabilities (continued)

The provisions for unearned insurance and reinsurance premiums represent the portion of premiums that relate to risks that have not yet expired at the reporting date.

	2016			2015		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Claims and adjustments for losses	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**32.083**	**(14.834)**	**17.249**	37.581	(18.853)	18.728
Amount paid for claims settled in the period	**(25.864)**	**12.004**	**(13.860)**	(28.175)	14.423	(13.752)
Increase in liabilities arising from claims	**24.790**	**(10.159)**	**14.631**	22.677	(10.404)	12.273
31 December	**31.009**	**(12.989)**	**18.020**	32.083	(14.834)	17.249
Reported claims	**29.188**	**(12.178)**	**17.010**	30.125	(13.916)	16.209
Incurred but not reported	**1.821**	**(811)**	**1.010**	1.958	(918)	1.040
	31.009	**(12.989)**	**18.020**	32.083	(14.834)	17.249

33. **Accruals, deferred income and other liabilities**

	2016	2015
	€000	€000
Income tax payable and related provisions	**25.599**	23.308
Special defence contribution payable	**5.719**	6.354
Retirement benefit plans liabilities (Note 14)	**22.776**	12.588
Provisions for pending litigation, claims and regulatory matters (Note 38)	**48.882**	34.749
Provisions for financial guarantees and commitments (Notes 16 and 38)	**38.196**	44.348
Liabilities for investment-linked contracts under administration	**5.458**	4.954
Accrued expenses and other provisions	**58.761**	59.850
Deferred income	**7.379**	7.820
Items in the course of settlement	**49.522**	29.905
Other liabilities	**73.633**	58.955
	335.925	282.831

33. Accruals, deferred income and other liabilities (continued)

Provisions for pending litigation, claims and regulatory matters

The movement for the year in the provisions for pending litigation, claims and regulatory matters is as follows:

	2016	2015
	€000	€000
1 January	**34.749**	27.329
Increase of provisions	**30.890**	11.904
Utilisation of provisions	**(7.931)**	(225)
Release of provisions	**(7.924)**	(4.300)
Foreign exchange adjustments	**(902)**	41
31 December	**48.882**	34.749

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

	2016	2015
	€000	€000
Pending litigation or claims	**25.234**	34.749
Regulatory matters	**23.648**	-
31 December	**48.882**	34.749

The increase of provisions during the year 2016 of €22.966 thousand includes an amount of €5.126 thousand which is classified in advisory and other restructuring costs in other operating expenses (Note 15).

The provisions for pending litigation, claims and regulatory matters do not include insurance claims arising in the ordinary course of business of the Group's insurance subsidiaries as these are included in Insurance liabilities (Note 32).

Further details on the pending litigations, claims and regulatory matters are disclosed in Note 38.

34. Share capital

	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

34. Share capital (continued)

Issued share capital

2016

There were no changes to the issued share capital during the year 2016. The changes to the issued share capital following the resolutions of the Extraordinary General Meeting which took place on 13 December 2016, effective on 18 January 2017, are disclosed in Note 53.1.

2015

During 2015, the issued share capital was increased by 567 thousand shares of a nominal value of €0,10 each.

All issued ordinary shares carry the same rights.

Share premium reserve

The share premium reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The share premium was created in 2014 and 2015 by the issuance of 4.167.234 thousand shares of a nominal value of €0,10 each of a subscription price of €0,24 each, and was reduced by the relevant transaction costs of €30.794 thousand.

Capital reduction reserve

The capital reduction reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The capital reduction reserve was created upon the reduction of the nominal value of ordinary shares from €1,00 each to €0,10 each in 2014. The reduction in capital amounted to €4.280.140 thousand, of which an amount of €2.327.654 thousand was applied against accumulated losses and an amount of €1.952.486 thousand was credited to the capital reduction reserve.

Treasury shares of the Company

Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. During 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. 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-based payments - share options

On 24 November 2015, the Annual General Meeting of the Company’s shareholders authorised the Board of Directors 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.

34. Share capital (continued)

Share-based payments - share options (continued)

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.

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 Bank of Cyprus Holdings Public Limited Company.

35. Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividend was declared or paid during years 2016 and 2015.

36. 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 2016 and 2015 no deemed dividend distribution was paid by the Company.

37. Fiduciary transactions

The Group offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 31 December 2016 amounted to €1.054.210 thousand (2015: €1.012.357 thousand).

38. Contingent liabilities and commitments

As part of the services provided to its customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the consolidated balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Group (Note 43).

38. Contingent liabilities and commitments (continued)

38.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2016 amount to €14.830 thousand (2015: €17.099 thousand).

38.2 Pending litigation, claims and regulatory matters

The Group in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Restructuring of the Company in 2013 as a result of the Bail-in Decrees, the Company is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the Bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the Bail-in Decrees.

Apart from what is described below, the Group considers that none of these matters is material, either individually or in aggregate. The Group has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2016 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

38.2.1 Pending litigation and claims

Investigations and litigation relating to securities issued by the Company
A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of misselling in relation to securities issued by the Company between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Company in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

The Company is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be documented that the relevant Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties. To date, a small number of cases have been tried in Greece. The Company has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years. Provision has been made based on management's best estimate of probable outflows and based on advice of legal counsel.

38. Contingent liabilities and commitments (continued)

38.2 Pending litigation, claims and regulatory matters (continued)

38.2.1 Pending litigation and claims (continued)

Bail-in related litigation
Depositors
A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. The Company is defending these actions.

Shareholders
Numerous claims were filed by shareholders in 2013 (some of whom are current shareholders of the Company) against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. These proceedings sought the cancellation and setting aside of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Company appeared in these proceedings as an interested party to support the position that the cases should be adjudicated upon in the context of private law. The Supreme Court ruled in these cases in October 2014 that the proceedings fall within private and public law and thus fall within the jurisdiction of the District Courts.

As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. It is expected that actions for damages will be instituted by the shareholders in due course before the District Courts of Cyprus.

Claims based on set-off
Certain claims have been filed by customers against the Company alleging that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. The Company intends to contest such claims.

Laiki Bank depositors and shareholders
The Company has been joined as a defendant with regards to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Company's bailed-in depositors and shareholders as described above. The Company, inter alia, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees
Occasionally, other claims are brought against the Company in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented).

Legal position of the Group
All above claims are being vigorously disputed by the Group, in close consultation with the appropriate state and governmental authorities. The position of the Group is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

38. Contingent liabilities and commitments (continued)

38.2 Pending litigation, claims and regulatory matters (continued)

38.2.1 Pending litigation and claims (continued)

CNP Arbitration
The French entity CNP Assurances S.A. had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in, inter alia, Cyprus through the formation of a local company (CNP Cyprus Insurance Holdings Ltd (a company in which the Company now has a 49,9% shareholding, acquired as part of the acquisition of certain operations of Laiki Bank pursuant to Regulatory Administrative Act 104/2013)). CNP Assurances S.A. held 50,1% of the shares of CNP Cyprus Insurance Holdings Ltd and Laiki Bank held 49,9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP Assurances S.A. and Laiki Bank, a Shareholders' Agreement and a Distribution Agreement (to which Distribution Agreement CNP Cyprus Insurance Holdings Ltd was also a party).

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Company was a successor to Laiki Bank in respect of both the Shareholders' and Distribution Agreements and that the said Agreements were violated by the Company. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amounted to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The Tribunal award was issued in September 2016, rejecting all claims made by the Claimants with costs in favour of the Company.

Provident fund cases
A number of claims which were pending before the Cypriot Labour Disputes Tribunal by certain of the Company's former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Company, utilising part of the provisions for pending litigation in place.

In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against the Company claiming €70 million allegedly owed as part of the Company's contribution by virtue of an agreement with the union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for the Company to predict the resolution of this matter, including the timing or any possible impact on the Company, however at this stage the Group does not expect a material impact on its financial position.

Employment litigation
Former senior officers of the Company have instituted a total of three claims for unfair dismissal and for Provident Fund entitlements against the Company and Trustees of the Provident Fund. As at the present date one case had been dismissed as filed out of time, but the plaintiff has appealed against this ruling. The Group does not consider that these cases will have a material impact upon its financial position.

Greek case
In connection with a legal dispute (one case by the Company against Themis and one by Themis against the Company) relating to the Company's discontinued operations in Greece (Themis case), a provision was recognised in previous periods (30 September 2014: €38.950 thousand) following a court judgement of the Athens Court of Appeal (dismissing the Company's case and upholding the Themis case). This provision was reversed as at 31 December 2014 following the dismissal of the judgement by the Greek Supreme Court in March 2015. The Supreme Court further ruled that these claims (the Company's claim against Themis for approximately €25 million which had been transferred to Piraeus Bank SA in March 2013, as well as Themis' claim against the Company for a similar amount) be reconsidered by the Supreme Court on the merits at the instigation of the affected party. Both cases were heard in December 2016 and the court reserved its judgement. The Group does not consider that this case will have a material impact upon its financial position.

Swiss Francs loans litigation in Cyprus and UK
A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company intends to contest such proceedings. The Group does not expect that these actions will have a material impact upon its financial position.

38. Contingent liabilities and commitments (continued)

38.2 Pending litigation, claims and regulatory matters (continued)

38.2.1 Pending litigation and claims (continued)

UK property lending claims
The Company is the defendant in certain proceedings alleging that the Company is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the United Kingdom are currently stayed in order for the parties to have time to negotiate possible settlements.

General criminal investigations and proceedings
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. The Company is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Group is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

The Attorney General has filed a criminal case against the Company and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. The Company denies all allegations. The case is pending in court. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

The Attorney General has filed a separate criminal case against the Company and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The alleged offence refers to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. The Company denies all allegations. The case is pending in court. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Group.

In January 2017 the Attorney General has filed a criminal case against a number of current and former officers of the Company relating to the reclassification of Greek Government Bonds in April 2010. No charges were instituted against the Company in this case.

38.2.2 Provisions for regulatory matters

The Hellenic Capital Market Commission (HCMC) Investigation
The HCMC is currently in the process of investigating matters concerning the Group's investment in Greek Government Bonds from 2009 to 2011, including, inter-alia, related non-disclosure of material information in the Company's CCS and CECS and rights issue prospectus (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek Government Bond investors regarding the Company's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

The Cyprus Securities and Exchange Commission (CySEC) Investigations
CySEC is currently in the process of investigating matters concerning possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania.

CySEC has also completed the investigation on the adequacy of provisions for the impairment of loans and advances in year 2011 and the investigation is currently pending with the CySEC Board.

As the above investigations are in progress or decisions have been reserved, it is not practical at this stage for the Group to estimate reliably the possible consequences thereof, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

38. Contingent liabilities and commitments (continued)

38.2 Pending litigation, claims and regulatory matters (continued)

38.2.2 Provisions for regulatory matters (continued)

The Cyprus Securities and Exchange Commission (CySEC) Investigations (continued)
Additionally, in late 2014 CySEC completed an investigation into the value of goodwill in CB Uniastrum Bank LLC disclosed in the interim financial statements of the Group in 2012. In October 2016, CySEC issued a decision, concluding that the Company was in breach of certain laws regarding disclosure in accordance, inter alia, with the Market Manipulation (Market Abuse) Law of 2005 and has imposed an administrative fine upon the Company of €25 thousand. CySEC also imposed higher fines upon certain former members of the Board of Directors and former management of the Company. The Company filed a recourse before the Administrative Court against the decisions of CySEC and the fine imposed upon the Company. In March 2017, CySEC filed a legal action against the Company, claiming the amount of €25 thousand imposed as a fine.
In 2015, CySEC carried out an investigation into the reclassification of Greek Government Bonds in April 2010, which was also completed in 2016 with no findings against the Company.

The investigation regarding the adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the Asset Quality Review was also completed in 2016 with no finding against the Company.

Commission for the Protection of Competition Investigation
In April 2014, following an investigation which began in 2010, the Cypriot Commission for the Protection of Competition (the CPC) issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by the Company.

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. For the time being, the proceedings before the CPC had been stalled due to an Administrative Court decision holding that the composition of the CPC was contrary to law, which was however overturned in March 2017 by the Supreme Court on appeal by the Attorney General. The Company intends to file a recourse before the Administrative Court for the annulment of the CPC's decision and fine (if and when a fine is imposed in reliance thereof). At this stage it is not possible to predict the amount of the fine that may be imposed upon the Company, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Group.

UK regulatory matters
During 2016, following complaints and litigation against a subsidiary of the Group, the Group reviewed and concluded that during 2008 and 2009 the manner in which a group of loans was re-priced breached a Financial Conduct Authority (FCA) conduct principle. The matter was notified to the FCA and remediation principles were agreed. The provision booked is dependent on the response rates to an "invitation complain" and the actual response rate will be monitored against the Group's assumptions. The assumptions are subjective, in particular due to uncertainty associated with future claims levels. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. However, this is at the early stage of its lifecycle and consequently elements affecting the potential exposure are contingent. Management will continue to reassess the adequacy of the provision, as well as the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors prevailing at that time. As such, it is possible that the eventual outcome may differ materially from the current level of provision.

38. Contingent liabilities and commitments (continued)

38.3 Other contingent liabilities

The Group, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Group may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been made, based on management's best estimate of probable outflows, where it was assessed that such an outflow is probable.

39. Net cash flow from operating activities

	2016	2015
	€000	€000
Profit/(loss) before tax from continuing operations	**85.616**	(379.992)
Loss before tax from discontinued operations	**-**	(65.062)
Adjustments for:		
Provisions for impairment of loans and advances to customers and other customer credit losses and gain on derecognition and changes in expected cash flows	**370.294**	1.002.130
Depreciation of property and equipment	**11.558**	12.257
Amortisation of intangible assets	**7.263**	7.001
Impairment of property and equipment	**-**	1.203
Impairment upon re-measurement of disposal group at fair value less costs to sell	**-**	3.288
Impairment of other financial instruments	**11.293**	43.503
(Profit)/loss upon disposal of disposal groups held for sale and discontinued operations	**(2.545)**	17.392
Amortisation of discounts/premiums, catch-up adjustment and interest on debt securities	**(22.764)**	(72.252)
Loss on sale and write-offs of property and equipment and intangible assets	**67**	70
(Gains)/losses on disposal of investment properties and investment properties held for sale	**(3.934)**	665
(Gains)/losses from revaluation of investment properties and investment properties held for sale	**(1.040)**	52.575
Dividend income	**(343)**	(900)
Net gains on disposal of available-for-sale investments in equity securities	**(58.368)**	(1.075)
Net gains on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	**(8.441)**	(49.504)
Share of profit from associates and joint ventures	**(8.194)**	(5.923)
Loss from revaluation of debt securities designated as fair value hedges	**16.466**	11.600
Gain on disposal of joint ventures	**-**	(10.005)
Loss on dissolution of subsidiaries	**4.101**	-
Gains on disposal of stock of property	**(1.361)**	(816)
Impairment of stock of property	**36.220**	17.792
Interest on funding from central banks	**29.656**	78.187
Interest on debt securities in issue	**-**	25
Change in value of in-force life insurance business	**(4.680)**	(1.499)
	460.864	660.660
Change in:		
Loans and advances to banks	**53.890**	60.204
Deposits by banks	**193.096**	51.029
Obligatory balances with central banks	**(19.890)**	362.954
Customer deposits	**2.329.060**	1.503.754
Value of in-force life insurance policies and liabilities	**(7.058)**	(12.187)
Loans and advances to customers	**57.958**	(51.339)
Other assets	**20.039**	6.373
Accrued income and prepaid expenses	**(354)**	446
Other liabilities	**52.698**	(44.366)
Accrued expenses and deferred income	**(1.530)**	16.042
Derivative financial instruments	**(12.586)**	30.418
Investments at fair value through profit or loss	**7.769**	(16.438)
Repurchase agreements	**(110.784)**	(211.531)
Proceeds on disposals of stock of property	**140.677**	6.433
Subordinated loan stock	**-**	475
	3.163.849	2.362.927
Tax paid	**(1.224)**	(3.485)
Net cash flow from operating activities	**3.162.625**	2.359.442

39. Net cash flow from operating activities (continued)

Non-cash transactions

2016

Acquisition of S.Z. Eliades Leisure Ltd
During the year ended 31 December 2016 the Group acquired a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of the majority of the borrowing due from S.Z. Eliades Leisure Ltd to the Company, as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 50.1.1.

Sale of shares held in Visa Europe Limited
During the year ended 31 December 2016 the Group sold its shares held in Visa Europe Limited following the purchase of Visa Europe Limited by Visa Inc. The transaction in addition to the cash paid, involved the granting of preferred stock in Visa Inc. with a carrying value of approximately €8 million and a deferred cash component of a carrying value of approximately €4 million.

Repossession of collaterals
During the year ended 31 December 2016, the Group acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €1.010.059 thousand (2015: €32.216 thousand) (Note 27).

Closure of the operations of Bank of Cyprus (Channel Islands) Ltd
As part of the Group's strategy of focusing on its core businesses and markets, the Group decided the closure of the operations of Bank of Cyprus (Channel Islands) Ltd and the relocation of its business to other Group locations mainly Cyprus and the UK.

2015

Disposal of the majority of the Russian operations
On 25 September 2015, the Group completed the disposal of the majority of its Russian operations. As part of the sales agreement, the parties agreed an asset swap arrangement which involved the exchange of certain assets between them that resulted in €41.849 thousand receivable for the Group, which was fully settled during 2016.

Disposal of Aphrodite group
During 2015 the Group disposed of a 65% shareholding in the Aphrodite group. The transaction involved the restructuring of the debt owed by this group to the Company.

Net cash flow from operating activities – interest and dividends

	2016	2015
	€000	€000
Interest paid	**(200.266)**	(342.158)
Interest received	**1.018.010**	1.270.146
Dividends received	**343**	900
	818.087	928.888

40. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	2015
	€000	€000
Cash and non-obligatory balances with central banks	**1.363.699**	1.299.795
Treasury bills repayable within three months	**-**	21.451
Loans and advances to banks with original maturity less than three months	**867.329**	1.026.162
	2.231.028	2.347.408

40. Cash and cash equivalents (continued)

Analysis of cash and balances with central banks and loans and advances to banks

	2016	2015
	€000	€000
Cash and non-obligatory balances with central banks	**1.363.699**	1.299.795
Obligatory balances with central banks	**142.697**	122.807
Total cash and balances with central banks (Note 19)	**1.506.396**	1.422.602

Loans and advances to banks with original maturity less than three months	**867.329**	1.026.162
Other restricted loans and advances to banks	**136.398**	153.608
Other loans and advances to banks	**84.110**	134.610
Total loans and advances to banks (Note 19)	**1.087.837**	1.314.380

Other restricted loans and advances to banks include collaterals under derivative transactions of €55.017 thousand (2015: €82.123 thousand) which is not immediately available for use by the Group, but is released once the transactions are terminated.

41. Operating leases – The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2016 and 2015 are presented below:

	2016	2015
	€000	€000
Within one year	**1.452**	2.217
Between one and five years	**3.296**	5.438
After five years	**282**	742
	5.030	8.397

The above mainly relate to property leases for the Group's branches and offices.

42. Analysis of assets and liabilities by expected maturity

	2016			2015		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
Assets	**€000**	**€000**	**€000**	€000	€000	€000
Cash and balances with central banks	**1.364.949**	**141.447**	**1.506.396**	1.300.846	121.756	1.422.602
Loans and advances to banks	**953.160**	**134.677**	**1.087.837**	1.212.418	101.962	1.314.380
Derivative financial assets	**20.590**	**245**	**20.835**	13.939	84	14.023
Investments	**76.415**	**597.229**	**673.644**	348.596	660.691	1.009.287
Loans and advances to customers	**5.546.601**	**10.102.800**	**15.649.401**	5.147.878	12.043.754	17.191.632
Life insurance business assets attributable to policyholders	**19.510**	**480.023**	**499.533**	17.243	458.160	475.403
Prepayments, accrued income and other assets	**110.968**	**158.943**	**269.911**	87.690	194.090	281.780
Stock of property	**457.104**	**970.168**	**1.427.272**	90.115	425.743	515.858
Property, equipment and intangible assets	**21**	**427.835**	**427.856**	485	397.636	398.121
Investment properties	**-**	**38.059**	**38.059**	-	34.628	34.628
Investments in associates and joint ventures	**-**	**109.339**	**109.339**	-	107.753	107.753
Deferred tax assets	**2.970**	**447.471**	**450.441**	8.828	447.703	456.531
Non-current assets and disposal group held for sale	**11.411**	**-**	**11.411**	48.503	-	48.503
	8.563.699	**13.608.236**	**22.171.935**	8.276.541	14.993.960	23.270.501
Liabilities						
Deposits by banks	**354.778**	**80.008**	**434.786**	206.997	35.140	242.137
Funding from central banks	**250.014**	**600.000**	**850.014**	2.744.764	1.708.086	4.452.850
Repurchase agreements	**-**	**257.367**	**257.367**	111.605	256.546	368.151
Derivative financial liabilities	**9.434**	**39.191**	**48.625**	16.032	38.367	54.399
Customer deposits	**5.367.559**	**11.142.182**	**16.509.741**	4.981.609	9.199.072	14.180.681
Insurance liabilities	**86.002**	**497.995**	**583.997**	80.118	486.807	566.925
Accruals, deferred income and other liabilities	**273.332**	**62.593**	**335.925**	219.346	63.485	282.831
Debt securities in issue	**-**	**-**	**-**	712	-	712
Deferred tax liabilities	**17**	**45.358**	**45.375**	415	40.392	40.807
Non-current liabilities and disposal group held for sale	**-**	**-**	**-**	3.677	-	3.677
	6.341.136	**12.724.694**	**19.065.830**	8.365.275	11.827.895	20.193.170

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

The ELA funding which forms part of the funding from central banks has been included in the 'less than one year' time band as at 31 December 2016, since it was expected to be repaid within one year. Funding under ELA has a contractual maturity of less than one year.

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one. The latter would be the case where there is secured borrowing, requiring the pledging of bonds and these bonds mature before the maturity of the secured borrowing. The maturity of bonds is then extended to cover the period of the secured borrowing.

42. Analysis of assets and liabilities by expected maturity (continued)

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The impaired loans as defined in Note 43, net of specific and collective provisions, and the loans which are past due for more than 90 days, are classified in the 'over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits in Cyprus maturing within one year is transferred in the 'over one year' time band, based on the observed behavioural analysis. In the United Kingdom deposits are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year time band.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they don't have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

43. Risk management – Credit risk

In the ordinary course of its business the Group is exposed to credit risk which is monitored through various control mechanisms across all Group entities in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Group.

The Credit Risk department sets the Group's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line and monitors the quality of the Group's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

Credit Risk department, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that credit sanctioning function is being properly managed.

The credit policies are combined with the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate.

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The Credit Risk department determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5.1.

The Market Risk department assesses the credit risk relating to investments in liquid assets (mainly loans and advances to banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the ALCO for approval.

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements

The Group's maximum exposure to credit risk is analysed by geographic area as follows:

	2016	2015
On-balance sheet	**€000**	€000
Cyprus	**17.067.617**	18.851.208
Greece	**57.314**	57.032
Russia	**40.974**	93.432
United Kingdom	**1.602.229**	1.673.293
Romania	**165.093**	266.695
	18.933.227	20.941.660
Off-balance sheet		
Cyprus	**2.738.382**	2.736.014
Greece	**112.596**	131.172
Russia	**-**	20.000
United Kingdom	**16.327**	21.063
Romania	**397**	307
	2.867.702	2.908.556
Total on and off-balance sheet		
Cyprus	**19.805.999**	21.587.222
Greece	**169.910**	188.204
Russia	**40.974**	113.432
United Kingdom	**1.618.556**	1.694.356
Romania	**165.490**	267.002
	21.800.929	23.850.216

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Loans and advances to customers
The Credit Risk department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Group's management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments
Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

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

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Group sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

2016	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							Net exposure to credit risk
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 19)	**1.373.802**	-	-	-	-	-	-	-	**1.373.802**
Loans and advances to banks (Note 19)	**1.087.837**	-	-	-	-	-	-	-	**1.087.837**
Trading investments - debt securities (Note 20)	**476**	-	-	-	-	-	-	-	**476**
Debt securities at fair value through profit or loss (Note 20)	**10.426**	-	-	-	-	-	-	-	**10.426**
Debt securities classified as available-for-sale and loans and receivables (Note 20)	**608.666**	-	-	-	-	-	-	-	**608.666**
Derivative financial instruments (Note 21)	**20.835**	-	-	-	-	-	-	-	**20.835**
Loans and advances to customers (Note 23)	**15.649.401**	345.827	335.599	305.202	22.250.801	501.500	(9.949.923)	13.789.006	**1.860.395**
Debtors (Note 28)	**24.571**	-	-	-	-	-	-	-	**24.571**
Reinsurers’ share of insurance contract liabilities (Note 28)	**49.973**	-	-	-	-	-	-	-	**49.973**
Other assets	**107.240**	-	-	-	-	-	-	-	**107.240**
On-balance sheet total	**18.933.227**	**345.827**	**335.599**	**305.202**	**22.250.801**	**501.500**	**(9.949.923)**	**13.789.006**	**5.144.221**
Contingent liabilities									
Acceptances and endorsements	**7.606**	375	-	-	9.524	13	(4.090)	5.822	**1.784**
Guarantees	**797.269**	69.720	1.326	65.185	164.880	6.222	(1.177)	306.156	**491.113**
Commitments									
Documentary credits	**27.636**	10.837	15	102	8.112	297	-	19.363	**8.273**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.035.191**	31.449	1.050	2.221	329.280	16.158	(19.705)	360.453	**1.674.738**
Off-balance sheet total	**2.867.702**	**112.381**	**2.391**	**67.508**	**511.796**	**22.690**	**(24.972)**	**691.794**	**2.175.908**
Total credit risk exposure	**21.800.929**	**458.208**	**337.990**	**372.710**	**22.762.597**	**524.190**	**(9.974.895)**	**14.480.800**	**7.320.129**

43. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

2015	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							Net exposure to credit risk
		Cash	Securities	Letters of credit /guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 19)	**1.268.585**	-	-	-	-	-	-	-	**1.268.585**
Loans and advances to banks (Note 19)	**1.314.380**	28.667	-	-	-	-	-	28.667	**1.285.713**
Trading investments - debt securities (Note 20)	**317**	-	-	-	-	-	-	-	**317**
Debt securities at fair value through profit or loss (Note 20)	**17.430**	-	-	-	-	-	-	-	**17.430**
Debt securities classified as available-for-sale and loans and receivables (Note 20)	**898.869**	-	-	-	-	-	-	-	**898.869**
Derivative financial instruments (Note 21)	**14.023**	-	-	-	-	-	-	-	**14.023**
Loans and advances to customers (Note 23)	**17.191.632**	484.628	253.305	377.011	23.791.204	348.057	(9.717.984)	15.536.221	**1.655.411**
Debtors (Note 28)	**23.020**	-	-	-	-	-	-	-	**23.020**
Reinsurers' share of insurance contract liabilities (Note 28)	**56.763**	-	-	-	-	-	-	-	**56.763**
Other assets	**156.641**	-	4.600	-	19.043	-	-	23.643	**132.998**
On-balance sheet total	**20.941.660**	**513.295**	**257.905**	**377.011**	**23.810.247**	**348.057**	**(9.717.984)**	**15.588.531**	**5.353.129**
Contingent liabilities									
Acceptances and endorsements	**8.385**	717	-	-	13.124	32	(7.478)	6.395	**1.990**
Guarantees	**793.111**	52.455	687	73.436	187.437	10.442	(237)	324.220	**468.891**
Commitments									
Documentary credits	**18.441**	1.123	9	71	8.245	495	-	9.943	**8.498**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.088.619**	30.445	1.302	1.744	336.646	14.433	(28.544)	356.026	**1.732.593**
Off-balance sheet total	**2.908.556**	**84.740**	**1.998**	**75.251**	**545.452**	**25.402**	**(36.259)**	**696.584**	**2.211.972**
Total credit risk exposure	**23.850.216**	**598.035**	**259.903**	**452.262**	**24.355.699**	**373.459**	**(9.754.243)**	**16.285.115**	**7.565.101**

43. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Group's risk appetite statement imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of these internal limits over time.

In addition to the above, the Group's overseas subsidiaries must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

Fair value adjustment on initial recognition
The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originated credit impaired loans. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

43. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

Geographical and industry concentrations of Group loans and advances to customers are presented below:

2016	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By economic activity	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Trade	2.044.324	-	13.964	11.141	55.100	**2.124.529**	**(87.576)**	**2.036.953**
Manufacturing	658.811	-	7.133	7.735	25.396	**699.075**	**(25.734)**	**673.341**
Hotels and catering	1.302.543	-	112.773	3.263	-	**1.418.579**	**(62.665)**	**1.355.914**
Construction	2.874.331	-	3.181	75.918	12.793	**2.966.223**	**(210.436)**	**2.755.787**
Real estate	2.022.559	19.599	1.056.924	200.825	6.934	**3.306.841**	**(114.140)**	**3.192.701**
Private individuals	6.980.383	214	45.557	3.093	-	**7.029.247**	**(227.057)**	**6.802.190**
Professional and other services	1.332.250	-	54.865	12.458	97.148	**1.496.721**	**(80.501)**	**1.416.220**
Other sectors	1.054.255	337	1.361	32.927	-	**1.088.880**	**(120.344)**	**968.536**
	18.269.456	**20.150**	**1.295.758**	**347.360**	**197.371**	**20.130.095**	**(928.453)**	**19.201.642**
By customer sector								
Corporate	7.517.473	19.936	1.040.941	334.440	179.293	**9.092.083**	**(481.340)**	**8.610.743**
SMEs	4.100.298	-	222.337	12.641	11.144	**4.346.420**	**(202.240)**	**4.144.180**
Retail								
- housing	4.202.358	-	13.314	100	-	**4.215.772**	**(100.509)**	**4.115.263**
- consumer, credit cards and other	2.064.802	214	19.166	179	6.934	**2.091.295**	**(135.350)**	**1.955.945**
International banking services	321.571	-	-	-	-	**321.571**	**(3.619)**	**317.952**
Wealth management	62.954	-	-	-	-	**62.954**	**(5.395)**	**57.559**
	18.269.456	**20.150**	**1.295.758**	**347.360**	**197.371**	**20.130.095**	**(928.453)**	**19.201.642**

43. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

2016	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By business line	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Corporate	2.557.653	19.936	1.036.331	237.203	165.592	**4.016.715**	**(71.064)**	**3.945.651**
SMEs	1.377.837	-	222.337	12.442	11.144	**1.623.760**	**(29.071)**	**1.594.689**
Retail								
- housing	3.531.293	-	13.314	100	-	**3.544.707**	**(40.640)**	**3.504.067**
- consumer, credit cards and other	1.317.434	214	17.617	179	-	**1.335.444**	**(26.435)**	**1.309.009**
Restructuring								
- major corporate	2.080.586	-	-	33.947	-	**2.114.533**	**(156.190)**	**1.958.343**
- corporate	1.014.853	-	-	-	-	**1.014.853**	**(22.795)**	**992.058**
- SMEs	1.219.572	-	-	-	-	**1.219.572**	**(50.393)**	**1.169.179**
Recoveries								
- corporate	1.864.381	-	4.610	63.290	13.701	**1.945.982**	**(231.291)**	**1.714.691**
- SMEs	1.502.889	-	-	199	-	**1.503.088**	**(122.776)**	**1.380.312**
- retail housing	671.065	-	-	-	-	**671.065**	**(59.869)**	**611.196**
- retail other	747.368	-	1.549	-	6.934	**755.851**	**(108.915)**	**646.936**
International banking services	321.571	-	-	-	-	**321.571**	**(3.619)**	**317.952**
Wealth management	62.954	-	-	-	-	**62.954**	**(5.395)**	**57.559**
	18.269.456	**20.150**	**1.295.758**	**347.360**	**197.371**	**20.130.095**	**(928.453)**	**19.201.642**

Restructuring major corporate business line includes customers with exposures over €100.000 thousand, whereas restructuring corporate business line includes customers with exposures between €6.000 thousand and €100.000 thousand.

43. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

2015	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By economic activity	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Trade	2.267.092	-	23.138	12.360	57.704	**2.360.294**	**(121.192)**	**2.239.102**
Manufacturing	801.536	-	9.214	7.604	15.066	**833.420**	**(31.596)**	**801.824**
Hotels and catering	1.463.129	-	98.871	6.209	-	**1.568.209**	**(77.444)**	**1.490.765**
Construction	3.976.254	-	27.119	56.830	10.457	**4.070.660**	**(335.803)**	**3.734.857**
Real estate	2.130.028	43.443	927.423	250.956	69.132	**3.420.982**	**(137.185)**	**3.283.797**
Private individuals	7.282.322	216	44.627	5.684	-	**7.332.849**	**(268.496)**	**7.064.353**
Professional and other services	1.595.010	-	64.398	38.834	96.542	**1.794.784**	**(101.913)**	**1.692.871**
Other sectors	1.145.327	24.866	12.325	28.759	-	**1.211.277**	**(133.781)**	**1.077.496**
	20.660.698	**68.525**	**1.207.115**	**407.236**	**248.901**	**22.592.475**	**(1.207.410)**	**21.385.065**
By customer sector								
Corporate	9.222.429	68.309	918.423	386.973	232.733	**10.828.867**	**(666.631)**	**10.162.236**
SMEs	4.408.096	-	248.647	17.523	9.520	**4.683.786**	**(263.630)**	**4.420.156**
Retail								
- housing	4.285.156	-	17.336	1.306	-	**4.303.798**	**(108.267)**	**4.195.531**
- consumer, credit cards and other	2.152.950	216	22.709	1.434	6.648	**2.183.957**	**(154.174)**	**2.029.783**
International banking services	528.795	-	-	-	-	**528.795**	**(8.056)**	**520.739**
Wealth management	63.272	-	-	-	-	**63.272**	**(6.652)**	**56.620**
	20.660.698	**68.525**	**1.207.115**	**407.236**	**248.901**	**22.592.475**	**(1.207.410)**	**21.385.065**

43. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

2015	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
By business line	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Corporate	2.188.777	68.309	918.423	305.980	219.040	**3.700.529**	**(83.695)**	**3.616.834**
SMEs	1.502.261	-	248.647	17.523	9.520	**1.777.951**	**(46.973)**	**1.730.978**
Retail								
- housing	3.657.181	-	17.336	1.306	-	**3.675.823**	**(45.585)**	**3.630.238**
- consumer, credit cards and other	1.409.855	216	22.709	1.434	-	**1.434.214**	**(36.834)**	**1.397.380**
Restructuring								
- major corporate	2.877.985	-	-	35.736	-	**2.913.721**	**(175.920)**	**2.737.801**
- corporate	1.814.518	-	-	-	-	**1.814.518**	**(75.945)**	**1.738.573**
- SMEs	1.376.635	-	-	-	-	**1.376.635**	**(67.758)**	**1.308.877**
Recoveries								
- corporate	2.341.149	-	-	45.257	13.693	**2.400.099**	**(331.071)**	**2.069.028**
- SMEs	1.529.200	-	-	-	-	**1.529.200**	**(148.899)**	**1.380.301**
- retail housing	627.975	-	-	-	-	**627.975**	**(62.682)**	**565.293**
- retail other	743.095	-	-	-	6.648	**749.743**	**(117.340)**	**632.403**
International banking services	528.795	-	-	-	-	**528.795**	**(8.056)**	**520.739**
Wealth management	63.272	-	-	-	-	**63.272**	**(6.652)**	**56.620**
	20.660.698	**68.525**	**1.207.115**	**407.236**	**248.901**	**22.592.475**	**(1.207.410)**	**21.385.065**

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value of €82.154 thousand (2015: €81.078 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €106.968 thousand (2015: €69.983 thousand). Additionally as at 31 December 2016, the loans and advances to customers in Cyprus include lending exposures to Serbian entities or with collaterals in Serbia with a carrying value of €9.700 thousand.

43. Risk management – Credit risk (continued)

Currency concentration of loans and advances to customers

2016	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Euro	17.563.760	20.150	229	345.931	16.079	**17.946.149**	**(882.038)**	**17.064.111**
US Dollar	149.235	-	490	-	73.457	**223.182**	**(10.281)**	**212.901**
British Pound	38.907	-	1.276.658	88	-	**1.315.653**	**(538)**	**1.315.115**
Russian Rouble	103	-	-	-	107.835	**107.938**	**(1)**	**107.937**
Romanian Lei	-	-	-	1.341	-	**1.341**	**-**	**1.341**
Swiss Franc	471.167	-	7.570	-	-	**478.737**	**(31.170)**	**447.567**
Other currencies	46.284	-	10.811	-	-	**57.095**	**(4.425)**	**52.670**
	18.269.456	**20.150**	**1.295.758**	**347.360**	**197.371**	**20.130.095**	**(928.453)**	**19.201.642**
2015								
Euro	19.261.905	68.525	28.423	405.998	16.099	**19.780.950**	**(1.128.137)**	**18.652.813**
US Dollar	250.757	-	507	22	137.204	**388.490**	**(11.540)**	**376.950**
British Pound	49.052	-	1.154.110	93	-	**1.203.255**	**(10.121)**	**1.193.134**
Russian Rouble	108	-	-	-	95.598	**95.706**	**(1)**	**95.705**
Romanian Lei	1	-	-	1.123	-	**1.124**	**-**	**1.124**
Swiss Franc	1.028.865	-	13.492	-	-	**1.042.357**	**(51.761)**	**990.596**
Other currencies	70.010	-	10.583	-	-	**80.593**	**(5.850)**	**74.743**
	20.660.698	**68.525**	**1.207.115**	**407.236**	**248.901**	**22.592.475**	**(1.207.410)**	**21.385.065**

43. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers

The following table presents the credit quality of the Group's loans and advances to customers:

	2016			2015		
	Gross loans before fair value adjustment on initial recognition	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	**€000**	**€000**	€000	€000	€000
Neither past due nor impaired	**10.990.773**	**(166.185)**	**10.824.588**	10.442.903	(173.260)	10.269.643
Past due but not impaired	**2.238.127**	**(38.743)**	**2.199.384**	3.048.929	(60.803)	2.988.126
Impaired	**6.901.195**	**(723.525)**	**6.177.670**	9.100.643	(973.347)	8.127.296
	20.130.095	**(928.453)**	**19.201.642**	22.592.475	(1.207.410)	21.385.065

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery.

During the year ended 31 December 2016 the total non-contractual write-offs recorded by the Group amounted to €517.694 thousand (2015: €172.670 thousand). The remaining gross loan balance of these customers as at 31 December 2016 was €305.591 thousand (2015: €280.575 thousand), of which €19.651 thousand (2015: €56.548 thousand) were past due for more than 90 days but not impaired and €130.964 thousand (2015: €198.296 thousand) were impaired.

Loans and advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

2016	**Grade 1**	**Grade 2**	**Grade 3**	**Total**
	€000	**€000**	**€000**	**€000**
Cyprus	6.127.350	1.751.332	1.802.957	**9.681.639**
Greece	-	-	214	**214**
United Kingdom	1.187.130	53.838	10.011	**1.250.979**
Romania	56.857	348	693	**57.898**
Russia	-	-	43	**43**
	7.371.337	**1.805.518**	**1.813.918**	**10.990.773**

2015				
Cyprus	5.572.036	1.441.298	2.244.258	**9.257.592**
Greece	-	-	216	**216**
United Kingdom	1.009.277	63.300	20.803	**1.093.380**
Romania	45.962	35.141	10.551	**91.654**
Russia	-	61	-	**61**
	6.627.275	**1.539.800**	**2.275.828**	**10.442.903**

43. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are neither past due nor impaired (continued)
Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of the year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Loans and advances to customers that are past due but not impaired

	2016	2015
Past due analysis:	**€000**	€000
- up to 30 days	**455.394**	468.791
- 31 to 90 days	**375.161**	351.450
- 91 to 180 days	**128.675**	144.362
- 181 to 365 days	**140.714**	258.920
- over one year	**1.138.183**	1.825.406
	2.238.127	3.048.929

The fair value of the collateral that the Group holds (to the extent that it mitigates credit risk) in respect of loans and advances to customers that are past due but not impaired as at 31 December 2016 is €1.762.528 thousand (2015: €2.466.960 thousand). The fair value of the collateral is capped to the gross carrying value of the loans and advances to customers.

Impaired loans and advances to customers

	2016		2015	
	Gross loans and advances	**Fair value of collateral**	Gross loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**6.384.503**	**3.953.086**	8.414.868	5.596.169
Greece	**19.936**	**17.962**	68.309	17.945
Russia	**196.144**	**87.381**	247.319	94.417
United Kingdom	**12.041**	**7.213**	56.584	10.821
Romania	**288.571**	**54.436**	313.563	170.080
	6.901.195	**4.120.078**	9.100.643	5.889.432

43. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Impaired loans and advances to customers (continued)

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

	2016	2015
Impaired:	**€000**	€000
- no arrears	**471.855**	875.488
- up to 30 days	**62.119**	78.176
- 31 to 90 days	**29.201**	24.353
- 91 to 180 days	**49.572**	65.382
- 181 to 365 days	**51.438**	310.167
- over one year	**6.237.010**	7.747.077
	6.901.195	9.100.643

Provision for impairment of loans and advances to customers

The movement in provisions for impairment of loans and advances, is as follows:

2016	Cyprus	Greece	Russia	Other countries	**Total**
	€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 year (Note 16)	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	**2.779.379**	**7.129**	**156.585**	**214.697**	**3.157.790**
Collective impairment	**390.782**	**-**	**667**	**3.002**	**394.451**

43. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers (continued)

2015	Cyprus	Greece	Russia	Other countries	**Total**
	€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 (Note 16)	1.193.563	37.063	37.239	38.092	**1.305.957**
Charge for the year – discontinued operations (Note 6)	-	-	42.665	-	**42.665**
31 December	**3.731.750**	**33.833**	**195.017**	**232.833**	**4.193.433**
Individual impairment	**3.255.398**	**29.458**	**194.805**	**227.579**	**3.707.240**
Collective impairment	**476.352**	**4.375**	**212**	**5.254**	**486.193**

The above table does not include the provisions for impairment on financial guarantees and commitments which are part of 'Accruals, deferred income and other liabilities' (Note 33).

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases for which, based on specific facts and circumstances, a different period has been used and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero. The average liquidity haircut and selling expenses used in the provisions calculation is 10% of the current market value of the property for those collaterals for which the increase in their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop.

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

43. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers (continued)

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

Sensitivity analysis
The Group has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 31 December 2016. The impact on the provisions for impairment of loans and advances is presented below:

	Increase/(decrease) on provisions for impairment of loans and advances
Change in provisions assumptions:	**€000**
Increase the timing of recovery from collaterals by 1 year (to an average of 4 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	27.891
Decrease the timing of recovery from collaterals by 1 year (to an average of 2 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	(26.814)
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	118.055
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	216.359
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	(73.940)
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	(168.357)
Extend the timing of recovery from collaterals by 1 year and decrease the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	90.028
Decrease the timing of recovery from collaterals by 1 year and increase the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	(45.844)

43. Risk management – Credit risk (continued)

Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2016 and 2015 by taking possession of collateral held as security, was as follows:

	2016	2015
	€000	€000
Residential property	**85.171**	2.108
Commercial and other property	**1.000.533**	123.323
	1.085.704	125.431

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Group as at 31 December 2016 amounted to €1.395.127 thousand including an amount of €3.072 thousand relating to commercial and other property which were classified as held for sale (2015: €455.416 thousand, including an amount of €6.552 thousand relating to commercial and other property held for sale).

The disposals of repossessed assets during 2016 amounted to €129.002 thousand (2015: €29.499 thousand).

Forbearance

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

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

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

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

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.

43. Risk management – Credit risk (continued)

Forbearance (continued)

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:
- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears to the principal; that is forbearance of the arrears and addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

Long-term restructuring solutions can include the following:
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Group and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

Rescheduled loans and advances to customers

The below tables present the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

2016	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	€000	**€000**
1 January	8.391.624	24.865	138.376	116.232	119.185	**8.790.282**
New loans and advances rescheduled in the year	900.616	-	-	54.780	340	**955.736**
Assets no longer classified as rescheduled (including repayments)	(1.504.769)	(97)	(77.308)	(68.305)	(42.843)	**(1.693.322)**
Applied in writing off rescheduled loans and advances	(715.713)	(24.871)	-	(255)	(189)	**(741.028)**
Interest accrued on rescheduled loans and advances	326.260	440	-	557	2.392	**329.649**
Foreign exchange adjustments	3.852	-	22.825	(12.686)	(4)	**13.987**
31 December	**7.401.870**	**337**	**83.893**	**90.323**	**78.881**	**7.655.304**
2015						
1 January	7.024.847	75.778	234.659	136.421	184.585	**7.656.290**
Disposal of Russian operations	-	-	(118.313)	-	-	**(118.313)**
New loans and advances rescheduled in the year	2.189.524	-	24.097	32.695	-	**2.246.316**
Assets no longer classified as rescheduled (including repayments)	(1.125.219)	(35.927)	-	(66.606)	(32.396)	**(1.260.148)**
Applied in writing off rescheduled loans and advances	(80.896)	(16.700)	-	-	(33.888)	**(131.484)**
Interest accrued on rescheduled loans and advances	337.231	1.714	10.424	5.538	1.687	**356.594**
Foreign exchange adjustments	46.137	-	(12.491)	8.184	(803)	**41.027**
31 December	**8.391.624**	**24.865**	**138.376**	**116.232**	**119.185**	**8.790.282**

The classification as rescheduled loans is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. These are set out in the EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

2016	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
	€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**

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Fair value of collateral

2016	Cyprus	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
Neither past due nor impaired	3.772.578	-	85.661	80	**3.858.319**
Past due but not impaired	1.021.347	671	2.504	182	**1.024.704**
Impaired	1.828.036	47.740	1.974	22.060	**1.899.810**
	6.621.961	**48.411**	**90.139**	**22.322**	**6.782.833**
2015					
Neither past due nor impaired	3.360.868	-	84.722	59.930	**3.505.520**
Past due but not impaired	1.407.575	696	29.182	178	**1.437.631**
Impaired	2.709.602	49.297	1.668	39.696	**2.800.263**
	7.478.045	**49.993**	**115.572**	**99.804**	**7.743.414**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

2016	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
By economic activity	€000	€000	€000	€000	€000	**€000**
Trade	668.305	-	35.229	261	1.624	**705.419**
Manufacturing	214.248	-	16.347	-	1.263	**231.858**
Hotels and catering	619.259	-	-	12.139	3.249	**634.647**
Construction	1.539.773	-	8.934	176	25.175	**1.574.058**
Real estate	1.047.280	-	-	69.426	47.192	**1.163.898**
Private individuals	2.515.157	-	-	996	60	**2.516.213**
Professional and other services	446.946	-	23.383	7.325	-	**477.654**
Other sectors	350.902	337	-	-	318	**351.557**
	7.401.870	**337**	**83.893**	**90.323**	**78.881**	**7.655.304**
By customer sector						
Corporate	3.418.231	337	78.488	74.987	77.556	**3.649.599**
SMEs	1.675.528	-	5.405	14.501	1.265	**1.696.699**
Retail						
- housing	1.661.487	-	-	-	-	**1.661.487**
- consumer, credit cards and other	567.426	-	-	835	60	**568.321**
International banking services	74.704	-	-	-	-	**74.704**
Wealth management	4.494	-	-	-	-	**4.494**
	7.401.870	**337**	**83.893**	**90.323**	**78.881**	**7.655.304**

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2016	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
By business line	€000	€000	€000	€000	€000	**€000**
Corporate	711.872	337	78.488	74.987	77.391	**943.075**
SMEs	464.163	-	5.405	14.501	1.265	**485.334**
Retail						
- housing	1.494.123	-	-	-	-	**1.494.123**
- consumer, credit cards and other	449.107	-	-	835	60	**450.002**
Restructuring						
- major corporate	1.371.448	-	-	-	165	**1.371.613**
- corporate	790.600	-	-	-	-	**790.600**
- SMEs	815.597	-	-	-	-	**815.597**
Recoveries						
- corporate	544.311	-	-	-	-	**544.311**
- SMEs	395.768	-	-	-	-	**395.768**
- retail housing	167.364	-	-	-	-	**167.364**
- retail other	118.319	-	-	-	-	**118.319**
International banking services	74.704	-	-	-	-	**74.704**
Wealth management	4.494	-	-	-	-	**4.494**
	7.401.870	**337**	**83.893**	**90.323**	**78.881**	**7.655.304**

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2015	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
By economic activity	€000	€000	€000	€000	€000	**€000**
Trade	707.105	-	31.580	-	2.936	**741.621**
Manufacturing	282.449	-	14.207	136	1.258	**298.050**
Hotels and catering	743.585	-	-	7.072	6.196	**756.853**
Construction	2.155.778	-	8.081	14.862	2.444	**2.181.165**
Real estate	1.069.156	-	-	59.190	82.739	**1.211.085**
Private individuals	2.526.554	-	-	4.393	153	**2.531.100**
Professional and other services	584.836	-	84.508	19.517	22.697	**711.558**
Other sectors	322.161	24.865	-	11.062	762	**358.850**
	8.391.624	**24.865**	**138.376**	**116.232**	**119.185**	**8.790.282**
By customer sector						
Corporate	4.368.307	24.865	133.932	99.603	116.385	**4.743.092**
SMEs	1.720.453	-	4.444	12.519	2.647	**1.740.063**
Retail						
- housing	1.685.668	-	-	-	-	**1.685.668**
- consumer, credit cards and other	568.986	-	-	4.110	153	**573.249**
International banking services	42.481	-	-	-	-	**42.481**
Wealth management	5.729	-	-	-	-	**5.729**
	8.391.624	**24.865**	**138.376**	**116.232**	**119.185**	**8.790.282**

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2015	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
By business line	€000	€000	€000	€000	€000	**€000**
Corporate	647.785	24.865	133.932	99.603	115.639	**1.021.824**
SMEs	550.664	-	4.444	12.519	2.647	**570.274**
Retail						
- housing	1.562.149	-	-	-	-	**1.562.149**
- consumer, credit cards and other	468.368	-	-	4.110	153	**472.631**
Restructuring						
- major corporate	1.768.782	-	-	-	626	**1.769.408**
- corporate	1.272.086	-	-	-	-	**1.272.086**
- SMEs	798.010	-	-	-	-	**798.010**
Recoveries						
- corporate	679.654	-	-	-	120	**679.774**
- SMEs	371.779	-	-	-	-	**371.779**
- retail housing	123.519	-	-	-	-	**123.519**
- retail other	100.618	-	-	-	-	**100.618**
International banking services	42.481	-	-	-	-	**42.481**
Wealth management	5.729	-	-	-	-	**5.729**
	8.391.624	**24.865**	**138.376**	**116.232**	**119.185**	**8.790.282**

43. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

2016	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	€000	**€000**
Individual impairment	899.178	337	65.297	1.855	59.791	**1.026.458**
Collective impairment	200.069	-	359	365	2	**200.795**
	1.099.247	**337**	**65.656**	**2.220**	**59.793**	**1.227.253**
2015						
Individual impairment	1.144.475	22.966	113.177	1.396	35.694	**1.317.708**
Collective impairment	207.106	-	49	266	1.813	**209.234**
	1.351.581	**22.966**	**113.226**	**1.662**	**37.507**	**1.526.942**

43. Risk management – Credit risk (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and loans and advances to banks
Balances with central banks and loans and advances to banks are analysed by Moody's rating as follows:

	2016	2015
	€000	€000
Aaa – Aa3	**785.002**	555.594
A1 – A3	**249.693**	643.540
Baa1 – Baa3	**41.860**	146.428
Ba1 – Ba3	**37.067**	36.954
B1 – B3	**1.137.717**	957.074
Caa - C	**14.410**	8.750
Unrated	**154.805**	205.924
Other receivables from banks	**41.085**	28.701
	2.461.639	2.582.965

Band B1-B3 above includes an amount of €141.447 thousand which mainly relates to obligatory deposits for liquidity purposes with the CBC. As at 31 December 2016, bank balances with carrying value of €78.725 thousand are impaired (2015: €134.291 thousand), with cumulative impairment loss of €55.655 thousand (2015: €28.605 thousand).

43. Risk management – Credit risk (continued)

Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

Debt securities
Investments in debt securities are analysed by Moody's rating, their issuer and classification, as follows:

	2016	2015
	€000	€000
Aaa – Aa3	**349.565**	402.830
Baa1 – Baa3	**12.507**	54.626
B1 – B3	**257.495**	459.159
Caa – C	**1**	1
	619.568	916.616
Issued by:		
- Cyprus government	**257.496**	459.159
- other governments	**329.211**	421.037
- banks and other corporations	**32.861**	36.420
	619.568	916.616
Classified as:		
- trading investments	**476**	317
- investments at fair value through profit or loss	**10.426**	17.430
- available-for-sale investments	**540.592**	461.934
- investments classified as loans and receivables	**68.074**	436.935
	619.568	916.616

44. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices - namely from changes in interest rates, exchange rates and security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

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

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated separately for each currency. A rate change is applied on each item of the balance sheet for the number of days between its repricing date and the one year horizon in order to calculate the impact on net interest income.

Interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Group. There are different limits for the Euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Group capital and as a percentage of net interest income (when positive) and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis
The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euro	US Dollar	British Pound	Other currencies	Total
Change in interest rates	**€000**	**€000**	**€000**	**€000**	**€000**
2016					
+2% for Russian Rouble +1% for US Dollar +0,5% for all other currencies	**17.269**	**15.950**	**5.081**	**(43)**	**38.257**
-4% for Russian Rouble -0,5% for all other currencies	**(21.479)**	**(8.089)**	**(3.057)**	**(438)**	**(33.063)**
2015					
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	14.244	10.281	4.524	(570)	28.479
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for Euro Euribor ECB -1% for Euro Bank Basic Rate -0,5% for all other currencies	(24.120)	(7.275)	(3.454)	532	(34.317)

44. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)
In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified as available-for-sale (unless impaired).

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

	Impact on profit/loss before tax	**Impact on equity**
Change in interest rates	**€000**	**€000**
2016		
+2% for Russian Rouble +1% for US Dollar +0,5% for all other currencies	**1.347**	**(1.764)**
-4% for Russian Rouble -0,5% for all other currencies	**(1.347)**	**1.734**
2015		
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	572	(97)
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for all other currencies	(572)	97

Currency risk

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Market Risk daily.

The Group does not maintain a currency trading book.

44. Risk management – Market risk (continued)

Currency risk (continued)

The table below sets out the Group's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

The impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the subsidiaries whose functional currency is not the euro. The net assets of foreign operations are also revalued and affect equity, but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

2016	**Change in foreign exchange rate**	**Impact on profit after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	**+10**	**1.935**	**-**
Russian Rouble	**+25**	**2.645**	**18.828**
Romanian Lei	**+10**	**-**	**4.459**
Swiss Franc	**+20**	**6.629**	**-**
British Pound	**+20**	**1.017**	**(19.358)**
Japanese Yen	**+10**	**307**	**-**
Other currencies	**+10**	**173**	**-**
US Dollar	**-10**	**(1.584)**	**-**
Russian Rouble	**-25**	**(1.587)**	**(11.297)**
Romanian Lei	**-10**	**-**	**(3.648)**
Swiss Franc	**-20**	**(4.419)**	**-**
British Pound	**-20**	**(678)**	**12.905**
Japanese Yen	**-10**	**(251)**	**-**
Other currencies	**-10**	**(142)**	**-**

44. Risk management – Market risk (continued)

Currency risk (continued)

2015	**Change in foreign exchange rate**	**Impact on loss after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	+10	1.753	-
Russian Rouble	+40	5.819	78.573
Romanian Lei	+10	1	3.634
Swiss Franc	+20	9.344	-
British Pound	+10	515	(18.304)
Japanese Yen	+10	490	-
Other currencies	+10	111	-
US Dollar	-10	(1.434)	-
Russian Rouble	-40	(2.494)	(33.674)
Romanian Lei	-10	(1)	(2.974)
Swiss Franc	-20	(6.229)	-
British Pound	-10	(422)	14.976
Japanese Yen	-10	(401)	-
Other currencies	-10	(91)	-

Price risk

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

Investments in equities are outside the Group's risk appetite. The Group monitors the current portfolio mostly acquired by the Group as part of the acquisition of certain operations of Laiki Bank, with the objective to gradually liquidate all positions for which there is a market. Equity securities may also be acquired in the context of delinquent loan workouts and are disposed of by the Group as soon as practicable.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Group, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Group (if not impaired).

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

44. Risk management – Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

2016	**Change in index**	**Impact on profit/loss before tax**	**Impact on equity**
	%	**€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)**
2015			
Cyprus Stock Exchange	+30	2.164	1.509
Athens Exchange	+50	-	83
Other Stock Exchanges and non listed	+20	1.721	1.916
Cyprus Stock Exchange	-30	(2.298)	(1.376)
Athens Exchange	-50	(58)	(25)
Other Stock Exchanges and non listed	-20	(1.768)	(1.869)

Debt securities price risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments. The average Moody’s rating of the debt securities portfolio of the Group as at 31 December 2016 was B1 (2015: Baa2).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired).

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

44. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk (continued)

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

45. Risk management – Liquidity risk and funding

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

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management aims to achieve diversified funding sources in addition to the Group's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite being the level of risk at which the Group should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews almost at every meeting the liquidity position of the Group. Information on inflows/outflows is also provided.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. Bank of Cyprus UK Ltd ALCO is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies. Given the current liquidity position of the Company, the ALCO considers the monitoring of liquid assets and the cash inflows/outflows of the Company in Cyprus, to be of utmost importance.

Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of Bank of Cyprus UK Ltd, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. The Group Treasury also manages the treasury business of Bank of Cyprus Romania, which is in run-down mode. Every unit is responsible for managing its liquidity and targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

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

45. Risk management – Liquidity risk and funding (continued)

Management and structure (continued)

Liquidity is monitored and managed on an ongoing basis through:

(i) Risk appetite: established Group Risk Appetite together with the appropriate limits for the management of all risks including liquidity risk.

(ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.

(iii) Liquidity limits: a number of internal and regulatory limits are monitored on a daily, monthly and quarterly basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags when the ratios deteriorate.

(iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Group. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions.

(v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.

(vi) Recovery Plan: the Group has developed a Recovery Plan. The key objectives are to provide the Group with a range of options to ensure its viability in a stress, to set consistent Early Warning and Recovery Indicators and to enable the Group to be adequately prepared to respond to stressed conditions.

Monitoring process

Daily

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market Risk prepares a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the opening and closing liquidity position, net customer movements and other movements analysed by the main currencies. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

Since May 2016, Market Risk also prepares daily stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

The liquidity buffer is made up of: Euro banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, money market placements up to the stress horizon, available ECB credit line and market value net of haircut of liquid unencumbered/available bonds.

The designing of the stress tests followed best practice guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA SREP. The stress tests assumptions are included in the Group Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities and cash collateral for derivatives and repos.

Weekly

Market Risk prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC.

Monthly

Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates and deposits by tenor are also presented to the ALCO.

Market Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

45. Risk management – Liquidity risk and funding (continued)

Monitoring process (continued)

Monthly (continued)
Group Treasury prepares a liquidity report which is submitted to the ALCO on a monthly basis. The report indicates the liquidity position of the Company, data on monthly customer flows, as well as other important developments related to liquidity. Moreover, during 2016 Group Treasury prepared a cash flows projection report, under a base and an adverse scenario, covering a one month and two month periods, which was sent to ECB/SSM/CBC/Ministry of Finance. Following full ELA repayment in January 2017, Group Treasury has stopped producing the cash flows projection report.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and Board Risk Committee quarterly. Moreover, Market Risk reports the Net Stable Funding Ratio (NSFR), Leverage Ratio to the CBC/ECB quarterly and various other liquidity reports, included in the short-term exercise of the SSM per their SREP guidelines.

Annually
The Group prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP).

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan for handling liquidity difficulties. The plan details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The plan sets out the members of this Committee and a series of the possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated policy with its recommendations to the Board through the Board Risk Committee for approval. The approved policy is notified to the SSM.

Liquidity ratios

The Group liquidity ratio presented in the table below, is calculated for management information purposes, based on the CBC methodology for the Euro stock liquidity ratio. The ratio is calculated as the amount of liquid assets to total deposits and other liabilities falling due within twelve months. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit/liabilities due to be paid in the next twelve months.

The Group liquidity ratio is prepared monthly by Market Risk and monitored by ALCO. Each banking unit has its own required limit for this ratio and is monitored accordingly: for the operations in Cyprus, two separate ratios are calculated; one for Euro and one for foreign currencies and the required limit is 20% for Euro and 70% for foreign currencies. For the other banking units the minimum requirement is at 15%.

It is noted that in the calculation of this ratio, as well as for the CBC regulatory reports, ELA is treated as a long term liability.

The Group's liquidity ratio was as follows:

	2016	2015
	%	%
End of reporting year	**15,59**	18,25
Average monthly ratio	**16,05**	18,31
Highest monthly ratio	**17,22**	21,62
Lowest monthly ratio	**14,48**	15,64

45. Risk management – Liquidity risk and funding (continued)

Liquidity ratios (continued)

The Company is currently not in compliance with the regulatory liquidity requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the LCR and therefore is dependent on continuing regulatory forbearance.

As at 31 December 2016 and 2015 the other banking units of the Group were in compliance with their regulatory liquidity requirements.

The ratio of loans and advances to customer deposits is presented below:

	2016	2015
	%	%
End of reporting year	**94,56**	120,92
Average quarterly ratio	**109,14**	133,57
Highest quarterly ratio	**120,92**	141,48
Lowest quarterly ratio	**94,56**	120,92

Sources of funding

During the year of 2016, the Group's main sources of liquidity were its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through ELA.

Reliance on ELA funding was reduced from its peak of €11,4 billion in April 2013 to €200 million as at 31 December 2016 (2015: €3,8 billion) (Note 30). ELA was fully repaid on 5 January 2017.

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

The funding provided to the Group through ELA is short term, usually 2-4 weeks. The funding via Eurosystem monetary policy operations ranges from short term to long term.

In 2014, the Group participated in the TLTRO of the ECB for an amount of €500 million. On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount from the MRO. In December 2016, the Group borrowed an amount of €600 million through the new series of TLTRO (TLTRO II) announced by the ECB in March 2016. Additionally, an amount of €50 million was borrowed through the LTRO. As a result, in December 2016 all the ECB funding that was borrowed through the MRO, was switched to longer term funding.

In May 2016, the Company raised new funding from the ECB 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.

Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for the final repayment. The Company's subsidiary Bank of Cyprus UK Ltd cannot place funds with the Group in excess of maximum limits set by the local regulator.

Any new funding to subsidiaries requires approval from the ECB and the CBC.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

45. Risk management – Liquidity risk and funding (continued)

Collateral requirements

The carrying values of the Group's encumbered assets as at 31 December 2016 and 2015 are summarised below:

	2016	2015
	€000	€000
Cash and other liquid assets	**139.975**	154.896
Investments	**359.813**	892.728
Loans and advances	**2.853.511**	12.882.139
Property	**93.574**	93.500
	3.446.873	14.023.263

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

Investments are mainly used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond.

Loans and advances indicated as encumbered as at 31 December 2016 and 2015 are mainly used as collateral for funding from the CBC, the covered bond and 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 (Note 30). 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 scheme. 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 consolidated balance sheet as ownership remains with the Bank of England.

In August 2016, the Company cancelled two own-issued bonds guaranteed by the Republic of Cyprus of €500 million each. The bonds bore an annual fixed interest rate at 5%. The bonds were guaranteed by the Republic of Cyprus and were issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds was presented in debt securities in issue in the consolidated balance sheet as all the bonds were held by the Company. The bonds were listed on the CSE and were pledged as collateral for obtaining funding from central banks. One of the bonds was released in June 2016 from the ELA pool of collateralised assets. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC.

Under the Programme, the Company issued in December 2011 covered bonds of €1.000 million. The covered bonds issued had a maturity of three years with a potential extension of their repayment by one year, bore interest at the three month Euribor plus 1,25% on a quarterly basis and were traded on the Luxemburg Bourse.

The terms of the €1.000 million covered bond secured by residential mortgage loans originated in Cyprus were amended in June 2014 and the maturity date changed to 12 June 2017 with a potential extension of one year and the interest rate to three month Euribor plus 3,25% on a quarterly basis. All the bonds issued are held by the Company.

45. Risk management – Liquidity risk and funding (continued)

Collateral requirements (continued)

On 29 September 2015, the terms of the Covered Bond Programme and the outstanding €1.000 million covered bond were amended to a Conditional Pass–Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650 million with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations.

As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

Recent developments

The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cyprus Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed.

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 as of 27 March 2017.

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Group's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets
The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'over five years' time band, unless classified as at fair value through profit or loss, in which case they are included in the 'up to one month' time band.

The investments are classified in the relevant time band according to their contractual maturity.

Financial liabilities
All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Group expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Group has the discretion not to accept such early termination of deposits.

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Financial liabilities (continued)
The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivable and payable amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

2016	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	1.446.851	26.372	29.157	4.016	-	**1.506.396**
Loans and advances to banks	871.306	13.630	14.660	172.674	15.567	**1.087.837**
Investments at fair value through profit or loss	27.971	8.740	1.686	4.069	550	**43.016**
Loans and advances to customers	6.064.296	258.139	687.253	3.627.733	5.011.980	**15.649.401**
Fair value of net settled derivative assets	17.829	2.701	59	159	87	**20.835**
Non-trading investments	7.941	6.453	42.008	335.288	238.938	**630.628**
Other assets	28.761	8.955	19.477	67.944	6.674	**131.811**
Total financial assets	**8.464.955**	**324.990**	**794.300**	**4.211.883**	**5.273.796**	**19.069.924**
Financial liabilities						
Deposits by banks	309.922	6.312	32.731	6.704	83.812	**439.481**
Funding from central banks	200.014	50.000	-	600.000	-	**850.014**
Repurchase agreements	-	-	-	285.838	9.188	**295.026**
Customer deposits	8.750.919	3.113.258	3.396.832	1.343.667	4.193	**16.608.869**
Fair value of net settled derivative liabilities	7.955	1.010	53	31.687	7.504	**48.209**
Other liabilities	95.719	16.430	31.974	4.591	2.296	**151.010**
Total undiscounted financial liabilities	**9.364.529**	**3.187.010**	**3.461.590**	**2.272.487**	**106.993**	**18.392.609**

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2015	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	1.373.351	20.898	27.943	410	-	**1.422.602**
Loans and advances to banks	1.045.275	13.865	45.027	191.869	18.344	**1.314.380**
Investments at fair value through profit or loss	28.378	-	6.719	14.769	919	**50.785**
Loans and advances to customers	6.990.238	229.696	1.043.964	3.529.475	5.398.259	**17.191.632**
Fair value of net settled derivative assets	12.615	733	593	39	43	**14.023**
Non-trading investments	57.136	51.367	203.219	485.305	161.475	**958.502**
Other assets	31.459	8.192	9.348	123.787	6.875	**179.661**
Total financial assets	**9.538.452**	**324.751**	**1.336.813**	**4.345.654**	**5.585.915**	**21.131.585**
Financial liabilities						
Deposits by banks	181.358	-	16.946	8.505	38.395	**245.204**
Funding from central banks	3.953.955	-	-	502.846	-	**4.456.801**
Repurchase agreements	-	29.826	82.217	288.676	9.679	**410.398**
Customer deposits	7.675.374	2.273.718	3.767.389	561.323	2.658	**14.280.462**
Debt securities in issue	-	-	712	-	-	**712**
Fair value of net settled derivative liabilities	6.865	3.658	5.266	33.826	4.544	**54.159**
Other liabilities	84.527	18.475	31.366	6.278	2.338	**142.984**
Total undiscounted financial liabilities	**11.902.079**	**2.325.677**	**3.903.896**	**1.401.454**	**57.614**	**19.590.720**

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2016	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	669.186	164.669	1.531	-	-	**835.386**
Contractual amounts payable	(652.202)	(161.871)	(1.497)	-	-	**(815.570)**
	16.984	**2.798**	**34**	**-**	**-**	**19.816**
Financial liabilities						
Contractual amounts receivable	1.060.998	188.662	1.498	-	-	**1.251.158**
Contractual amounts payable	(1.070.866)	(190.401)	(1.526)	-	-	**(1.262.793)**
	(9.868)	**(1.739)**	**(28)**	**-**	**-**	**(11.635)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	3.983	2.483	1.140	-	-	**7.606**
Guarantees	160.531	153.096	242.952	152.890	87.800	**797.269**
Commitments						
Documentary credits	4.649	6.824	14.190	287	1.686	**27.636**
Undrawn formal standby facilities, credit lines and other commitments to lend	2.020.254	14.937	-	-	-	**2.035.191**
	2.189.417	**177.340**	**258.282**	**153.177**	**89.486**	**2.867.702**

45. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2015	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	931.730	57.648	1.196	-	-	**990.574**
Contractual amounts payable	(920.083)	(56.874)	(1.175)	-	-	**(978.132)**
	11.647	**774**	**21**	**-**	**-**	**12.442**
Financial liabilities						
Contractual amounts receivable	408.995	160.095	167.212	-	-	**736.302**
Contractual amounts payable	(414.868)	(161.442)	(169.407)	-	-	**(745.717)**
	(5.873)	**(1.347)**	**(2.195)**	**-**	**-**	**(9.415)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	3.587	2.750	2.048	-	-	**8.385**
Guarantees	66.251	140.400	245.352	254.419	86.689	**793.111**
Commitments						
Documentary credits	2.259	8.028	4.116	2.643	1.395	**18.441**
Undrawn formal standby facilities, credit lines and other commitments to lend	2.069.129	19.490	-	-	-	**2.088.619**
	2.141.226	**170.668**	**251.516**	**257.062**	**88.084**	**2.908.556**

46. Risk management – Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their solvency and credit rating.

Life insurance contracts
The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results.

	2016	2015
	€000	€000
Change in embedded value		
Change in interest rates +0,25%	**84**	93
Change in expenses +10%	**(2.482)**	(2.639)
Change in lapsation rates +10%	**(690)**	(953)
Change in mortality rates+10%	**(6.519)**	(6.711)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non–economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non–economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

46. Risk management – Insurance risk (continued)

Life insurance contracts (continued)
While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value, each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with–profit business versus non–profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

General insurance contracts
The risk of a general insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next.

The main risks for the general insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from general insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative developments in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

47. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

The capital adequacy regulations which govern the Group's operations are established by the CBC/ECB.

The Group has complied with the minimum capital requirements (Pillar I and Pillar II) during 2016.

In addition, the Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

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

48. Related party transactions

	2016	2015	2016	2015
	Number of directors		€000	€000
Loans and advances to members of the Board of Directors and connected persons:				
- less than 1% of the Group's net assets per director	**10**	9	**314**	369
	10	9	**314**	369
Loans and advances to other key management personnel and connected persons			**2.955**	3.871
Total loans and advances as at 31 December			**3.269**	4.240
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**2.811**	3.354
- connected persons			**458**	886
			3.269	4.240
Interest income for the year			**112**	138
Insurance premium income for the year			**107**	118
Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**2.981**	3.366
- connected persons			**3.559**	3.147
			6.540	6.513
Interest expense on deposits for the year			**69**	187
Accruals and other liabilities as at 31 December:				
- balances with entity providing key management personnel services			**3.101**	5.365
Staff costs, consultancy and restructuring expenses			**11.992**	11.104

The above table does not include year-end balances for members of the Board of Directors and their connected persons who resigned during the year.

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €61 thousand (2015: €135 thousand). As at 31 December 2016 and 2015, none of the directors or their connected persons had total loans and advances which exceeded 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €385 thousand (2015: €856 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2016 amounted to €635 thousand (2015: €1.094 thousand).

48. Related party transactions (continued)

At 31 December 2016 the Group has an investment in Invesco Euro Short Term Bond Fund, in which Mr Wilbur L. Ross Jr. was an executive Director. The fair value of the investment at 31 December 2016 amounts to €4.047 thousand.

At 31 December 2016 the Group has a deposit of €4.614 thousand with Piraeus Bank SA, in which Mr Arne Berggren is a non-executive Director. The Group has also provided certain indemnities to Piraeus Bank SA as part of the disposal of kyprou Leasing SA in 2015 (Note 50.4.3).

There were no transactions during the years ended 31 December 2016 and 2015 with connected persons of the current members of the Board of Directors or with any members who resigned during the two years.

Connected persons include spouses, minor children and companies in which directors/other key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Additional to members of the Board of Directors, related parties include entities providing key management personnel services to the Group.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

Fees and emoluments of members of the Board of Directors and other key management personnel

	2016	2015
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**1.848**	1.061
Employer's contributions	**110**	66
Retirement benefit plan costs	**168**	128
	2.126	1.255
Non-executives		
Fees	**861**	822
Total directors' emoluments	**2.987**	2.077
Other key management personnel emoluments		
Salaries and other short term benefits	**3.144**	3.328
Termination benefits	**397**	-
Employer's contributions	**190**	164
Retirement benefit plan costs	**158**	178
Total other key management personnel emoluments	**3.889**	3.670
Total	**6.876**	5.747

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The termination benefits relate to compensation paid to members of the Executive Committee who left the Group under the voluntary exit plan.

48. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Executive Directors
The salaries and other short term benefits of the Executive Directors are analysed as follows:

	2016	2015
	€000	€000
John Patrick Hourican (Chief Executive Officer)	**1.652**	910
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	**196**	151
	1.848	1.061

The retirement benefit plan costs for 2016 amounting to €168 thousand (2015: €128 thousand) relate to: Mr John Patrick Hourican €150 thousand (2015: €110 thousand) and Dr Christodoulos Patsalides €18 thousand (2015: €18 thousand).

Non-executive Directors

	2016	2015
	€000	€000
Josef Ackermann	**150**	150
Wilbur L. Ross Jr.	**120**	120
Vladimir Strzhalkovskiy	**-**	21
Arne Berggren	**115**	107
Maksim Goldman	**120**	116
Michalis Spanos	**100**	100
Ioannis Zographakis	**115**	115
Marios Kalochoritis	**90**	93
Michael Heger	**51**	-
	861	822

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company and its subsidiaries, as well as of committees of the Board of Directors.

Other key management personnel
The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other members of the management team who report directly to the Chief Executive Officer or to the Deputy Chief Executive Officer and Chief Operating Officer.

49. Group companies

The main subsidiary companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2016 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	n/a
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	54
Finerose Properties Ltd	Cyprus	Financing services	100
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	n/a
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	n/a
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	n/a
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	n/a
Cyprus Leasing S.A. (formerly Cyprus Leasing Romania IFN SA)	Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100
Fortuna Astrum Ltd	Serbia	Problem asset management company	100

49. Group companies (continued)

In addition to the above companies, at 31 December 2016 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, Eurolife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Pamaco Platres Complex Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmon Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Canemia Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Renalandia Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Valiro Properties Ltd, Avolo Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Vidalaco Properties Ltd, Jemina Properties Ltd, Hovita Properties Ltd, Flitous Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Belzeco Properties Ltd, Bothwick Properties Ltd, Fireford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Sylvesta Properties Ltd, Camela Properties Ltd, Nerofarm Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Landeed Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Nabela Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Cavadino Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Singleserve Properties Ltd, Consento Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozy Properties Ltd, Orasmo Properties Ltd, Palmco Properties Ltd, Crolandia Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lasmane Properties Ltd, Lorman Properties Ltd, Caruzoco Properties Ltd, Consoly Properties Ltd, Eracor Properties Ltd, Alomnia Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balisimo Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd and K. Athienitis Kalamon Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Frozenport Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Melgred Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2016 the Company had 100% shareholding in Iperi Properties Ltd, Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd whose main activities are the holding of shares and other investments and they are registered in Cyprus.

49. Group companies (continued)

At 31 December 2016 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Belvesi Properties Ltd, Warmbaths Properties Ltd, Tavoni Properties Ltd, Tezia Properties Ltd, Carnota Properties Ltd, Demoro Properties Ltd, Primaco Properties Ltd, Amary Properties Ltd, Hamura Properties Ltd, Gileco Properties Ltd, Meriaco Properties Ltd, Venetolio Properties Ltd, Flymoon Properties Ltd, Senadaco Properties Ltd, Desogus Properties Ltd, Intelamon Properties Ltd, Weinar Properties Ltd, Holstone Properties Ltd, Balasec Properties Ltd, Nouralia Properties Ltd, Mazima Properties Ltd, Diafor Properties Ltd, Prosilia Properties Ltd, Fantasio Properties Ltd, Lancast Properties Ltd, Alepar Properties Ltd, Nelipo Properties Ltd, Allodica Properties Ltd, Resocot Properties Ltd, Jomento Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Unoplan Properties Ltd, Paradexia Properties Ltd, Rosalica Properties Ltd, Zandexo Properties Ltd, Calandomo Properties Ltd, Paramina Properties Ltd, Cramonco Properties Ltd, Bigwaive Properties Ltd, Tasabo Properties Ltd, Coeval Properties Ltd and Bendolio Properties Ltd.

Romania: Mirodi Properties SRL, Nallora Properties SRL and Selilar Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Mirodi Properties Ltd, Nallora Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Hydrobius Ltd and Landanafield Properties Ltd.

The Group also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Fairford Properties Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Calomland Properties Ltd, Lameland Properties Ltd, BOC Asset Management Ltd and Pariza Properties Ltd.

Greece: Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method.

Termination of the leasing activities of Cyprus Leasing Romania IFN SA

On 26 September 2016 the shareholders of Cyprus Leasing Romania IFN SA decided to:

- deregister the company from the Registry of non-banking financial institutions held by the National Bank of Romania,
- terminate the leasing and crediting activity of the company, and
- change the name of the company to Cyprus Leasing S.A.

As a consequence of the above, the main activity of the company is now the collection of the existing portfolio of receivables, including third party collections.

The matter was approved by the National Bank of Romania on 21 November 2016.

Change in the control holding of MC Investment Assets Management LLC

In the context of the disposal of the majority of the Russian operations in September 2015, the Group increased its controlling interest in MC Investment Assets Management LLC to 100% from 80% during 2015. This transaction has been reflected as an equity transaction from non-controlling interests to the owners of the Company.

Control over CLR Investment Fund Public Ltd (CLR) without substantial shareholding

The Group considers that it exercises control over CLR through control of the members of the Board of Directors and is exposed to variable returns through its holding.

49. Group companies (continued)

Dissolution and disposal of subsidiaries

As at 31 December 2016, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, Kyprou Securities SA, BOC Ventures Ltd, Tefkros Investments Ltd, Salecom Ltd, Longtail Properties Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC, Unknownplan Properties SRL and Bank of Cyprus (Channel Islands) Ltd.

Tefkros Investments (CI) Ltd, Bank of Cyprus Mutual Funds Ltd, Laiki EDAK Ltd, Limestone Holdings Ltd and Turnmill Properties Ltd were either dissolved or striken off during the year ended 31 December 2016. Mainport Properties Ltd, Besadoco Properties Ltd, Odaina Properties Ltd, Icecastle Properties Ltd, Gilfront Properties Ltd, Glodas Properties Ltd, Denmor Properties Ltd, Benely Properties Ltd, Arcozil Properties Ltd, Varony Properties Ltd, Coramono Properties Ltd, Galozy Properties Ltd, Primantela Properties Ltd, Browneye Properties Ltd, Givolo Properties Ltd, Kandoramo Properties Ltd and Cronaland Properties Ltd were disposed of during the year ended 31 December 2016 as part of the Company's strategy to dispose of repossessed properties.

As part of the Group's strategy of focusing on its core businesses and markets, the Group decided the closure of the operations of Bank of Cyprus (Channel Islands) Ltd and to relocate its business to other Group locations. The company's licenses in Guernsey for banking and investment business have been surrendered, and the company entered the process of liquidation in December 2016.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the Bank of Cyprus branch in Romania are expected to be terminated during 2017, subject to regulatory approvals. The remaining assets and liabilities of the branch will be transferred to other entities of the Group.

50. Acquisitions and disposals

50.1 Acquisitions during 2016

50.1.1 Acquisition of S.Z. Eliades Leisure Ltd

In the context of its loan restructuring activities, the Group acquired on 15 June 2016 a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of borrowings due from it of a total gross amount of €52.335 thousand. S.Z. Eliades Leisure Ltd operates in land development and the operation of a golf resort in Cyprus. The fair value of the consideration for the acquisition of the 70% share in S.Z. Eliades Leisure Ltd amounts to €43.758 thousand. The acquisition did not include any cash consideration. The Group considers that it controls S.Z. Eliades Leisure Ltd.

The non-controlling interest is measured at the proportionate share of the identifiable net assets acquired.

The fair value of assets and liabilities of S.Z. Eliades Leisure Ltd at the date of acquisition are presented below:

Assets	**€000**
Property and equipment	**20.308**
Stock of property	**48.632**
Prepayments, accrued income and other assets	**580**
	69.520
Liabilities	
Deferred tax liability	**3.807**
Accruals, deferred income and other liabilities	**3.202**
	7.009
Net identifiable assets acquired	**62.511**
Less non-controlling interest	**(18.753)**
Net assets acquired	**43.758**

No cash and cash equivalents were acquired.

50. Acquisitions and disposals (continued)

50.1 Acquisitions during 2016 (continued)

50.1.2 Acquisition of K. Athienitis Kalamon Ltd

In the context of the loan restructuring activities of the parent company of K. Athienitis Kalamon Ltd, the Group acquired on 23 December 2016 a 100% interest in the share capital of K. Athientitis Kalamon Ltd. K. Athienitis Kalamon Ltd operates in the development and rental of immovable property. The fair value of the consideration for the acquisition of the 100% share in K. Athienitis Kalamon Ltd amounts to €4.204 thousand, which is also the cash consideration paid for the acquisition of the company. Part of the consideration paid was used to reduce the outstanding loan facilities of the parent company of K. Athienitis Kalamon Ltd. The Group considers that it controls K. Athienitis Kalamon Ltd.

The fair value of assets and liabilities of K. Athienitis Kalamon Ltd at the date of acquisition are presented below:

Assets	**€000**
Stock of property	**27.000**
Prepayments, accrued income and other assets	**2**
	27.002
Liabilities	
Deposits by banks	**22.198**
Accruals, deferred income and other liabilities	**600**
	22.798
Net identifiable assets acquired	**4.204**

No cash and cash equivalents were acquired.

50.2 Disposal during 2016

50.2.1 Disposal of Kermia Hotels Ltd and adjacent land

In June 2016, the Group completed the sale of 100% of its subsidiary Kermia Hotels Ltd and adjacent land which was classified as a disposal group held for sale as at 31 December 2015.

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	**€000**
Property and equipment	**27.130**
Prepayments, accrued income and other assets	**678**
Cash and cash equivalent	**1.132**
	28.940
Liabilities	
Deferred tax liability	**3.677**
Accruals, deferred income and other liabilities	**1.308**
	4.985
Total net assets sold	**23.955**

The cash consideration received amounts to €26.500 thousand and the disposal resulted in a gain of €2.545 thousand (Note 13).

50. Acquisitions and disposals (continued)

50.3 Acquisition during 2015

50.3.1 Acquisition of shares of Laiki Financial Services Ltd (LFS)

On 30 January 2015, the Annual General Meeting of the shareholders of LFS approved the disposal of the shares of LFS to the Company for a consideration of €3 million. Previously, LFS was 100% owned by LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd), a subsidiary of the Company. As a result, the increase of the Company's holding from 67% to 100% in LFS is accounted for as an equity transaction.

In November 2015, CISCO, a subsidiary of the Company issued 1.000 thousand shares of a nominal value €1,71 each, at a total premium of €534 thousand, for the transfer of the Company's investment in LFS to CISCO. Following the transfer of shares, LFS was dissolved, without liquidation, under the Merger and Reconstruction Scheme and its net assets were transferred to CISCO in accordance with a court order.

50.4 Disposals during 2015

50.4.1 Disposal of the majority of the Group's Russian operations

On 25 September 2015, the Group completed the disposal of the majority of its Russian operations, comprising (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC and (ii) certain other Russian loan exposures.

The transaction resulted in a loss on disposal of €23.032 thousand, comprising a loss of €28.237 thousand representing the recycling of the foreign currency translation reserve from other comprehensive income to the consolidated income statement and a profit of €5.205 thousand against the net book value of the assets as at the disposal date. As part of the sales agreement, the parties agreed an asset swap arrangement which involved the exchange of certain assets between them that resulted in a €41.849 thousand receivable for the Group on the date of the transaction.

Following the disposal of the Group's Russian operations, the remaining net exposure as at 31 December 2016 in Russia is €44.118 thousand, comprising primarily of customer loans.

The results of the Group's Russian operations from 1 January 2015 until the date of their disposal are presented in Note 6 of these consolidated financial statements and are classified as discontinued operations.

50. Acquisitions and disposals (continued)

50.4 Disposals during 2015 (continued)

50.4.1 Disposal of the majority of the Group's Russian operations (continued)

The assets and liabilities of the Group's Russian operations disposed of as at the date of their disposal are presented below:

Assets	**€000**
Cash and balances with central banks	**64.291**
Loans and advances to banks	**26.269**
Investments	**12.726**
Loans and advances to customers	**343.909**
Prepayments, accrued income and other assets	**41.950**
	489.145
Liabilities	
Deposits by banks	**24.422**
Customer deposits	**494.274**
Debt securities in issue	**139**
Subordinated loan stock	**2.673**
Accruals, deferred income and other liabilities	**4.976**
	526.484
Net liabilities	**(37.339)**

The sale consideration is analysed below:

	€000
Net cash consideration received, of which:	**2.896**
- Outflow of cash and cash equivalents	**(3.945)**

The net cash flows of the Russian operations from 1 January 2015 until the date of the disposal are as follows:

	2015
	€000
Operating	**(34.108)**
Investing	**(15.927)**
Financing	**(1.733)**
Net cash outflow for the period	**(51.768)**

50.4.2 Disposal of Aphrodite group

In September 2015, the Group completed the sale of shares representing a 65% shareholding in the Aphrodite Hills Resort Ltd and Aphrodite Hills (Lakkos tou Frangou) Ltd, for the amount of €500 thousand. Following the sale, the Group retained a 10% minority equity stake in the Aphrodite group. The transaction also involved the restructuring of the debt owed by these companies to the Group.

50.4.3 Disposal of Kyprou Leasing SA

Following the disposal of the Group's leasing operations in Greece to Piraeus Bank SA through a Decree issued on 26 March 2013, the Group completed the transfer of the legal ownership of its subsidiary, Kyprou Leasing SA to Piraeus Bank SA during the first quarter of 2015.

51. Investments in associates and joint ventures

Carrying value of the investments in associates and joint ventures

	2016	2015
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**107.172**	105.540
Interfund Investments Plc	**2.167**	2.201
Aris Capital Management LLC	**-**	-
Rosequeens Properties Limited	**-**	-
Rosequeens Properties SRL	**-**	-
Tsiros (Agios Tychon) Ltd	**-**	12
M.S. (Skyra) Vassas Ltd	**-**	-
D.J. Karapatakis & Sons Limited	**-**	-
Rodhagate Entertainment Ltd	**-**	-
Fairways Automotive Holdings Ltd	**-**	-
	109.339	107.753

Share of profit/(loss) from associates and joint ventures

	2016	2015
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**8.228**	6.709
Interfund Investments Plc	**(34)**	(786)
	8.194	5.923

Investments in associates

CNP Cyprus Insurance Holdings Ltd

As part of the acquisition of certain operations of Laiki Bank in 2013, 49,9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group.

The main financial highlights of the associate are as follows:

	2016	2015
	€000	€000
Total assets	**696.005**	676.915
Liabilities	**(481.234)**	(465.416)
Net assets, including value of in-force business	**214.771**	211.499

CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €10.310 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	2016	2015
	€000	€000
Dividend income	**6.621**	7.580
Interest expense paid by the Group	**197**	239
Other expenses paid by the Group	**92**	239
Other income received by the Group	**-**	2

51. Investments in associates and joint ventures (continued)

Investments in associates (continued)

Interfund Investments Plc
The Group has a 23,12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE. The market value of the investment is €1.399 thousand (2015: €1.372 thousand).

During the years 2016 and 2015 there were no material transactions between the Group and the associate.

Rosequeens Properties Limited and Rosequeens Properties SRL
The Group effectively owns 33% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of customer loan balances amounting to approximately €21 million. The Group's share of net assets of the associate at 31 December 2016 and 2015 had nil accounting value as the net assets of the associate had a negative balance.

Aris Capital Management LLC
The Group's holding in Aris Capital Management LLC of 30% was transferred to the Group following the acquisition of certain operations of Laiki Bank. During previous years, the Group has recognised an impairment loss of €2.078 thousand. During the years 2016 and 2015, there were no material balances or transactions between the Group and the associate.

M.S. (Skyra) Vassas Ltd
During the year, in the context of its loan restructuring activities, the Group acquired a 15% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Group considers that it exercises significant influence over the Skyra Vassas group as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd
During the year, in the context of its loan restructuring activities, the Group acquired a 7,5% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in leisure, tourism, film and entertainment industries in Cyprus. The Group considers that it exercises significant influence over the two companies as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investments are considered to be fully impaired and their value is restricted to zero.

Fairways Automotive Holdings Ltd
During the year, in the context of its loan restructuring activities, the Group acquired a 45% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Group considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

Investment in joint venture

Tsiros (Agios Tychon) Ltd
The Group holds a 50% shareholding in Tsiros (Agios Tychon) Ltd. The shareholder agreement with the other shareholder of Tsiros (Agios Tychon) Ltd stipulates a number of matters which require consent by both shareholders, therefore the Group considers that it jointly controls the company. The carrying value of Tsiros (Ayios Tychon) Ltd is restricted to zero.

52. Country by country reporting

Article 89 of CRD IV requires banks to disclose on a consolidated basis the following information for all countries where the Group operates. The table below provides information on the following items of the Group for year 2016:

Country	Total operating income/(expense)	Average number of employees	Profit/(loss) before tax	Accounting tax expense/(income) on profit/(loss)	Corporation tax paid/(refunded)	Public subsidies received
	€000		€000	€000	€000	€000
Cyprus	1.010.517	4.070	149.065	10.905	3.406	-
Russia	7.547	5	(5.226)	13	13	-
United Kingdom	(4.180)	218	(49.008)	1.357	1.128	-
Romania	8.116	35	(4.529)	84	133	-
Greece	2.650	7	(3.635)	(1.088)	(5.151)	-
Channel Islands	771	1	(855)	-	-	-
Netherlands	(65)	-	(196)	457	824	-
Total	**1.025.356**	**4.336**	**85.616**	**11.728**	**353**	**-**

The activities of Group companies by geographical area are disclosed in Note 49.

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

Number of employees: the number of employees has been calculated as the average number of employees, on a quarterly basis, who were employed by the Group during the year ended 31 December 2016.

Profit/(loss) before tax: profit/(loss) before tax represents profits/(losses) after the deduction of inter-segment revenues/(expenses).

Accounting tax expense/(income) on profit/(loss): includes corporation tax and Cyprus special defence contribution. Deferred tax charge for the year is excluded from the above.

Corporation tax paid: includes actual payments made during 2016 for corporation tax (including insurance premium taxes) and Cyprus special defence contribution.

53. Events after the reporting date

53.1 New holding company and listing on the London Stock Exchange

Bank of Cyprus Holdings Public Limited Company was incorporated in the Republic of Ireland on 11 July 2016 for the purposes of the Group's listing on the London Stock Exchange (LSE). The Republic of Ireland was considered to be the most suitable jurisdiction as it is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for listing on the LSE. The Company's headquarters, management and operations remain in Cyprus. Bank of Cyprus Holdings Public Limited Company is tax resident in Cyprus.

The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved the scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and the shareholders of the Company. The scheme of arrangement introduces Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group. Additionally the EGM authorised the directors of the Company 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 the Company 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 the Company (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of the Company, 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 the Company 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 the Company;
(iii) to apply the reserve arising in the books of account of the Company 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 Company, which shall be issued and allotted, credited as fully paid, to Bank of Cyprus Holdings Public Limited Company or its nominee(s) in accordance with the Scheme; and
(iv) the authorization of the directors of the Company 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 the Company 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 the Company were cancelled and the Company issued and allotted 8.922.944.533 new ordinary shares of nominal value €0,10 each, credited as fully paid to Bank of Cyprus Holdings Public Limited Company; and Bank of Cyprus Holdings Public Limited 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 Depository Interest represents one New Share for each individual holding of 20 Existing Shares.

On 19 January 2017 the total issued share capital of 446.199.933 ordinary shares of nominal value €0,10 each of Bank of Cyprus Holdings Public Limited 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.

53.2 Share - based payments – share options

The Long Term Incentive Plan approved by the shareholders at the annual general meeting on 24 November 2015 as described in Note 34, was replaced on 18 January 2017 by the Share Option Plan implemented by Bank of Cyprus Holdings Public Limited Company following the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group. The Share Option plan is identical to the Long Term Incentive Plan except that the number of shares in Bank of Cyprus Holdings Public Limited 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.

53. Events after the reporting date (continued)

53.3 Full repayment of ELA

ELA was fully repaid on 5 January 2017. All ELA collateralised loans have subsequently been released, but ELA pledged properties remain pledged as of 27 March 2017.

53.4 Issue of Tier 2 Capital

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note (Note) under the Company's EMTN Programme. The Note was priced at par with a coupon of 9,25%. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents.

53.5 Funding through the new series of TLTRO II

In March 2017 the Company has borrowed an additional amount of €230 million through the new series of TLTRO II, to be received on 29 March 2017.

Building a better working world

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
P.O.Box 21656
1511 Nicosia, Cyprus

Tel: +357 22209999
Fax: +357 22209998
ey.com/cy

Independent Auditor's Report

To the Members of Bank of Cyprus Public Company Ltd

Report on the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company the 'Group') on pages 16 to 184, which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. 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 3 "Going concern" to the consolidated financial statements which discusses management's assessment as to the ability of the Group to continue as a going concern and the fact that the Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the Liquidity Coverage Ratio (LCR), which indicates the existence of a material uncertainty of the Group's ability to continue as a going concern. Our opinion is not modified 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 consolidated financial statements of the current period. In addition to the matter described in the material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter included in Appendix A, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

The areas of highest risk to the audit and where we focused most effort and resources were:

- Impairment of customer loans and advances
- Recoverability of deferred tax assets
- Valuation of stock of property

The nature of Key Audit Matters and the procedures performed to support our discussions and conclusions are described in **Appendix A** of this report.

Other information included in the annual report

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. 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.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Company's Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group 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.

We also provide the Board of Directors through its Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated 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.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The consolidated financial statements are in agreement with the books of account.

- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
27 March 2017

APPENDIX A – Key Audit Matters

Impairment of customer loans and advances
Nature of the key audit matter
Provisions for credit losses is the area which involves the highest level of critical judgment. They are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for significant loans. The determination of the provision for loan losses requires the exercise of significant judgment and assumptions by management. We consider this as a key audit matter since this is an accounting estimate with high estimation uncertainty, the balances of the provisions are material and the nature of the calculation is subjective. The Group disclosures regarding provisions for credit losses are included in notes 5.1, 16 and 43 to the consolidated financial statements.
How our audit addressed the key audit matter
Among others, we have performed the following procedures: ‣ We assessed and tested the design and operating effectiveness of the controls over impairment provisions data and calculations. These controls included those over the identification of which loans and advances were impaired, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of the impairment provisions. In addition, we tested IT controls for systems used for impairment calculation. We determined that we could rely on these controls for the purposes of our audit. ‣ We obtained an understanding of the estimation process for the provisions for credit losses. ‣ For collective impairment provisions the appropriateness of the methodology was independently assessed by reference to IFRS and market practices and model calculations were tested through re-performance. The underlying logic of data preparation, transformation and related formulas for computing collective provisions was assessed via a source code review of the related IT components involved. ‣ The appropriateness of management's judgements was also independently considered in respect of segmentation, economic factors and judgemental overlays and the valuation of recovering the collateral. ‣ For individual impairment provisions, the appropriateness of provisioning was independently assessed for a sample of loans selected on the basis of risk. ‣ We engaged specialists to review the model developed by the Group for forecasting future property prices movement over the period of realization of collateral. ‣ We performed data integrity validation checks to ensure that the inputs used by the Group in the calculation of provisions are correct.

Recoverability of deferred tax assets
Nature of the key audit matter
The Group has recognized deferred tax assets in respect of tax losses that may be carried forward to future years. The recoverability of the deferred tax assets requires management's estimation on the future profitability of the Group so as to assess whether sufficient taxable profits will be generated against which the tax losses carried forward (which is the largest part of the deferred tax assets recognized by the Group) may be utilized. For this assessment, management prepares a forecast for the following years and this forecast is a result of management's best estimates and expectations regarding the Group's future performance. The estimation of future taxable profits is inherently judgmental, particularly when this extends beyond the normal planning cycle. We consider this as a key audit matter due to the materiality of the balances and the subjective nature of the calculation. The Group disclosures regarding the deferred tax assets are included in notes 5.7 and 17 to the consolidated financial statements.
How our audit addressed the key audit matter
Among others, we have performed the following procedures: ‣ We updated our understanding of the process for evaluating the recoverability of the deferred tax assets. The main management controls are review type controls. ‣ In order to obtain sufficient audit evidence that it was probable that sufficient taxable profits would exist to utilize the deferred tax assets, we tested the supporting calculations based on the Group's 3 year plan which formed the basis of the projections until 2028 (expiry date of the majority of the tax losses) and the tax rates applied. ‣ The basis for management's assessment of recoverability including the profit projections and underlying assumptions and the calculations performed to arrive at taxable profits from these projections, was challenged using our knowledge of the business, future strategy and past performance. We utilized the services of valuation specialists to assist in performing our substantive audit procedures related to the Group's recoverability exercise. The specialists were involved in the review of key assumptions used in the valuation. ‣ The range of reasonably possible alternative outcomes was assessed ‣ The completeness and accuracy of the disclosures was also assessed.

Valuation of stock of property
Nature of the key audit matter
The Group has acquired a significant number of properties over the last couple of years as a result of restructuring agreements with clients. These properties are classified by the Group as stock of property in accordance with IAS 2. Given the large increase in the number of properties acquired and the high estimation uncertainty in the property valuation to determine the net realizable value, especially taking into account the current liquidity of the property market in Cyprus, we consider this a key audit matter. The Group disclosures regarding stock of property are included in notes 5.10 and 27 to the consolidated financial statements.
How our audit addressed the key audit matter
Among others, we have performed the following procedures: ‣ We obtained an understanding of the valuation process of stock of property. ‣ We assessed and tested the design and operating effectiveness of the controls over the valuation process of stock of property. ‣ For a sample of properties, we obtained the valuation reports received by the Group from independent valuers and ensured that the fair value used in the calculation of the net realizable value ("NRV") is in accordance with these valuations. ‣ We obtained from the Group the comparison of the cost with the NRV and ensured that the lower of the two was recorded as the value of the stock of property as at the reporting date. ‣ We assessed the reasonableness of the selling costs incorporated in the Group's calculation of the NRV. ‣ We assessed the reasonableness of the external valuers' assumptions used in the valuations by utilizing the services of an independent valuation specialist. ‣ We performed substantive analytical review procedures.

Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Financial Statements

We, the members of the Board of Directors and the Company officials responsible for the drafting of the financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the year ended 31 December 2016, the names of which are listed below, confirm that, to the best of our knowledge:

(a) the Company's financial statements on pages 194 to 318:

(i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law,

(ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the financial statements taken as a whole, and

(b) the Management Report provides a fair review of the developments and performance of the business and the position of the Company and the undertakings included in the financial statements taken as a whole, together with a description of the principal risks and uncertainties that they face.

Prof. Dr. Josef Ackermann	Chairman
Maksim Goldman	Vice Chairman
Arne Berggren	Non-executive Director
Lyn Grobler	Non-executive Director
Dr. Michael Heger	Non-executive Director
Marios Kalochoritis	Non-executive Director
Michalis Spanos	Non-executive Director
Ioannis Zographakis	Non-executive Director
John Patrick Hourican	Executive Director
Dr. Christodoulos Patsalides	Executive Director
Eliza Livadiotou	Finance Director

27 March 2017

FINANCIAL STATEMENTS

Income Statement

for the year ended 31 December 2016

	Notes	2016	2015
		€000	€000
Turnover		**1.181.934**	1.231.142
Interest income	6	**851.416**	1.084.545
Interest expense	7	**(189.065)**	(269.123)
Net interest income		**662.351**	815.422
Fee and commission income	8	**157.841**	145.279
Fee and commission expense	8	**(9.793)**	(8.460)
Net foreign exchange gains	9	**81.177**	11.571
Dividend income from subsidiaries and associates	22	**107.856**	33.542
Net gains on financial instrument transactions and dissolution/disposal of subsidiaries	10	**34.802**	24.166
Gains/(losses) from revaluation and disposal of investment properties	20	**3.987**	(35.550)
Gains on disposal of stock of property		**399**	-
Other income	11	**7.097**	11.146
		1.045.717	997.116
Staff costs	12	**(250.411)**	(202.379)
Other operating expenses	13	**(184.330)**	(194.088)
		610.976	600.649
Gain on derecognition of loans and advances to customers and changes in expected cash flows	14	**63.315**	305.089
Provisions for impairment of loans and advances to customers and other customer credit losses	14	**(423.626)**	(1.229.627)
Impairment of other financial instruments	14	**(45.965)**	(69.041)
Impairment of non-financial instruments	14	**(36.543)**	(40.452)
Profit/(loss) before tax		**168.157**	(433.382)
Income tax	15	**(9.899)**	(4.272)
Profit/(loss) for the year		**158.258**	(437.654)

Basic and diluted earnings/(losses) per share (cent)	16	**1,8**	(4,9)

Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016	2015
		€000	€000
Profit / (loss) for the year		**158.258**	(437.654)
Other comprehensive income (OCI)			
OCI to be reclassified in the income statement in subsequent periods			
Foreign currency translation reserve			
(Loss)/profit on translation of net investments in foreign branches		**(1.412)**	41
Available-for-sale investments			
Net gains from fair value changes before tax		**1.033**	33.342
Transfer to the income statement on impairment		**336**	1.515
Transfer to the income statement on sale		**(28.467)**	(1.846)
		(27.098)	33.011
		(28.510)	33.052
OCI not to be reclassified in the income statement in subsequent periods			
Property revaluation			
Fair value loss before tax	24	**-**	(6.072)
Tax	15	**(61)**	4.038
		(61)	(2.034)
Actuarial (losses) / gains on the defined benefit plans			
Remeasurement (losses)/gains on defined benefit plans	12	**(13.582)**	695
		(13.643)	(1.339)
Other comprehensive (loss) / income after tax		**(42.153)**	31.713
Total comprehensive income / (loss) for the year		**116.105**	(405.941)

Balance Sheet

as at 31 December 2016

Assets	Notes	**2016**	2015
		€000	€000
Cash and balances with central banks	17	**1.267.353**	1.111.354
Loans and advances to banks	17	**984.876**	1.112.337
Derivative financial assets	19	**20.834**	14.022
Investments	18	**333.270**	512.631
Investments pledged as collateral	18	**299.765**	421.032
Loans and advances to customers	21	**14.352.560**	16.005.878
Balances with Group companies	22	**1.364.982**	735.579
Prepayments, accrued income and other assets	27	**153.335**	167.486
Stock of property	26	**494.998**	276.095
Investment properties	20	**11.625**	11.688
Property and equipment	24	**199.888**	198.227
Intangible assets	25	**17.681**	14.773
Investments in associates	23	**97.293**	97.293
Investments in subsidiaries	46	**198.708**	207.781
Deferred tax assets	15	**450.350**	456.479
Non-current assets held for sale	28	**346**	9.767
Total assets		**20.247.864**	21.352.422
Liabilities			
Deposits by banks		**427.737**	237.860
Funding from central banks	29	**850.014**	4.452.850
Repurchase agreements		**257.367**	368.151
Derivative financial liabilities	19	**48.840**	54.408
Customer deposits	30	**15.045.090**	12.694.130
Balances with Group companies	22	**502.645**	568.486
Accruals, deferred income and other liabilities	31	**256.660**	233.084
Debt securities in issue		**-**	712
Deferred tax liabilities	15	**20.533**	19.868
Total liabilities		**17.408.886**	18.629.549
Equity			
Share capital	32	**892.294**	892.294
Share premium	32	**551.368**	551.368
Capital reduction reserve	32	**1.952.486**	1.952.486
Revaluation and other reserves		**76.430**	76.462
Accumulated losses	34	**(633.600)**	(749.737)
Total equity		**2.838.978**	2.722.873
Total liabilities and equity		**20.247.864**	21.352.422

Prof. Dr. J. Ackermann Chairman

Mr. J. P. Hourican Chief Executive Officer

Mr. I. Zographakis Director

Mrs. E. Livadiotou Finance Director

Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital (Note 32)	Share premium (Note 32)	Capital reduction reserve (Note 32)	Treasury shares (Note 32)	Accumulated losses (Note 34)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Foreign currency translation reserve	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
1 January 2016	**892.294**	**551.368**	**1.952.486**	**(36.849)**	**(749.737)**	**72.503**	**32.734**	**6.059**	**2.015**	**2.722.873**
Profit for the year	-	-	-	-	158.258	-	-	-	-	**158.258**
Other comprehensive loss after tax for the year	-	-	-	-	(13.582)	(61)	(27.098)	-	(1.412)	**(42.153)**
Total comprehensive income/(loss) for the year	-	-	-	-	144.676	(61)	(27.098)	-	(1.412)	**116.105**
Disposals of treasury shares	-	-	-	36.849	(36.849)	-	-	-	-	**-**
Transfer of realised profits on disposal of properties	-	-	-	-	8.310	(8.310)	-	-	-	**-**
31 December 2016	**892.294**	**551.368**	**1.952.486**	**-**	**(633.600)**	**64.132**	**5.636**	**6.059**	**603**	**2.838.978**

Statement of Changes in Equity

for the year ended 31 December 2016

	Share capital (Note 32)	Share premium (Note 32)	Capital reduction reserve (Note 32)	Shares subject to interim orders	Treasury shares (Note 32)	Accumulated losses (Note 34)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Foreign currency translation reserve	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
1 January 2015	**892.238**	**551.289**	**1.952.486**	**441**	**(65.499)**	**(273.281)**	**74.537**	**(277)**	**6.059**	**(9.314)**	**3.128.679**
Loss for the year	-	-	-	-	-	(437.654)	-	-	-	-	**(437.654)**
Other comprehensive income/(loss) after tax for the year	-	-	-	-	-	695	(2.034)	33.011	-	41	**31.713**
Total comprehensive (loss)/income for the year	-	-	-	-	-	(436.959)	(2.034)	33.011	-	41	**(405.941)**
Issue of shares	56	79	-	-	-	-	-	-	-	-	**135**
Disposals of treasury shares	-	-	-	(441)	28.650	(28.209)	-	-	-	-	**-**
Transfers between reserves	-	-	-	-	-	(11.288)	-	-	-	11.288	**-**
31 December 2015	**892.294**	**551.368**	**1.952.486**	**-**	**(36.849)**	**(749.737)**	**72.503**	**32.734**	**6.059**	**2.015**	**2.722.873**

Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016	2015
		€000	€000
Net cash flow from operating activities	37	**3.268.849**	2.605.260
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(203.246)**	(5.549)
Proceeds on disposal/redemption of investments:			
- debt securities		**455.907**	1.536.815
- equity securities		**33.782**	5.588
Interest received from debt securities		**27.845**	14.637
Dividend income received		**109.891**	25.674
Cash consideration paid for acquisition/increase in holding of subsidiaries		**(4.288)**	(3.000)
Amounts paid on disposal of subsidiaries and operations		**-**	(3.445)
Proceeds from the reduction of share capital of subsidiary		**1.799**	-
Proceeds on disposal of joint ventures		**-**	89.011
Purchases of property and equipment	24	**(8.961)**	(5.635)
Proceeds on disposals of property and equipment and intangible assets		**165**	147
Purchases of intangible assets	25	**(9.486)**	(7.424)
Proceeds on disposal of investment properties and investment properties held for sale		**12.550**	12.794
Net cash flow from investing activities		**415.958**	1.659.613
Cash flows from financing activities			
Proceeds from the issue of shares		**-**	135
Net repayment of funding from central banks		**(3.602.836)**	(3.830.923)
Redemption of debt securities in issue		**(712)**	-
Interest on funding from central banks		**(29.656)**	(78.187)
Net cash flow used in financing activities		**(3.633.204)**	(3.908.975)
Net increase in cash and cash equivalents for the year		**51.603**	355.898
Cash and cash equivalents			
1 January		**1.843.493**	1.486.608
Foreign exchange adjustments		**(441)**	987
Net increase in cash and cash equivalents for the year		**51.603**	355.898
31 December	38	**1.894.655**	1.843.493

Details on the non-cash transactions are presented in Note 37.

1. Corporate information

Bank of Cyprus Public Company Ltd (the Company) was the holding company of the Bank of Cyprus Group (the Group) during 2016 and as at the balance sheet date. The principal activities of the Company during the year continued to be the provision of banking, financial services and management and disposal of property generally acquired in debt satisfaction.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. As at the balance sheet date the Company had a primary listing on the Cyprus Stock Exchange (CSE) and a secondary listing on the Athens Exchange (ATHEX). Its shares were suspended from trading on the CSE and ATHEX with effect from and including 10 January 2017 and were subsequently cancelled pursuant to a Scheme of Arrangement that became effective on 18 January 2017. On the same date Bank of Cyprus Holdings Public Limited Company became the sole shareholder of the Company, and on 19 January 2017 Bank of Cyprus Holdings Public Limited Company was admitted to listing and trading on the London Stock Exchange (LSE) and the CSE. Further information is disclosed in Note 48.1. The Company remains a public company for the purposes of the Cyprus Income Tax Laws.

The financial statements are available at the Bank of Cyprus Public Company Ltd Registered Office (51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations).

Financial statements
The financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2016 were authorised for issue by a resolution of the Board of Directors on 27 March 2017.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

The Company presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 40.

These are the financial statements of the holding company Bank of Cyprus Public Company Ltd and include branches of the Company in Greece and Romania.

Statement of compliance
The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in preparing the financial statements of the Company are consistent with those adopted in preparing the consolidated financial statements of the Group, a summary of which is presented in Note 2 of the consolidated financial statements of the Group for the year ended 31 December 2016.

In addition the following policies are adopted:

2. Summary of significant accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

Investments in subsidiaries, associates and joint ventures
Investments in subsidiaries, associates and joint ventures are measured at cost less impairment.

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 of the consolidated financial statements of the Group for the year ended 31 December 2016.

3. Going concern

Management has made an assessment of the Company's and the Group's ability to continue as a going concern.

The conditions that existed during 2016 and the developments up to the date of approval of these financial statements that have been considered in management's going concern assessment include, amongst others, the operating environment in Cyprus and of the Company (Note 4).

Management believes that the Group and the Company are taking all necessary measures to maintain their viability and the development of their 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, as disclosed in Notes 4.2.3 and 43, the Company is currently not in compliance with its liquidity regulatory requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the Liquidity Coverage Ratio (LCR), which can be considered as a material uncertainty as to its ability to continue as a going concern.

- The Group's Common Equity Tier 1 (CET1) ratio at 31 December 2016 stands at 14,5% (transitional) and the total capital at 14,6%, higher than the minimum required ratios (Note 4.2.1).
- The improving funding structure of the Group as a result of the continuing positive customer flows in Cyprus.
- The increase in Group customer deposits by €2.329 million during 2016. Group's customer deposits stood at €16.510 million at 31 December 2016.
- The 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 (Note 4.2.3).
- The improved ratings of both the Company (Fitch Ratings upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit 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).
- The Company has returned to the debt capital markets in January 2017 with the issue of unsecured and subordinated Tier 2 (Capital Note of €250 million).

4. Operating environment

4.1 Cyprus

Cyprus exited its economic adjustment programme at the end of March 2016 after a successful return to markets and having utilised only about 70% of the €10 billion funding resources made available by the European Union (EU) and the International Monetary Fund (IMF). Based on the Ministry of Finance Stability Programme 2016-2019 (May 2016), in the area of public finances, the government carried out a strong fiscal adjustment and the budget returned to near balance, public spending was reduced and tax collection was made more efficient.

Unemployment dropped to 13,3% during 2016 compared to an average unemployment rate of 14,9% for 2015 as a whole and a peak of 16,5% in the fourth quarter of 2014 as per the Cyprus Statistical Service.

Real GDP rose by 2,8% in 2016 according to the Cyprus Statistical Service, compared to an increase of 1,7% during 2015.

Consumer prices continued to decline for the fourth consecutive year, down by 1,4% in 2016, as per the Cyprus Statistical Service.

Tourist arrivals increased by 19,8% during 2016. The index of industrial production increased by 8,7% in 2016. In real gross value added terms, industrial output in 2016 increased by 5,9% in the first three quarters of 2016 after an increase of 2,9% in 2015 as per data by the Cyprus Statistical Service.

In the property market, the Central Bank's residential property price index continued to decline year-on-year but at a slowing pace. The index dropped by 1,3% in the third quarter of 2016 after dropping by 1,7% and 1,6% in the second and first quarter respectively.

Downside risks to the growth projections are associated with high levels of non-performing loans, loss of momentum in structural reforms with associated risks for public finances, and a return of inflation. Downside risks may also be associated with a deterioration of the external environment for Cyprus. These would involve slower growth in the UK with a weakening of the pound following the Brexit referendum. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Upside risks to the outlook relate to a possible better growth performance in the EU and stronger investment spending as property prices are stabilising and various projects especially in tourism are implemented.

The international credit rating agencies have upgraded the rating of the country. Fitch Ratings upgraded the rating of the Republic of Cyprus 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.

In July 2016 the Cyprus government accessed international capital markets for the third time since the start of the economic adjustment programme to date, issuing a seven year Eurobond of €1 billion at a yield of 3,8%.

4. Operating environment (continued)

4.2 The Company

4.2.1 Regulatory capital ratios

The CET1 ratio of the Group at 31 December 2016 stands at 14,5% (transitional) and the total capital 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) and based on the Supervisory Review and Evaluation Process (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.

4.2.2 Asset quality

The Group's loans that are individually impaired or past due for more than 90 days (90+ DPD) have decreased by 27% during 2016 and totalled €8.309 million at 31 December 2016, representing 41% of gross loans before fair value adjustment on initial recognition (Note 43 in the consolidated financial statements). The provisioning coverage ratio improved to 54% at 31 December 2016 compared to 48% at 31 December 2015. The Group non-performing exposures (NPEs), as defined by the European Banking Authority (EBA), totalled €11.034 million at 31 December 2016 and accounted for 55% of gross loans. The provisioning coverage ratio of NPEs totalled 41% at 31 December 2016 compared to 39% at 31 December 2015.

The Group addresses the asset quality challenge through the operation of the Restructuring and Recoveries Division which is actively seeking to find innovative solutions to manage distressed exposures. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. 90+ DPD have decreased by 36% since their peak of €13.003 million as at 31 December 2013. NPEs have decreased by 27% since their peak of €15.175 million as at 31 December 2013.

4.2.3 Liquidity

The funding position of the Company continues to improve with customer deposits increasing by €2.351 million or 19% in the year ended 31 December 2016.

Customer deposits in Cyprus reached €15.043 million at 31 December 2016 compared to €12.691 million at 31 December 2015. Customer deposits stood at 74% of total assets as at 31 December 2016 (compared to 60% at 31 December 2015). The net loans to deposit ratio of the Company stood at 95% as at 31 December 2016 (compared to 126% at 31 December 2015).

4. Operating environment (continued)

4.2 The Company (continued)

4.2.3 Liquidity (continued)

The level of ELA funding at 31 December 2016 amounted to €200 million (Note 29), down from €3,8 billion at 31 December 2015 and its peak level of €11,4 billion in April 2013. ELA was fully repaid on 5 January 2017. ELA is available to solvent Euro area credit institutions and although the Company has received no specific assurance, management expects that the Company will continue to have access to the central bank liquidity facilities, in line with applicable rules if it were to face a 'stress event' that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Company would seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

It is noted that the Group's Restructuring Plan approved in 2013 by the Central Bank of Cyprus (CBC) included ELA funding throughout the Restructuring Plan period (2013-2017).

The 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.

The credit ratings of the Republic of Cyprus by the main credit rating agencies albeit improving continue to be below investment grade. As a result, the ECB is not able to include Cyprus Government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed.

In January 2017 the Company issued €250 million unsecured and subordinated Tier 2 Capital Note under the Company's EMTN Programme. The note was priced at par, with a coupon of 9,25% (Note 48.4).

The Company is currently not in compliance with the regulatory liquidity requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the LCR and is therefore dependent on continuing regulatory forbearance. Additional information on liquidity and details on certain liquidity ratios are disclosed in Note 43.

4.2.4 Pending litigation, claims and regulatory matters

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

Despite the novelty of many of the claims such as the bail-in depositors and the absorption of losses by the holders of equity and debt instruments of the Company and the uncertainties inherent in a unique situation, based on the information available at present and on the basis of the law as it currently stands, management considers that the said claims as well as other pending litigation, claims and regulatory matters are unlikely to have a material adverse impact on the financial position and capital adequacy of the Company (Note 36).

5. Significant judgements, estimates and assumptions

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

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

5. Significant judgements, estimates and assumptions (continued)

5.1 Provision for impairment of loans and advances to customers

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

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

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

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

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases for which, based on specific facts and circumstances, a different period has been used and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero. The average liquidity haircut and selling expenses used in the provisions calculation is 10% of the current market value of the property for those collaterals for which the increase in their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop.

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

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

5. Significant judgements, estimates and assumptions (continued)

5.1 Provision for impairment of loans and advances to customers (continued)

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

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

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

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

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

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

5. Significant judgements, estimates and assumptions (continued)

5.1 Provision for impairment of loans and advances to customers (continued)

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

Further details on impairment allowances and related credit information are set out in Note 41.

5.2 Fair value of investments and derivatives

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

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

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

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

Further details on the fair value of assets and liabilities are disclosed in Note 20.

5.3 Impairment of available-for-sale investments

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

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

Further details on impairment of available-for-sale investments are presented in Notes 14 and 18.

5. Significant judgements, estimates and assumptions (continued)

5.4 Retirement benefits

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

Further details on retirement benefits are disclosed in Note 12.

5.5 Tax

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

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

The assumptions with greater influence on deferred tax are disclosed in Note 15.

5.6 Classification of properties

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

- Investment properties comprise land and buildings that are not occupied for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.
- Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013. The Company has set up the 'Real Estate Management Unit (REMU) in late 2015, to manage these assets (including selective investments and development) and to execute exit strategies in order to monetise these assets.

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

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

5. Significant judgements, estimates and assumptions (continued)

5.7 Fair value of properties held for own use and investment properties (continued)

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

Further information on inputs used is disclosed in Note 20.

5.8 Stock of property – estimation of net realisable value

Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined with reference to the fair value of properties adjusted for any impact of specific circumstances on the sale process of each property. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainly due to the relatively low level of market activity.

More details on the stock of property are presented in Note 26.

5.9 Provisions

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

For a detailed description of the nature of uncertainties and assumptions and the effect on the amount and timing of pending litigation, claims and regulatory matters refer to Note 36.

6. Interest income

	2016	2015
	€000	€000
Loans and advances to customers	**815.670**	967.081
Loans and advances to banks and central banks	**7.580**	9.445
Investments available-for-sale	**10.749**	13.494
Investments classified as loans and receivables	**11.209**	88.455
	845.208	1.078.475
Derivative financial instruments	**5.571**	5.331
Other investments at fair value through profit or loss	**637**	739
	851.416	1.084.545

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances as defined in Note 41 amounting to €201.604 thousand (2015: €215.145 thousand).

7. Interest expense

	2016	2015
	€000	€000
Customer deposits	**124.319**	140.724
Funding from central banks and deposits by banks	**40.812**	99.041
Repurchase agreements	**6.476**	7.583
	171.607	247.348
Derivative financial instruments	**17.458**	21.775
	189.065	269.123

8. Fee and commission income and expense

Fee and commission income

	2016	2015
	€000	€000
Credit-related fees and commissions	**82.193**	82.133
Other banking commissions	**72.976**	61.487
Mutual funds and asset management fees	**1.882**	1.534
Other commissions	**790**	125
	157.841	145.279

Mutual funds and asset management fees include income of €1.820 thousand (2015: €1.534 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

	2016	2015
	€000	€000
Banking commissions	**9.591**	8.276
Mutual funds and asset management fees	**202**	184
	9.793	8.460

9. Net foreign exchange gains

Net foreign exchange gains comprise the conversion of monetary assets in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluation of foreign exchange derivatives.

10. Net gains on financial instrument transactions and dissolution/disposal of subsidiaries

	2016	2015
	€000	€000
Trading portfolio:		
- equity securities	**(472)**	179
- debt securities	**3**	14
- derivative financial instruments	**910**	(13.257)
Other investments at fair value through profit or loss:		
- debt securities	**(400)**	464
Net gains/(losses) on disposal of available-for-sale investments:		
- equity securities	**37.013**	1.060
- debt securities	**-**	(11)
Net gains on disposal/repayment of loans and receivables:		
- debt securities	**8.419**	49.513
Realised gains on disposal of loans	**64**	35
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	**4.017**	9.354
- hedged items	**(4.033)**	(11.099)
Loss on dissolution/disposal of subsidiaries	**(10.719)**	(25.612)
Gain on disposal of joint ventures	**-**	13.526
	34.802	24.166

The gains on disposal of available-for-sale equity securities for 2016, primarily relate to gain on sale of shares held in Visa Europe Limited following the approved purchase of Visa Europe Limited by Visa Inc.

The gains on disposal of debt securities classified as loans and receivables for 2016, related to the Company's participation in the Cyprus Government buyback process of Cyprus government bonds.

The loss on dissolution of subsidiaries in 2016, relates to loss incurred from the closure of the operations of Bank of Cyprus (Channel Islands) Ltd, which is in the process of liquidation.

In the comparative period, the gain on disposal of joint ventures mainly related to the disposal of Marfin Diversified Strategy Fund Plc (MDSF) in April 2015.

The loss on disposal of subsidiaries in 2015, relates to the loss on disposal of the Company's subsidiaries in relation to Russian operations disposed of (Note 47.3.1) and profit on disposal of Aphrodite group (Note 47.3.2).

11. Other income

	2016	2015
	€000	€000
Dividend income – third parties	217	571
Loss on sale and write-off of property and equipment and intangible assets	(54)	(41)
Rental income from investment properties	1.302	595
Rental income from stock of property	1.460	-
Other income	4.172	10.021
	7.097	11.146

12. Staff costs

	2016	2015
	€000	€000
Salaries	153.998	159.769
Employer's contributions to state social insurance	23.811	25.432
Retirement benefit plan costs	13.682	17.178
	191.491	202.379
Restructuring costs – voluntary exit plans	58.920	-
	250.411	202.379

The number of persons employed by the Company as at 31 December 2016 was 3.662 (2015: 4.045). In February and June 2016 the Company proceeded with voluntary exit plans for its employees in Cyprus, the cost of which is included in staff costs and amounted to €58.920 thousand. In total, 405 employees accepted the voluntary exit plan and left the Company during the year.

Retirement benefit plan costs

In addition to the employer's contributions to state social insurance, the Company operates plans for the provision of additional retirement benefits as described below:

	2016	2015
	€000	€000
Defined benefit plans	121	91
Defined contribution plans	13.561	17.087
	13.682	17.178

Cyprus
The main retirement plan for the Company's permanent employees in Cyprus (99% of total Company employees) is a defined contribution plan. This plan provides for employer contributions of 9% (2015: 14% up until 31 May 2015 and 9% thereafter) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

A small number of employees who do not participate in the main retirement plan, are members of a pension scheme that is closed to new entrants and may receive part or all of their retirement benefit entitlement by way of a pension for life. This plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Greece
After the disposal of the Greek operations in 2013, a small number of employees of the Company's Greek branch continue to be members of the defined benefit plans.

United Kingdom
The Company has assumed in prior years the obligation of the defined benefit plan of its employees in the United Kingdom which was closed in December 2008 to future accrual of benefits for active members.

Romania
The Company does not operate any retirement benefit plans in Romania.

Analysis of the results of the actuarial valuations for the defined benefit plans

Amounts recognised in the balance sheet	**2016**	2015
	€000	€000
Liabilities (Note 31)	**22.743**	12.559
Assets (Note 27)	**-**	(20)
	22.743	12.539

One of the plans has a funded status surplus of €14.000 thousand (2015: €15.065 thousand) that is not recognised as an asset on the basis that the Company has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the years are presented below:

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement / asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2016	82.653	(85.179)	(2.526)	15.065	**12.539**
Current service cost	20	-	20	-	**20**
Loss on curtailment and settlement	51	-	51	-	**51**
Net interest expense/(income)	2.674	(2.624)	50	-	**50**
Total amount recognised in the income statement	2.745	(2.624)	121	-	**121**
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	(6.407)	(6.407)	-	**(6.407)**
- Actuarial loss from changes in financial assumptions	21.063	-	21.063	-	**21.063**
- Experience adjustments	(9)	-	(9)	-	**(9)**
- Change in asset ceiling	-	-	-	(1.065)	**(1.065)**
Total amount recognised in the OCI	21.054	(6.407)	14.647	(1.065)	**13.582**
Exchange differences	(9.706)	8.027	(1.679)	-	**(1.679)**
Contributions:					
- Employer	-	(1.771)	(1.771)	-	**(1.771)**
Benefits paid from the plans	(4.553)	4.553	-	-	-
Benefits paid directly by the employer	(49)	-	(49)	-	**(49)**
31 December 2016	**92.144**	**(83.401)**	**8.743**	**14.000**	**22.743**

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement / asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2015	84.508	(82.740)	1.768	13.921	**15.689**
Current service cost	22	-	22	-	**22**
Gains on curtailment and settlement	(190)	-	(190)	-	**(190)**
Net interest expense/(income)	2.905	(2.646)	259	-	**259**
Total amount recognised in the income statement	2.737	(2.646)	91	-	**91**
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	2.292	2.292	-	**2.292**
- Actuarial gain from changes in financial assumptions	(3.600)	-	(3.600)	-	**(3.600)**
- Experience adjustments	(531)	-	(531)	-	**(531)**
- Change in asset ceiling	-	-	-	1.144	**1.144**
Total amount recognised in the OCI	(4.131)	2.292	(1.839)	1.144	**(695)**
Exchange differences	3.988	(3.037)	951	-	**951**
Contributions:					
- Employer	-	(3.497)	(3.497)	-	**(3.497)**
Benefits paid from the plans	(4.449)	4.449	-	-	**-**
31 December 2015	**82.653**	**(85.179)**	**(2.526)**	**15.065**	**12.539**

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Analysis of the results of the actuarial valuations for the defined benefit plans (continued)
The actual return on plan assets for year 2016 was a gain of €9.031 thousand (2015: gain of €354 thousand).

The assets of funded plans are generally held in separately administered entities, either as specific assets or as a proportion of a general fund, or as insurance contracts and are governed by local regulations and practice in each country.

Pension plan assets are invested in different asset classes in order to maintain a balance between risk and return. Investments are well diversified to limit the financial effect of the failure of any individual investment. Through its defined benefit plans, the Company is exposed to a number of risks as outlined below:

Interest rate risk	The Company is exposed to interest rate risk due to the mismatch of the duration of assets and liabilities.
Changes in bond yields	A decrease in corporate bond yields will increase the liabilities, although this will be partially offset by an increase in the value of bond holdings.
Inflation risk	The Company faces inflation risk, since the liabilities are either directly (through increases in pensions) or indirectly (through wage increases) exposed to inflation risks. Investments to ensure inflation-linked returns (i.e. real returns through investments such as equities, index-linked bonds and assets whose return increase with increasing inflation) could be used for better match with the expected increases in liabilities.
Asset volatility	The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, a deficit will be created.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2016	2015
Equity securities	**46%**	42%
Debt securities	**44%**	46%
Loans and advances to banks	**10%**	12%
	100%	100%

The assets held by the funded plans include equity securities issued by the Company, the fair value of which is as at 31 December 2016 €2.276 thousand (2015: €2.407 thousand).

The Company expects to make contributions to defined benefit plans of €1.691 thousand during 2017.

At the end of the reporting period, the average duration of the defined benefit obligation was 18,8 years.

12. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations

The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Company during 2016 and 2015 are set out below:

2016	**Cyprus**	**Greece**	**UK**
Discount rate	1,56%	1,50%	2,70%
Inflation rate	1,75%	1,75%	3,30%
Future salary increases	2,00%	2,00%	n/a
Rate of pension increase	2,00%	n/a	3,15%
Life expectancy for pensioners at age 60	23,5 years M 29,6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23,9 years M 25,4 years F

2015			
Discount rate	2,32%	2,30%-2,80%	3,90%
Inflation rate	1,75%	1,75%	3,10%
Future salary increases	0% for 2016 and 2% thereafter	0% for 2016 and 2% thereafter	n/a
Rate of pension increase	0% for 2016 and 2% thereafter	n/a	3,05%
Life expectancy for pensioners at age 60	23,5 years M 29,6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23,9 years M 25,4 years F

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Company's plans in the Eurozone (Cyprus and Greece) which comprise 15% of the defined benefit obligations, the Company adopted a full yield curve approach using AA- rated corporate bond data from the iBoxx Euro Corporates AA10+ index. For the Company's plan in the UK which comprises 85% of the defined benefit obligations, the Company adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

To develop the assumptions relating to the expected rates of return on plan assets, the Company, in consultation with its actuaries, uses forward-looking assumptions for each asset class reflecting market conditions and future expectations at the reporting date. Adjustments are made annually to the expected rate of return assumption based on revised expectations of future investment performance of asset classes, changes to local legislation that may affect investment strategy, as well as changes to the target strategic asset allocation.

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 and 2015 is presented below:

12. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

Variable	**2016**		2015	
	Change +0,5%	**Change -0,5%**	Change +0,5%	Change -0,5%
Discount rate	**-10,4%**	**11,3%**	-9,1%	9,7%
Inflation growth rate	**8,8%**	**-8,1%**	6,5%	-6,1%
Salary growth rate	**0%**	**0%**	0%	0%
Pension growth rate	**0,9%**	**-0,8%**	0,9%	-0,9%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**-1,5%**	**1,9%**	-1,4%	1,8%

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous years.

13. **Other operating expenses**

	2016	2015
	€000	€000
Repairs and maintenance of property and equipment	**15.711**	19.361
Other property-related costs	**12.990**	14.851
Operating lease rentals for property and equipment	**9.872**	10.199
Special levy on deposits of credit institutions in Cyprus	**19.968**	17.347
Consultancy and other professional services fees	**11.822**	14.643
Insurance	**10.451**	14.603
Advertising and marketing	**15.752**	11.778
Depreciation of property and equipment (Note 24)	**7.550**	8.237
Amortisation of intangible assets (Note 25)	**6.110**	5.756
Communication expenses	**6.860**	7.237
(Reversal of provisions)/provisions and settlements of litigations, claims and provisions for regulatory matters (Note 31)	**(2.936)**	7.316
Printing and stationery	**3.023**	3.445
Local cash transfer expenses	**2.848**	2.749
Other operating expenses	**17.659**	13.436
	137.680	150.958
Advisory and other restructuring costs	**46.650**	43.130
	184.330	194.088

13. **Other operating expenses** (continued)

Advisory and other restructuring costs comprise mainly: (a) fees of external advisors in relation to: (i) customer loan restructuring activities which are not part of the effective interest rate, (ii) the listing on the London Stock Exchange, (iii) disposal of operations and non-core assets and (b) litigation provisions related to the operations of Laiki Bank acquired in 2013.

Consultancy and other professional services fees and advisory and other restructuring costs include fees (including taxes) to the independent auditors of the Company, for audit and other professional services provided both in Cyprus and overseas, as follows:

	2016	2015
	€000	€000
Audit of the financial statements of the Company	**1.866**	1.173
Other audit-related services	**339**	424
Tax services	**404**	305
Services related to the listing on the London Stock Exchange	**4.879**	1.491
Other services	**1.027**	331
	8.515	3.724

14. **Impairment of financial and non-financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows**

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

Provisions net of reversals of provisions for impairment of loans and advances to customers and other customer credit losses		
Loans and advances to customers (Note 41)	**429.778**	1.271.030
Financial guarantees and commitments (Note 31)	**(6.152)**	(41.403)
	423.626	1.229.627

Impairment/(reversal of impairment) of other financial instruments		
Available-for-sale equity securities	**336**	1.291
Available-for-sale mutual funds	**56**	1.206
Loans and receivables debt securities	**-**	(169)
Impairment of balances with Group companies (Note 22)	**33.356**	27.039
Loans and advances to banks	**13.820**	19.604
Other receivables	**(1.603)**	20.070
	45.965	69.041

14. Impairment of financial and non-financial instruments and gain on derecognition of loans and advances to customers and changes in expected cash flows (continued)

Impairment of non-financial instruments	**2016**	2015
	€000	€000
Stock of property (Note 26)	**11.745**	9.709
Property held for own use (Note 24)	**-**	288
Investments in subsidiaries (Note 46)	**24.798**	30.455
	36.543	40.452

15. Income tax

	2016	2015
	€000	€000
Current tax:		
- Cyprus	**-**	1.565
Cyprus special defence contribution	**23**	11
Deferred tax	**6.733**	687
Prior years' tax adjustments	**1.943**	2.009
Other tax charges	**1.200**	-
	9.899	4.272

The reconciliation between the income tax expense and the profit/(loss) before tax as estimated using the current income tax rates is set out below:

	2016	2015
	€000	€000
Profit/(loss) before tax	**168.157**	(433.382)
Income tax at the normal tax rates in Cyprus	**21.044**	(54.162)
Income tax effect of:		
- expenses not deductible for income tax purposes	**12.582**	18.823
- income not subject to income tax	**(30.344)**	(15.177)
- differences between overseas income tax rates and Cyprus income tax rates	**(124)**	2.187
- reversal of previously recognised deferred tax	**3.598**	50.592
	6.756	2.263
Prior years' tax adjustments	**1.943**	2.009
Other tax charges	**1.200**	-
	9.899	4.272

The loss on disposal of the Russian subsidiaries and Aphrodite group in 2015 is included in 'Net gains on financial instrument transactions and dissolution/disposal of subsidiaries' and is partially income tax deductible (Note 10).

Income tax in Cyprus is calculated at the rate of 12,5% on taxable income (2015: 12,5%).

15. Income tax (continued)

Special defence contribution is payable on rental income at a rate of 3% (2015: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2015: 30%).

The Company's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2016 were: Greece 29% (2015: 29%) and Romania 16% (2015: 16%).

The Company is subject to income taxes in the various jurisdictions it operates and the calculation of the Company's income tax charge and provisions for income tax necessarily involves a degree of estimation and judgement. There are transactions and calculations for which the ultimate income tax treatment is uncertain and cannot be determined until resolution has been reached with the relevant tax authority. The Company has a number of open income tax returns with various income tax authorities and liabilities relating to these open and judgemental matters, which are based on estimates of whether additional income taxes will be due. In case the final income tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The accumulated income tax losses are presented in the table below:

2016	**Total income tax losses**	**Income tax losses for which a deferred tax asset was recognised**	**Income tax losses for which no deferred tax asset was recognised**
	€000	**€000**	**€000**
Expiring within 4 years	**4.611.469**	**266.800**	**4.344.669**
Expiring between 5 and 10 years	**16.306**	**-**	**16.306**
Expiring between 11 and 15 years	**7.378.801**	**3.336.000**	**4.042.801**
	12.006.576	**3.602.800**	**8.403.776**

2015			
Expiring within 4 years	4.293.207	295.584	3.997.623
Expiring between 5 and 10 years	400.992	-	400.992
Expiring between 11 and 15 years	7.378.801	3.336.000	4.042.801
	12.073.000	3.631.584	8.441.416

The majority of the deferred tax asset relates to the Laiki Bank income tax losses transferred to the Company as a result of the acquisition of certain operations on 29 March 2013. The income tax losses were transferred under 'The Resolution of Credit and Other Institutions Law' which states that any accumulated losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the Company's acquisition of certain operations of Laiki Bank, these losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of the Company by 2028 at an income tax rate of 12,5%.

Recognition of deferred tax assets on unutilised income tax losses is supported by management's business forecasts, taking into account available information and making various assumptions on future growth rates of customer loans, deposits, funding evolution, loan impairment and pricing, and considering the recoverability of the deferred tax assets within their expiry period.

15. Income tax (continued)

The Company performed its regular assessment regarding the recoverability of its deferred tax asset as at 31 December 2016, taking into account the actual results for the year ended 31 December 2016, the declining trend of loans that are impaired or past due for more than 90 days, the improved funding structure with the loans to deposits ratio of 95%, the significant inflow of deposits and the significant decrease of ELA funding.

The Company performed its assessment for the recoverability of its deferred tax asset as at 31 December 2016 taking into account the Company's actual performance, the key objectives of the Company's strategy as well as the macroeconomic environment in Cyprus, analytical financial projections up to the end of 2019 which had been also used to roll out assumptions thereafter until year 2028. The key assumptions, amongst others, include the following:

- New loan originations and repayments
- Loan and deposit interest income/expense evolution
- Funding structure and associated cost
- Diversified income streams
- Level of operating expenses
- Level of loans that are impaired or past due for more than 90 days (new defaults, curing, cost of risk)

The financial projections have taken into account the key objectives of the Company's strategy which are set out below:

- Materially reduce the level of delinquent loans
- Normalise the funding structure and fully repay the ELA in January 2017
- Focus on the core markets in Cyprus by providing credit to promising sectors and exit from non-core markets
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital through profitability, deleveraging and disposing of non-core assets
- Deliver value to shareholders and other stakeholders

Based on the above, management has concluded that the deferred tax asset of €450.350 thousand for the Company as at 31 December 2016 is recoverable.

The tax losses of prior years utilised during 2016 amount to €28.784 thousand (2015: nil).

The income tax losses relate to the same jurisdiction to which the deferred tax asset relates.

Deferred tax

The net deferred tax assets arises from:

	2016	2015
	€000	€000
Difference between capital allowances and depreciation	**7.122**	6.518
Property revaluation	**13.411**	13.350
Unutilised income tax losses carried forward	**(450.350)**	(453.948)
Other temporary differences	**-**	(2.531)
Net deferred tax assets	**(429.817)**	(436.611)

Deferred tax assets	**(450.350)**	(456.479)
Deferred tax liabilities	**20.533**	19.868
Net deferred tax assets	**(429.817)**	(436.611)

The deferred tax assets relate to operations in Cyprus.

15. **Income tax** (continued)

Deferred tax (continued)

The movement of the net deferred tax assets is set out below:

	2016	2015
	€000	€000
1 January	**(436.611)**	(433.260)
Deferred tax recognised in the income statement	**6.733**	687
Deferred tax recognised in the statement of comprehensive income	**61**	(4.038)
31 December	**(429.817)**	(436.611)

The Company offsets income tax assets and liabilities if and only if, it has a legally enforceable right to set off current income tax assets and current income tax liabilities.

The analysis of the net deferred tax expense recognised in the income statement is set out below:

	2016	2015
	€000	€000
Difference between capital allowances and depreciation	**604**	687
Unutilised income tax losses carried forward	**3.598**	-
Other temporary differences	**2.531**	-
	6.733	687

The analysis of the net deferred tax recognised in the statement of comprehensive income is set out below:

	2016	2015
	€000	€000
Timing differences on property revaluation - expense/(income)	**61**	(4.038)

16. Earnings per share

	2016	2015
	€000	€000
Basic and diluted earnings/(losses) per share		
Profit/(loss) for the year (€ thousand)	**158.258**	(437.654)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8.922.945**	8.922.923
Basic and diluted earnings/(losses) per share (€ cent)	**1,8**	(4,9)

17. Cash, balances with central banks and loans and advances to banks

	2016	2015
	€000	€000
Cash	**132.180**	153.742
Balances with central banks	**1.135.173**	957.612
Cash and balances with central banks	**1.267.353**	1.111.354

Loans and advances to banks	**984.876**	1.112.337

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2016 which amount to €142.002 thousand (2015: €122.347 thousand).

The credit rating analysis of balances with central banks and loans and advances to banks by independent credit rating agencies is set out in Note 41.

Loans and advances to banks earn interest based on the interbank rate of the relevant term and currency.

18. Investments

	2016	2015
	€000	€000
Investments		
Investments at fair value through profit or loss	**11.802**	19.727
Investments available-for-sale	**253.394**	55.969
Investments classified as loans and receivables	**68.074**	436.935
	333.270	512.631

The amounts pledged as collateral under repurchase agreements with banks are shown below:

	2016	2015
	€000	€000
Investments pledged as collateral		
Investments available-for-sale	**299.765**	421.032

All investments pledged as collateral under repurchase agreements can be sold or repledged by the counterparty.

The maximum exposure to credit risk for debt securities is disclosed in Note 41.

18. Investments (continued)

Investments at fair value through profit or loss

	Trading investments		**Other investments at fair value through profit or loss**		**Total**	
	2016	2015	**2016**	2015	**2016**	2015
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**-**	-	**10.426**	17.430	**10.426**	17.430
Equity securities	**1.376**	2.297	**-**	-	**1.376**	2.297
	1.376	2.297	**10.426**	17.430	**11.802**	19.727
Debt securities						
Cyprus government	**-**	-	**10.426**	17.430	**10.426**	17.430
Listed on the Cyprus Stock Exchange	**-**	-	**10.426**	17.430	**10.426**	17.430
Equity securities						
Listed on the Cyprus Stock Exchange	**1.376**	2.297	**-**	-	**1.376**	2.297

The debt securities classified as other investments at fair value through profit or loss were originally classified as such, to eliminate an accounting mismatch with derivatives used to economically hedge these instruments.

Investments available-for-sale

	2016	2015
	€000	€000
Debt securities	**540.551**	437.402
Equity securities	**12.329**	39.258
Mutual funds	**279**	341
	553.159	477.001

18. **Investments** (continued)

Investments available-for-sale (continued)

Debt securities	**2016**	2015
	€000	€000
Cyprus government	**178.479**	4.437
French government	**287.324**	290.205
Other governments	**41.887**	130.832
Banks and other corporations	**32.861**	11.928
	540.551	437.402
Listed on the Cyprus Stock Exchange	**178.479**	4.437
Listed on other stock exchanges	**362.072**	432.965
	540.551	437.402
Geographic dispersion by country of issuer		
Cyprus	**178.479**	4.437
France	**287.324**	290.205
Germany	**-**	45.686
Italy	**12.507**	23.234
Other European countries	**10.473**	61.912
European Financial Stability Facility and European Investment Fund	**11.823**	11.928
Supranational organisations	**9.365**	-
Other countries	**30.580**	-
	540.551	437.402

Equity securities		
Listed on the Cyprus Stock Exchange	**4.156**	4.663
Listed on other stock exchanges	**430**	271
Unlisted	**7.743**	34.324
	12.329	39.258

At 31 December 2016 and 2015 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

Available-for-sale mutual funds are unlisted and issued in other countries.

18. **Investments** (continued)

Investments classified as loans and receivables

	2016	2015
	€000	€000
Debt securities	**68.074**	436.935
Cyprus government	**68.074**	436.935
Listed on the Cyprus Stock Exchange	**68.074**	436.935
Geographic dispersion by country of issuer		
Cyprus	**68.074**	436.935

Loans and receivables at 31 December 2016 include €49.185 thousand (2015: €146.444 thousand) of debt securities which have been determined to be individually impaired.

Reclassification of investments

Reclassification of trading investments to loans and receivables
On 1 April 2010, in light of the crisis prevailing in global markets, the Company identified the investments which it had no intention to trade or sell in the foreseeable future. These investments in debt securities were reclassified from trading investments to loans and receivables.

Reclassification of available-for-sale investments to loans and receivables
On 1 October 2008 and 30 June 2011 the Company reclassified certain available-for-sale debt securities to investments classified as loans and receivables, in view of the fact that there was no active market for these debt securities and the Company had the intention and ability to hold these securities in the foreseeable future.

Reclassification of held–to-maturity investments to available-for-sale investments
On 1 November 2012, the Company reassessed its policies in respect of the management of its investment portfolio in view of its efforts to strengthen its liquidity and capital adequacy ratios and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Company’s accounting policies and IFRSs, the Company was not allowed to classify any investments as held-to-maturity until November 2014.

18. **Investments** (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Company, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2016		31 December 2015		Year 2016		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the debt securities not been reclassified	Additional gain in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	49.800	49.185	50.329	48.021	50.232	-	1.144	4,6%-4,7%

18. Investments (continued)

Reclassification of investments (continued)

The table below presents the debt securities reclassified by the Company, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2015		31 December 2014		Year 2015		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the debt securities not been reclassified	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
Reclassification of trading investments to:									
- loans and receivables	1 April 2010	34.810	35.255	35.227	36.722	35.056	171	-	1,2%-4,4%
Reclassification of available-for-sale investments to:									
- loans and receivables	1 October 2008	129.497	119.683	126.913	120.235	120.289	-	7.230	4,6%-4,7%
- loans and receivables	30 June 2011	151.967	90.600	87.327	92.613	84.046	-	(3.273)	2,8%-6,3%
Reclassification of held-to-maturity investments to:									
- available-for-sale	1 November 2012	42.151	41.763	41.763	43.358	43.358	-	-	0,4%-3,1%

19. Derivative financial instruments

The contract amount and fair value of the derivative financial instruments is set out below:

	2016			2015		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	43.709	793	589	208.729	1.112	5.666
Currency swaps	1.774.976	15.875	8.430	1.484.763	12.235	5.729
Interest rate swaps	230.874	480	1.901	34.511	141	2.305
Currency options	7.986	85	198	175	8	167
Equity options	-	-	-	1.515	477	441
Interest rate caps/floors	-	-	-	6.562	-	53
	2.057.545	**17.233**	**11.118**	1.736.255	13.973	14.361
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	418.293	87	37.463	425.900	45	39.570
Net investments – forward exchange rate contracts	178.605	3.514	259	33.386	4	477
	596.898	3.601	37.722	459.286	49	40.047
Total	**2.654.443**	**20.834**	**48.840**	2.195.541	14.022	54.408

The use of derivatives is an integral part of the Company's activities. Derivatives are used to manage the Company's own exposure to fluctuations in interest rates, exchange rates and equity price indices. Derivatives are also sold to customers as risk management products.

Forward exchange rate contracts are irrevocable agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed rate.

Currency swaps include simple currency swaps and cross-currency swaps. Simple currency swaps involve the exchange of two currencies at the current market rate and the commitment to re-exchange them at a specified rate upon maturity of the swap. Cross-currency swaps are interest rate swaps in which the cash flows are in different currencies.

Interest rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate interest, by means of periodic payments, based upon a notional principal amount and the interest rates defined in the contract.

Currency options are contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time.

19. Derivative financial instruments (continued)

Interest rate, currency and equity options provide the buyer with the right but not the obligation, to either purchase or sell the underlying values at a specified price or level on or before a specified date.

Interest rate caps/floors protect the holder from fluctuations of interest rates above or below a specified interest rate for a specified period of time.

The credit exposure of derivative financial instruments represents the cost to replace these contracts at the reporting date. The exposure arising from these transactions is managed as part of the Company's credit risk management process for credit facilities granted to customers and financial institutions.

The contract amount of certain types of derivative financial instruments provides a basis for comparison with other instruments recognised on the balance sheet, but does not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, consequently, does not indicate the Company's exposure to credit or market risk.

The fair value of the derivatives can be either positive (asset) or negative (liability) as a result of fluctuations in market interest rates, foreign exchange rates or equity price indices, in accordance with the terms of the relevant contract. The aggregate net fair value of derivatives may fluctuate significantly over time.

Hedge accounting

The Company applies fair value hedge accounting using derivatives when the required criteria for hedge accounting are met. The Company also uses derivatives for economic hedging (hedging the changes in interest rates, exchange rates or other risks) which do not meet the criteria for hedge accounting. As a result, these derivatives are accounted for as trading derivatives and the gains or losses arising from revaluation are recognised in the income statement.

Changes in the fair value of derivatives designated as fair value hedges and the fair value of the item in relation to the risk being hedged are recognised in the income statement.

Fair value hedges

The Company uses interest rate swaps to hedge the interest rate risk arising as a result of the possible adverse movement in the fair value of fixed rate available-for-sale debt securities and fixed rate customer loans and deposits.

Hedges of net investments

The Company's balance sheet is affected by foreign exchange differences between the Euro and all non-Euro functional currencies of overseas branches. The Company hedges its structural currency risk when it considers that the cost of such hedging is within an acceptable range (in relation to the underlying risk). This hedging is effected by financing with borrowings in the same currency as the functional currency of the overseas branches and forward exchange rate contracts.

As at 31 December 2016, deposits and forward exchange rate contracts amounting to €100.756 thousand and €178.605 thousand respectively (2015: €178.101 thousand and €33.386 thousand respectively) have been designated as hedging instruments.

20. Fair value measurement

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

	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
	€000	€000	€000	€000
Financial assets				
Cash and balances with central banks	1.267.353	1.267.353	1.111.354	1.111.354
Loans and advances to banks	984.876	960.937	1.112.337	1.102.191
Investments at fair value through profit or loss	11.802	11.802	19.727	19.727
Investments available-for-sale	553.159	553.159	477.001	477.001
Investments classified as loans and receivables	68.074	69.451	436.935	445.521
Derivative financial assets	20.834	20.834	14.022	14.022
Loans and advances to customers	14.352.560	15.493.752	16.005.878	16.999.781
Balances with Group companies	1.364.982	1.364.982	735.579	735.579
Other assets	96.068	96.068	145.977	145.977
	18.719.708	19.838.338	20.058.810	21.051.153
Financial liabilities				
Obligations to central banks and deposits by banks	1.277.751	1.277.751	4.690.710	4.690.710
Repurchase agreements	257.367	292.752	368.151	406.014
Derivative financial liabilities	48.840	48.840	54.408	54.408
Customer deposits	15.045.090	15.029.167	12.694.130	12.700.673
Balances with Group companies	502.645	502.645	568.486	568.486
Debt securities in issue	-	-	712	712
Other liabilities	129.413	129.413	106.788	106.788
	17.261.106	17.280.568	18.483.385	18.527.791

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.

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.

20. Fair value measurement (continued)

The following is a description of the determination of fair value for financial instruments and non-financial assets which are recorded at fair value on a recurring and on a non-recurring basis and for financial instruments and non-financial assets which are not measured at fair value but for which fair value is disclosed, using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

Derivative financial instruments

Derivative financial instruments valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps, currency rate options, forward foreign exchange rate contracts, equity options and interest rate collars. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA)

The CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty risk and the Company's own credit quality respectively.

The Company calculates the CVA by applying the probability of default (PD) of the counterparty, conditional on the non-default of the Company, to the Company's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Company calculates the DVA by applying its own PD, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Company and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

The expected exposure of derivatives is calculated as per the Capital Requirement Regulations (CRR) and takes into account the netting agreements where they exist. A standard loss given default (LGD) assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The Company does not hold any significant derivative instruments which are valued using a valuation technique with significant non-market observable inputs.

Investments available-for-sale and other investments at fair value through profit or loss

Available-for-sale investments and other investments at fair value through profit or loss which are valued using a valuation technique or pricing models, primarily consist of unquoted equity securities and debt securities. These assets are valued using valuation models which sometimes only incorporate market observable data and at other times use both observable and non-observable data.

Loans and advances to customers

The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. The discount rate includes components that capture the funding cost and the cost of capital.

Customer deposits

The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of the Company. The fair value of deposits repayable on demand and deposits protected by the Deposit Protection Guarantee Scheme are approximated by their carrying values.

Repurchase agreements

Repurchase agreements are collateralised bank takings. Given that the collateral provided by the Company is greater than the amount borrowed, the fair value calculation of these repurchase agreements only takes into account the time value of money.

Loans and advances to banks

Loans and advances to banks with maturity over one year are discounted using an appropriate risk free rate plus the credit spread of each counterparty. For short-term lending, the fair value is approximated by the carrying value.

20. Fair value measurement (continued)

Deposits by banks
Since almost all deposits by banks are very short-term, the fair value is an approximation of the carrying value.

Investment properties
The fair value of investment properties is determined using valuations performed by external accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this Note.

Property and equipment
The freehold land and buildings consist of offices and other commercial properties. The fair value of the properties is determined using valuations performed by external, accredited, independent valuers and internal accredited valuers. Further information on the techniques applied is disclosed in the remainder of this Note.

Model inputs for valuation
Observable inputs to the models for the valuation of unquoted equity and debt securities include, where applicable, current and expected market interest rates, market expected default rates, market implied country and counterparty credit risk and market liquidity discounts.

The following table presents the fair value measurement hierarchy of the Company's assets and liabilities recorded at fair value or for which fair value is disclosed, by level of the fair value hierarchy:

2016	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Assets measured at fair value				
Investment properties				
Offices and other commercial properties	-	-	11.625	**11.625**
Investment properties held for sale				
Offices and other commercial properties	-	346	-	**346**
Freehold property				
Offices and other commercial properties	-	-	181.754	**181.754**
Trading derivatives				
Forward exchange rate contracts	-	793	-	**793**
Currency swaps	-	15.875	-	**15.875**
Interest rate swaps	-	480	-	**480**
Currency options	-	85	-	**85**
	-	17.233	-	**17.233**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	87	-	**87**
Net investments-forward exchange rate contracts	-	3.514	-	**3.514**
	-	3.601	-	**3.601**
Investments at fair value through profit or loss				
Trading investments	1.376	-	-	**1.376**
Other investments at fair value through profit or loss	-	10.426	-	**10.426**
	1.376	10.426	-	**11.802**
Investments available-for-sale	545.759	-	7.400	**553.159**
	547.135	31.606	200.779	**779.520**

20. Fair value measurement (continued)

Model inputs for valuation (continued)

2016	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Other financial assets not measured at fair value				
Loans and advances to banks	-	960.937	-	**960.937**
Loans and receivables - investments	-	69.451	-	**69.451**
Loans and advances to customers	-	-	15.493.752	**15.493.752**
	-	1.030.388	15.493.752	**16.524.140**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €5.532 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €553 thousand.

2016	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	589	-	**589**
Currency swaps	-	8.430	-	**8.430**
Interest rate swaps	-	1.901	-	**1.901**
Currency options	-	198	-	**198**
	-	11.118	-	**11.118**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	37.463	-	**37.463**
Net investments-forward exchange rate contracts	-	259	-	**259**
	-	37.722	-	**37.722**
	-	48.840	-	**48.840**
Other financial liabilities not measured at fair value				
Deposits by banks	-	427.737	-	**427.737**
Repurchase agreements	-	292.752	-	**292.752**
Customer deposits	-	-	15.029.167	**15.029.167**
	-	720.489	15.029.167	**15.749.656**

20. Fair value measurement (continued)

Model inputs for valuation (continued)

2015	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Assets measured at fair value				
Investment properties				
Offices and other commercial properties	-	-	11.688	**11.688**
Investment properties classified as held for sale				
Residential	-	2.095	-	**2.095**
Offices and other commercial properties	-	5.222	2.450	**7.672**
	-	7.317	2.450	**9.767**
Freehold property				
Offices and other commercial properties	-	-	180.994	**180.994**
Trading derivatives				
Forward exchange rate contracts	-	1.112	-	**1.112**
Currency swaps	-	12.235	-	**12.235**
Interest rate swaps	-	141	-	**141**
Currency options	-	8	-	**8**
Equity options	-	477	-	**477**
	-	13.973	-	**13.973**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	45	-	**45**
Net investments-forward exchange rate contracts	-	4	-	**4**
	-	49	-	**49**
Investments at fair value through profit or loss				
Trading investments	2.297	-	-	**2.297**
Other investments at fair value through profit or loss	-	17.430	-	**17.430**
	2.297	17.430	-	**19.727**
Investments available-for-sale	442.336	-	34.665	**477.001**
	444.633	38.769	229.797	**713.199**

20. Fair value measurement (continued)

Model inputs for valuation (continued)

2016	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1.102.191	-	**1.102.191**
Loans and receivables-investments	-	424.070	-	**424.070**
Loans and advances to customers	-	-	16.999.781	**16.999.781**
	-	1.526.261	16.999.781	**18.526.042**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €32.489 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €475 thousand.

2015	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	5.666	-	**5.666**
Currency swaps	-	5.729	-	**5.729**
Interest rate swaps	-	2.305	-	**2.305**
Currency options	-	167	-	**167**
Equity options	-	441	-	**441**
Interest rate caps/floors	-	53	-	**53**
	-	14.361	-	**14.361**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	39.570	-	**39.570**
Net investments-forward exchange rate contracts	-	477	-	**477**
	-	40.047	-	**40.047**
	-	54.408	-	**54.408**
Other financial liabilities not measured at fair value				
Deposits by banks	-	237.860	-	**237.860**
Repurchase agreements	-	406.014	-	**406.014**
Customer deposits	-	-	12.700.673	**12.700.673**
	-	643.874	12.700.673	**13.344.547**

20. **Fair value measurement** (continued)

Model inputs for valuation (continued)

The cash and balances with central banks, the funding from central banks and the treasury bills are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently. Other assets, other liabilities and the balances with Group companies are of a financial nature and their carrying value is a close approximation of fair value.

During the years 2016 and 2015 there were no significant transfers between Level 1 and Level 2.

20. **Fair value measurement** (continued)

Movements in Level 3 financial instruments measured at fair value

Transfers from Level 3 to Level 2 occur when the market for some securities becomes more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Following a transfer to Level 2 the instruments are valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Company requires significant unobservable inputs to calculate their fair value.

The movement in Level 3 assets which are measured at fair value is presented below:

	2016				2015			
	Investment properties	**Investment properties held for sale**	**Own use properties**	**Available-for-sale investments**	Investment properties	Investment properties held for sale	Own use properties	Available-for-sale investments
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
1 January	**11.688**	**2.450**	**180.994**	**34.665**	250.888	1.367	201.671	2.598
Additions	**-**	**-**	**2.312**	**5.435**	39.343	-	1.099	-
Disposals	**-**	**(2.450)**	**-**	**(32.489)**	(3.853)	(9.946)	-	(33)
Transfers from own use properties to investment properties	**-**	**-**	**-**	**-**	13.690	-	(13.690)	-
Transfers to non-current assets classified as held for sale	**-**	**-**	**-**	**-**	(17.081)	17.081	-	-
Transfers to stock of property (Note 26)	**-**	**-**	**-**	**-**	(282.855)	(247)	-	-
Transfers on disposal of Kyprou Leasing SA to Greek branch	**-**	**-**	**-**	**-**	43.454	4.286	-	-
Transfers to Level 2	**-**	**-**	**-**	**-**	-	(7.317)	-	-
Net (losses)/gains from fair value changes recognised in the statement of other comprehensive income	**-**	**-**	**-**	**(21)**	-	-	-	31.845
Depreciation charge for the year	**-**	**-**	**(1.552)**	**-**	-	-	(1.726)	-
Impairment charge for the year (Note 24)	**-**	**-**	**-**	**-**	-	-	(288)	-
Revaluation losses	**(63)**	**-**	**-**	**-**	(32.271)	(2.774)	(6.072)	-
Foreign exchange adjustments	**-**	**-**	**-**	**(190)**	373	-	-	255
31 December	**11.625**	**-**	**181.754**	**7.400**	11.688	2.450	180.994	34.665

20. Fair value measurement (continued)

Valuation policy and sensitivity analysis

Investment properties, investment properties held for sale and own use properties
The valuation technique mainly applied by the Company, is the market comparable approach, adjusted for market and property specific conditions. In certain cases, the Company also utilises the income capitalisation approach. The key inputs used for the valuations of the investment properties, investment properties held for sale and own use properties are presented in the tables below.

Analysis of investment properties and investment properties held for sale

Type and country	2016	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	11.625	€73	n/a	€1.130	4%	€1.660	€125	30.001	7.078	14
UK	346	€97	n/a	n/a	n/a	n/a	n/a	n/a	304	87
Total	**11.971**									

Analysis of own use properties

Type and country	2016	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m²**	**m²**	**Years**
Cyprus	**181.754**	€27-€434	n/a	€588-€2.102	5%-6%	€566-€8.860	€139-€3.007	390-53.155	94-10.985	9-37

20. **Fair value measurement** (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2015	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Residential	**€000**							**m^2**	**m^2**	**Years**
UK	2.095	€548	n/a	n/a	n/a	€12.965	n/a	n/a	156	46
Offices and other commercial properties										
Cyprus	11.688	€117	n/a	€1.302	4%	€2.773	€152	30.001	4.323	13
Greece	2.450	€480	n/a	n/a	7%-10%	€3.926	n/a	447	624	8
UK	5.222	€110-€230	n/a	n/a	n/a	€1.013-€3.123	n/a	n/a	233-954	26-116
	19.360									
Total	**21.455**									

Analysis of own use properties

Type and country	2015	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m^2**	**m^2**	**Years**
Cyprus	**180.994**	€23-€434	n/a	€674-€2.102	5%-6%	€566-€8.860	€138-€3.007	390-53.155	94-10.985	8-36

20. **Fair value measurement** (continued)

Valuation policy and sensitivity analysis (continued)

Sensitivity analysis
Most of the Company's property valuations have been classified as Level 3. Significant increases/decreases in estimated values per square meter for properties valued with the comparable approach or significant increases/decreases in estimated rental values or yields for properties valued with the income capitalisation approach would result in a significantly higher/lower fair value of the properties.

21. Loans and advances to customers

	2016	2015
	€000	€000
Gross loans and advances to customers	**17.745.707**	19.986.349
Provisions for impairment of loans and advances to customers (Note 41)	**(3.393.147)**	(3.980.471)
	14.352.560	16.005.878

Loans and advances to customers pledged as collateral are disclosed in Note 43.

Additional analysis and information regarding credit risk and analysis of the provisions for impairment of loans and advances to customers are set out in Note 41.

22. Balances and transactions with Group companies

Debit balances with Group companies

Name of Group company	**2016**	2015
	€000	€000
The Cyprus Investment and Securities Corporation Ltd (CISCO)	**2.042**	1.072
General Insurance of Cyprus Ltd	**855**	2.251
EuroLife Ltd	**400**	4.393
Kermia Ltd	**1.978**	1.978
Finerose Properties Ltd	**216**	38.935
Hydrobius Ltd	**42.453**	-
Bank of Cyprus (Channel Islands) Ltd	**3**	24.905
Kyprou Commercial SA	**55**	-
Cyprus Leasing S.A.	**10.093**	12.491
MC Investment Assets Management LLC	**2.631**	2.631
Kyprou Finance (NL) B.V.	**317.136**	317.142
Bank of Cyprus UK Ltd	**66.966**	71.010
Obafemi Holdings Ltd	**6.684**	6.822
S.Z. Eliades Leisure Ltd	**3.386**	-
K. Athienitis Kalamon Ltd	**22.662**	-
Fortuna Astrum Ltd	**4.238**	-
Stamoland Properties Ltd	**5.671**	-
Group property companies in Cyprus	**807.339**	186.055
Group property companies in Romania	**69.229**	64.853
Other Group companies in Cyprus	**945**	1.041
Total	**1.364.982**	735.579

	2016	2015
	€000	€000
Neither past due nor impaired	**750.057**	143.345
Impaired	**614.925**	592.234
Total	**1.364.982**	735.579

The provision for impairment for intercompany balances recognised during 2016 amounts to €33.356 thousand (2015: €27.039 thousand) (Note 14). The provision for impairment recognised during 2016 mainly relates to a receivable arising from the disposal of the Russian operations in 2015 and funding provided to Group property companies of which the value of the underlying asset has decreased

22. Balances and transactions with Group companies (continued)

Credit balances with Group companies

Name of Group company	2016	2015
	€000	€000
JCC Payment Systems Ltd	25.015	20.663
The Cyprus Investment and Securities Corporation Ltd (CISCO)	3.677	3.788
General Insurance of Cyprus Ltd	31.823	33.129
EuroLife Ltd	20.112	31.143
Kermia Properties & Investments Ltd	6.035	5.526
Kermia Ltd	2.300	685
Bank of Cyprus (Channel Islands) Ltd	1.823	59.620
Kyprou Zois (branch of EuroLife Ltd)	2.411	2.094
Kyprou Securities SA	1.651	1.650
Cyprus Leasing S.A.	1.687	296
MC Investment Assets Management LLC	2.297	8.077
Cytrustees Investment Public Company Ltd	851	1.041
Kyprou Finance (NL) B.V.	369.553	369.316
Bank of Cyprus UK Ltd	29.250	28.624
Obafemi Holdings Ltd	175	122
Group property companies in Romania	1.493	671
Other Group companies in Cyprus	2.492	2.041
Total	**502.645**	568.486

22. Balances and transactions with Group companies (continued)

Dividends received from subsidiary companies and associates

	2016	2015
	€000	€000
Bank of Cyprus (Channel Islands) Ltd	**39.235**	-
Kermia Ltd	**24.000**	-
JCC Payment Systems Ltd	**15.000**	3.000
EuroLife Ltd	**13.000**	13.500
General Insurance of Cyprus Ltd	**10.000**	6.000
LCP Holdings and Investments Public Ltd	**-**	1.904
Labancor Ltd	**-**	1.558
CNP Cyprus Insurance Holdings Ltd	**6.621**	7.580
	107.856	33.542

Transactions with Group companies

	2016	2015
	€000	€000
Interest income	**20.609**	21.314
Interest expense	**4.211**	6.249
Fee and commission income	**4.366**	2.943
Fee and commission expense	**78**	-
Other income	**242**	280
Other operating expenses	**1.963**	1.106

23. Investments in associates

Carrying value of the investments in associates

	2016	2015
	€000	€000
CNP Cyprus Insurance Holdings Ltd	**95.068**	95.068
Interfund Investments Plc	**2.225**	2.225
Aris Capital Management LLC	**-**	-
Rosequeens Properties Limited	**-**	-
Rosequeens Properties SRL	**-**	-
M.S. (Skyra) Vassas Ltd	**-**	-
D.J. Karapatakis & Sons Limited	**-**	-
Rodhagate Entertainment Ltd	**-**	-
Fairways Automotive Holdings Ltd	**-**	-
	97.293	97.293

23. **Investments in associates** (continued)

Investments in associates

CNP Cyprus Insurance Holdings Ltd
As part of the acquisition of certain operations of Laiki Bank in 2013, 49,9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Company.

The main financial highlights of the associate are as follows:

	2016	2015
	€000	€000
Total assets	**696.005**	676.915
Liabilities	**(481.234)**	(465.416)
Net assets, including value of in-force business	**214.771**	211.499

CNP Cyprus Insurance Holdings Ltd holds deposits with the Company amounting to €10.310 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Company are presented in the table below:

	2016	2015
	€000	€000
Interest expense paid by the Company	**197**	239
Other expenses paid by the Company	**92**	239
Other income received by the Company	**-**	2

Interfund Investments Plc
The Company has a 23,12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE. The market value of the investment is €1.399 thousand (2015: €1.372 thousand).

During the years 2016 and 2015 there were no material transactions between the Company and the associate.

Rosequeens Properties Limited and Rosequeens Properties SRL
The Company effectively owns 33% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of customer loan balances amounting to approximately €21 million. The Company fully impaired its investment during previous years.

23. **Investments in associates** (continued)

Investment in associates (continued)

Aris Capital Management LLC
The Company's holding in Aris Capital Management LLC of 30% was transferred to the Company following the acquisition of certain operations of Laiki Bank. During the years 2016 and 2015, there were no material transactions between the Company and the associate. The Company fully impaired its investment during previous years.

M.S. (Skyra) Vassas Ltd
During the year, in the context of its loan restructuring activities, the Company acquired a 15% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Company considers that it exercises significant influence over the Skyra Vassas group as the Company has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd
During the year, in the context of its loan restructuring activities, the Company acquired a 7,5% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in leisure, tourism, film and entertainment industries in Cyprus. The Company considers that it exercises significant influence over the two companies as the Company has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investments are considered to be fully impaired and their value is restricted to zero.

Fairways Automotive Holdings Ltd
During the year, in the context of its loan restructuring activities, the Company acquired a 45% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Company considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

24. **Property and equipment**

2016	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	183.594	14.633	**198.227**
Additions	2.777	6.184	**8.961**
Transfers from intangible assets (Note 25)	-	456	**456**
Disposals and write-offs	(59)	(148)	**(207)**
Depreciation charge for the year (Note 13)	(2.572)	(4.978)	**(7.550)**
Foreign exchange adjustments	1	-	**1**
Net book value at 31 December	**183.741**	**16.147**	**199.888**

1 January 2016			
Cost or valuation	217.821	100.845	**318.666**
Accumulated depreciation	(34.227)	(86.212)	**(120.439)**
Net book value	**183.594**	**14.633**	**198.227**

24. Property and equipment (continued)

	Property	Equipment	**Total**
	€000	€000	**€000**
31 December 2016			
Cost or valuation	219.939	105.716	**325.655**
Accumulated depreciation	(36.198)	(89.569)	**(125.767)**
Net book value	**183.741**	**16.147**	**199.888**
2015			
Net book value at 1 January	205.340	15.766	**221.106**
Additions	1.769	3.866	**5.635**
Revaluation	(6.072)	-	**(6.072)**
Transfers to investment properties (Note 20)	(13.726)	-	**(13.726)**
Disposals and write-offs	-	(188)	**(188)**
Depreciation charge for the year (Note 13)	(3.426)	(4.811)	**(8.237)**
Impairment charge for the year (Note 14)	(288)	-	**(288)**
Foreign exchange adjustments	(3)	-	**(3)**
Net book value at 31 December	**183.594**	**14.633**	**198.227**
1 January 2015			
Cost or valuation	237.871	104.113	**341.984**
Accumulated depreciation	(32.531)	(88.347)	**(120.878)**
Net book value	**205.340**	**15.766**	**221.106**
31 December 2015			
Cost or valuation	217.821	100.845	**318.666**
Accumulated depreciation	(34.227)	(86.212)	**(120.439)**
Net book value	**183.594**	**14.633**	**198.227**

The net book value of the Company's property comprises:

	2016	2015
	€000	€000
Freehold property	**181.754**	180.994
Improvements on leasehold property	**1.987**	2.600
	183.741	183.594

Freehold property includes land amounting to €77.127 thousand (2015: €74.816 thousand) for which no depreciation is charged.

24. Property and equipment (continued)

The Company's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. As a consequence of the economic conditions in Cyprus, and their impact on the real estate market, the Company performed revaluations as at 31 December 2015. As a result, a net loss on revaluation of €6.072 thousand was recognised in the statement of comprehensive income and an impairment loss of €288 thousand was recognised in the income statement for the year ended 31 December 2015. The valuations are carried out by qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 20.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2016 would have amounted to €130.699 thousand (2015: €129.940 thousand).

25. Intangible assets

Computer software

	2016	2015
	€000	€000
Net book value at 1 January	**14.773**	13.105
Additions	**9.486**	7.424
Transfers to equipment (Note 24)	**(456)**	-
Disposals and write-offs	**(12)**	-
Amortisation charge for the year (Note 13)	**(6.110)**	(5.756)
Net book value at 31 December	**17.681**	14.773
1 January		
Cost	**106.143**	98.726
Accumulated amortisation	**(91.370)**	(85.621)
Net book value	**14.773**	13.105
31 December		
Cost	**121.187**	106.143
Accumulated amortisation	**(103.506)**	(91.370)
Net book value	**17.681**	14.773

26. Stock of property

The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2016 an impairment loss of €11.745 thousand was recognised in 'Impairment of non-financial instruments' in the income statement arising from measuring items at lower of cost and net realisable value (2015: impairment of €9.709 thousand). At 31 December 2016, stock of €272.261 thousand (2015: €274.214 thousand) is carried at net realisable value which is approximately the fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. The stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA amounts to €22.055 thousand (2015: €21.875 thousand).

26. **Stock of property** (continued)

The carrying value of the stock of property is analysed in the tables below:

	2016	2015
	€000	€000
Net book value at 1 January	**276.095**	822
Additions	**258.555**	1.880
Disposals	**(27.907)**	-
Transfers from investment properties (Note 20)	**-**	282.855
Transfers from disposal group held for sale (Note 20)	**-**	247
Impairment (Note 14)	**(11.745)**	(9.709)
Net book value at 31 December	**494.998**	276.095

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2016	**€000**	**€000**	**€000**	**€000**
Residential properties	70.543	36.766	-	**107.309**
Offices and other commercial properties	51.463	55.676	558	**107.697**
Manufacturing and industrial properties	6.643	53.735	-	**60.378**
Hotels	17.929	544	-	**18.473**
Land (fields and plots)	195.159	5.617	-	**200.776**
Properties under construction	365	-	-	**365**
Total	**342.102**	**152.338**	**558**	**494.998**

2015				
Residential properties	15.221	39.176	-	**54.397**
Offices and other commercial properties	30.127	63.934	1.200	**95.261**
Manufacturing and industrial properties	1.001	59.279	-	**60.280**
Hotels	18.763	2.221	-	**20.984**
Land (fields and plots)	38.598	6.210	-	**44.808**
Properties under construction	365	-	-	**365**
Total	**104.075**	**170.820**	**1.200**	**276.095**

27. Prepayments, accrued income and other assets

	2016	2015
	€000	€000
Receivables relating to disposal of operations	**57.056**	98.454
Taxes refundable	**31.007**	35.340
Debtors	**315**	259
Prepaid expenses	**209**	268
Retirement benefit plan assets (Note 12)	**-**	20
Other assets	**64.748**	33.145
	153.335	167.486

As at 31 December 2016, the receivables relating to disposal of operations related to the disposal of the Ukrainian operations during 2014 which is secured and repayable in June 2019, whereas at 31 December 2015 they related to the disposal of the Ukrainian and Russian operations during 2014 and 2015 respectively.

During 2016, a reversal of impairment of €1.603 thousand was recognised in relation to other assets (2015: impairment loss of €20.070 thousand) (Note 14).

28. Non-current assets classified as held for sale

	2016	2015
	€000	€000
Investment properties held for sale	**346**	9.767

The following non-current assets were classified as held for sale as at 31 December 2016 and 2015:

Investment properties
The investment properties classified as held for sale are properties which management is committed to sell and has proceeded with an active programme to complete this plan. The disposals are expected to take place within 12 months from the date of classification. Investment properties classified as held for sale are measured at fair value. The results of the fair value changes are presented within 'Gains/(losses) from revaluation and disposal of investment properties' in the income statement. An analysis of investment properties classified as held for sale by country and key valuation inputs are disclosed in Note 20.

29. Funding from central banks

Funding from central banks comprises funding from the ECB under Eurosystem monetary policy operations and ELA from the CBC, as set out in the table below:

	2016	2015
	€000	€000
Emergency Liquidity Assistance (ELA)	**200.014**	3.802.058
Main Refinancing Operations (MRO)	**-**	150.000
Longer-Term Refinancing Operations (LTRO)	**50.000**	-
Targeted Longer-Term Refinancing Operations (TLTRO)	**600.000**	500.792
	850.014	4.452.850

In 2014, the Company participated in the TLTRO of the ECB for an amount of €500 million. On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount from the MRO. In December 2016, the Company borrowed an amount of €600 million through the new series of TLTRO (TLTRO II) announced by the ECB in March 2016. Additionally, an amount of €50 million was borrowed through the LTRO. As a result, in December 2016 all the ECB funding that was borrowed through the MRO, was switched to longer term funding.

In May 2016, the Company raised new funding from the ECB 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.

The interest rate applied to TLTRO II will be fixed for each operation at the rate applied in the MRO prevailing at the time of allotment and is subject to a lower rate for counterparties whose eligible net lending in the pre-specified period exceeds their benchmark. This lower rate will be linked to the interest rate on the deposit facility prevailing at the time of the allotment of each operation.

The Company's ELA funding bears interest at a rate equal to the ruling marginal lending facility rate (MLF rate) of the Eurosystem, plus a margin. ELA funding was repaid in full by the Group on 5 January 2017.

Details on encumbered assets related to the above funding facilities are disclosed in Note 43.

30. Customer deposits

	2016	2015
	€000	€000
By type of deposit		
Demand	**5.883.141**	4.675.564
Savings	**831.872**	762.993
Time or notice	**8.330.077**	7.255.573
	15.045.090	12.694.130
By geographical area		
Cyprus	**15.043.362**	12.691.090
Romania	**1.728**	3.040
	15.045.090	12.694.130

30. Customer deposits (continued)

By customer sector	Cyprus	Romania	**Total**
2016	€000	€000	**€000**
Corporate	1.184.681	1.446	**1.186.127**
SMEs	566.172	178	**566.350**
Retail	7.778.136	104	**7.778.240**
Restructuring			
– Corporate	192.442	-	**192.442**
– SMEs	27.685	-	**27.685**
Recoveries			
– Corporate	11.176	-	**11.176**
International banking services	4.494.755	-	**4.494.755**
Wealth management	788.315	-	**788.315**
	15.043.362	**1.728**	**15.045.090**
2015			
Corporate	978.672	2.242	**980.914**
SMEs	455.133	461	**455.594**
Retail	6.995.757	337	**6.996.094**
Restructuring			
– Corporate	189.196	-	**189.196**
– SMEs	35.363	-	**35.363**
Recoveries			
– Corporate	7.865	-	**7.865**
International banking services	3.710.742	-	**3.710.742**
Wealth management	318.362	-	**318.362**
	12.691.090	**3.040**	**12.694.130**

Deposits by geographical area are based on the originator country of the deposit.

31. Accruals, deferred income and other liabilities

	2016	2015
	€000	€000
Income tax payable and related provisions	**17.067**	15.387
Special defence contribution payable	**5.719**	6.354
Retirement benefit plans liabilities (Note 12)	**22.743**	12.559
Provisions for pending litigation, claims and regulatory matters (Note 36)	**22.978**	33.772
Provisions for financial guarantees and commitments (Notes 14 and 36)	**38.196**	44.348
Accrued expenses and other provisions	**50.132**	51.324
Deferred income	**7.139**	7.278
Items in the course of settlement	**49.522**	29.905
Other liabilities	**43.164**	32.157
	256.660	233.084

Provisions for pending litigation, claims and regulatory matters

The movement for the year in the provisions for pending litigation, claims and regulatory matters is as follows:

	2016	2015
	€000	€000
1 January	**33.772**	17.987
Transfer on disposal of Kyprou Leasing SA (Note 47.3.3)	**-**	8.500
Increase of provisions (Note 13)	**4.988**	11.616
Utilisation of provisions	**(7.858)**	(30)
Release of provisions (Note 13)	**(7.924)**	(4.300)
Foreign exchange adjustments	**-**	(1)
31 December	**22.978**	33.772

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

	2016	2015
	€000	€000
Pending litigation or claims	**19.978**	30.772
Regulatory matters	**3.000**	3.000
31 December	**22.978**	33.772

Further details on the pending litigations, claims and regulatory matters are disclosed in Note 36.

32. Share capital

	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

Issued share capital

2016
There were no changes to the issued share capital during the year 2016. The changes to the issued share capital following the resolutions of the Extraordinary General Meeting which took place on 13 December 2016, effective on 18 January 2017, are disclosed in Note 48.1.

2015
During 2015, the issued share capital was increased by 567 thousand shares of a nominal value of €0,10 each.

All issued ordinary shares carry the same rights.

Share premium reserve

The share premium reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The share premium was created in 2014 and 2015 by the issuance of 4.167.234 thousand shares of a nominal value of €0,10 each of a subscription price of €0,24 each, and was reduced by the relevant transaction costs of €32.044 thousand.

Capital reduction reserve

The capital reduction reserve is maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and is not available for distribution to equity holders in the form of a dividend.

The capital reduction reserve was created upon the reduction of the nominal value of ordinary shares from €1,00 each to €0,10 each in 2014. The reduction in capital amounted to €4.280.140 thousand, of which an amount of €2.327.654 thousand was applied against accumulated losses and an amount of €1.952.486 thousand was credited to the capital reduction reserve.

Treasury shares of the Company

Shares of the Company held by 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. During 2016 all treasury shares have been disposed of, therefore there were no treasury shares as at 31 December 2016 (2015: 684 thousand of a nominal value of €0,10 each). The total cost of acquisition of treasury shares at 31 December 2015 was €36.849 thousand.

Share-based payments - share options

On 24 November 2015, the Annual General Meeting of the Company's shareholders authorised the Board of Directors 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:

32. Share capital (continued)

Share-based payments - share options (continued)

(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 Company 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 48.2.

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 Bank of Cyprus Holdings Public Limited Company.

33. Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividend was declared or paid during years 2016 and 2015.

34. 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 2016 and 2015 no deemed dividend distribution was paid by the Company.

35. Fiduciary transactions

The Company offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Company is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the balance sheet of the Company unless they are placed with the Company. Total assets under management and custody at 31 December 2016 amounted to €847.564 thousand (2015: €768.995 thousand).

36. Contingent liabilities and commitments

As part of the services provided to its customers, the Company enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend.

Even though these obligations may not be recognised on the balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Company (Note 41).

36.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2016 amount to €13.536 thousand (2015: €12.673 thousand).

36.2 Pending litigation, claims and regulatory matters

The Company in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Restructuring of the Company in 2013 as a result of the Bail-in Decrees, the Company is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the Bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the Bail-in Decrees.

Apart from what is described below, the Company considers that none of these matters is material, either individually or in aggregate. The Company has not disclosed an estimate of the potential financial effect on its contingent liabilities arising from these matters where it is not practicable to do so because it is too early or the outcome is too uncertain or, in cases where it is practicable, where disclosure could prejudice conduct of the matters. Provisions have been recognised for those cases where the Company is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters as at 31 December 2016 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Company.

36.2.1 Pending litigation and claims

Investigations and litigation relating to securities issued by the Company
A number of institutional and retail customers have filed various separate actions against the Company alleging that the Company is guilty of misselling in relation to securities issued by the Company between 2007 and 2011. Remedies sought include the return of the money investors paid for these securities. Claims are currently pending before the courts in Cyprus and in Greece, as well as the decisions and fines imposed upon the Company in related matters by Cyprus Securities and Exchange Commission (CySEC) and/or Hellenic Capital Market Commission (HCMC).

The bonds and capital securities in respect of which claims have been brought are the following: 2007 Capital Securities, 2008 Convertible Bonds, 2009 Convertible Capital Securities (CCS) and 2011 Convertible Enhanced Capital Securities (CECS).

The Company is defending these claims, particularly with respect to institutional investors and retail purchasers who received investment advice from independent investment advisors. In the case of retail investors, if it can be documented that the relevant Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties. To date, a small number of cases have been tried in Greece. The Company has appealed against any such cases which were not ruled in its favour. The resolution of the claims brought in the courts of Greece is expected to take a number of years. Provision has been made based on management's best estimate of probable outflows based on advice of legal counsel.

36. Contingent liabilities and commitments (continued)

36.2 Pending litigation, claims and regulatory matters (continued)

36.2.1 Pending litigation and claims (continued)

Bail-in related litigation
Depositors
A number of the Company's depositors, who allege that they were adversely affected by the bail-in, filed claims against the Company and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, inter alia, the 'Resolution Law of 2013' and the Bail-in Decrees were in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. They are seeking damages for their alleged losses resulting from the bail-in of their deposits. The Company is defending these actions.

Shareholders
Numerous claims were filed by shareholders in 2013 (some of whom are current shareholders of the Company) against the Government and the CBC before the Supreme Court in relation to the dilution of their shareholding as a result of the recapitalisation pursuant to the Resolution Law and the Bail-in Decrees issued thereunder. These proceedings sought the cancellation and setting aside of the Bail-in Decrees as unconstitutional and/or unlawful and/or irregular. The Company appeared in these proceedings as an interested party to support the position that the cases should be adjudicated upon in the context of private law. The Supreme Court ruled in these cases in October 2014 that the proceedings fall within private and public law and thus fall within the jurisdiction of the District Courts.

As at the present date, both the Resolution Law and the Bail-in Decrees have not been annulled by a court of law and thus remain legally valid and in effect. It is expected that actions for damages will be instituted by the shareholders in due course before the District Courts of Cyprus.

Claims based on set-off
Certain claims have been filed by customers against the Company alleging that the implementation of the bail-in under the Bail-in Decrees was not carried out correctly in relation to them and, in particular, that their rights of set-off were not properly respected. The Company intends to contest such claims.

Laiki Bank depositors and shareholders
The Company has been joined as a defendant with regards to certain claims which have been brought against Laiki Bank by its depositors, shareholders and holders of debt securities. These claims have been brought on grounds similar to the claims brought by the Company's bailed-in depositors and shareholders as described above. The Company, inter alia, maintains the position that it should not be a party to these proceedings.

Implementation of Decrees
Occasionally, other claims are brought against the Company in respect of the implementation of the Decrees issued following the adoption of the Resolution Law (as regards the way and methodology whereby such Decrees have been implemented).

Legal position of the Company
All above claims are being vigorously disputed by the Company, in close consultation with the appropriate state and governmental authorities. The position of the Company is that the Resolution Law and the Decrees take precedence over all other laws. As matters now stand, both the Resolution Law and the Decrees issued thereunder are constitutional and lawful, in that they were properly enacted and have not so far been annulled by any court.

36. Contingent liabilities and commitments (continued)

36.2 Pending litigation, claims and regulatory matters (continued)

36.2.1 Pending litigation and claims (continued)

CNP Arbitration

The French entity CNP Assurances S.A. had certain exclusive arrangements with Laiki Bank with respect to insurance products offered in, inter alia, Cyprus through the formation of a local company (CNP Cyprus Insurance Holdings Ltd (a company in which the Company now has a 49,9% shareholding, acquired as part of the acquisition of certain operations of Laiki Bank pursuant to Regulatory Administrative Act 104/2013)). CNP Assurances S.A. held 50,1% of the shares of CNP Cyprus Insurance Holdings Ltd and Laiki Bank held 49,9% of the shares. In the context of the total arrangement between the parties, two agreements were in place between CNP Assurances S.A. and Laiki Bank, a Shareholders' Agreement and a Distribution Agreement (to which Distribution Agreement CNP Cyprus Insurance Holdings Ltd was also a party).

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Company was a successor to Laiki Bank in respect of both the Shareholders' and Distribution Agreements and that the said Agreements were violated by the Company. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amounted to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The Tribunal award was issued in September 2016, rejecting all claims made by the Claimants with costs in favour of the Company.

Provident fund cases

A number of claims which were pending before the Cypriot Labour Disputes Tribunal by certain of the Company's former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Company, utilising part of the provisions for pending litigation in place.

In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against the Company claiming €70 million allegedly owed as part of the Company's contribution by virtue of an agreement with the union dated 31 December 2011. Based on facts currently known, it is not practicable at this time for the Company to predict the resolution of this matter, including the timing or any possible impact on the Company, however at this stage the Company does not expect a material impact on its financial position.

Employment litigation

Former senior officers of the Company have instituted a total of three claims for unfair dismissal and for Provident Fund entitlements against the Company and Trustees of the Provident Fund. As at the present date one case had been dismissed as filed out of time, but the plaintiff has appealed against this ruling. The Group does not consider that these cases will have a material impact upon its financial position.

Greek case

In connection with a legal dispute (one case by the Company against Themis and one by Themis against the Company) relating to the Company's discontinued operations in Greece (Themis case), a provision was recognised in previous periods (30 September 2014: €38.950 thousand) following a court judgement of the Athens Court of Appeal (dismissing the Company's case and upholding the Themis case). This provision was reversed as at 31 December 2014 following the dismissal of the judgement by the Greek Supreme Court in March 2015. The Supreme Court further ruled that these claims (the Company's claim against Themis for approximately €25 million which had been transferred to Piraeus Bank SA in March 2013, as well as Themis' claim against the Company for a similar amount) be reconsidered by the Supreme Court on the merits at the instigation of the affected party. Both cases were heard in December 2016 and the court reserved its judgement. The Company does not consider that this case will have a material impact upon the financial position of the Company.

Swiss Francs loans litigation in Cyprus and UK

A number of actions have been instituted against the Company by borrowers who obtained loans in foreign currencies (mainly Swiss Francs). The central allegation in these cases is that the Company misled these borrowers and/or misrepresented matters, in violation of applicable law. The Company intends to contest such proceedings. The Company does not expect that these actions will have a material impact upon its financial position.

36. Contingent liabilities and commitments (continued)

36.1 Pending litigation, claims and regulatory matters (continued)

36.2.1 Pending litigation and claims (continued)

UK property lending claims
The Company is the defendant in certain proceedings alleging that the Company is legally responsible for allegedly, inter alia, advancing and misselling loans for the purchase by UK nationals of property in Cyprus. The proceedings in the United Kingdom are currently stayed in order for the parties to have time to negotiate possible settlements.

General criminal investigations and proceedings
The Attorney General and the Cypriot Police (the Police) are conducting various investigations and inquiries following and relating to the financial crisis which culminated in March 2013. The Company is cooperating fully with the Attorney General and the Police and is providing all information requested of it. Based on the currently available information, the Company is of the view that any further investigations or claims resulting from these investigations will not have a material impact on its financial position.

The Attorney General has filed a criminal case against the Company and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. The Company denies all allegations. The case is pending in court. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Company.

The Attorney General has filed a separate criminal case against the Company and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The alleged offence refers to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. The Company denies all allegations. The case is pending in court. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to have a material impact on the financial position of the Company.

In January 2017 the Attorney General has filed a criminal case against a number of current and former officers of the Company relating to the reclassification of Greek Government Bonds in April 2010. No charges were instituted against the Company in this case.

36.2.2 Provisions for regulatory matters

The Hellenic Capital Market Commission (HCMC) Investigation
The HCMC is currently in the process of investigating matters concerning the Company's investment in Greek Government Bonds from 2009 to 2011, including, inter-alia, related non-disclosure of material information in the Company's CCS and CECS and rights issue prospectus (tracking the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek Government Bond investors regarding the Company's non-compliance with Markets in Financial Instruments Directive (MiFID) in respect of investors' direct investments in Greek Government Bonds.

A specific estimate of the outcome of the investigations or of the amount of possible fines cannot be given at this stage, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Company.

The Cyprus Securities and Exchange Commission (CySEC) Investigations
CySEC is currently in the process of investigating matters concerning possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania.

CySEC has also completed the investigation on the adequacy of provisions for the impairment of loans and advances in year 2011 and the investigation is currently pending with the CySEC Board.

36. Contingent liabilities and commitments (continued)

36.2 Pending litigation, claims and regulatory matters (continued)

36.2.2 Provisions for regulatory matters (continued)

The Cyprus Securities and Exchange Commission (CySEC) Investigations (continued)
As the above investigations are in progress or decisions have been reserved, it is not practical at this stage for the Company to estimate reliably the possible consequences thereof, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Company.

Additionally, in late 2014 CySEC completed an investigation into the value of goodwill in CB Uniastrum Bank LLC disclosed in the interim financial statements of the Group in 2012. In October 2016, CySEC issued a decision, concluding that the Company was in breach of certain laws regarding disclosure in accordance, inter alia, with the Market Manipulation (Market Abuse) Law of 2005 and has imposed an administrative fine upon the Company of €25 thousand. CySEC also imposed higher fines upon certain former members of the Board of Directors and former management of the Company. The Company filed a recourse before the Administrative Court against the decisions of CySEC and the fine imposed upon the Company. In March 2017, CySEC filed a legal action against the Company, claiming the amount of €25 thousand imposed as a fine.

In 2015, CySEC carried out an investigation into the reclassification of Greek Government Bonds in April 2010, which was also completed in 2016 with no findings against the Company.

The investigation regarding the adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the Asset Quality Review was also completed in 2016 with no finding against the Company.

Commission for the Protection of Competition Investigation
In April 2014, following an investigation which began in 2010, the Cypriot Commission for the Protection of Competition (the CPC) issued a statement of objections, alleging violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Company and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by the Company.

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. For the time being, the proceedings before the CPC had been stalled due to an Administrative Court decision holding that the composition of the CPC was contrary to law, which was however overturned in March 2017 by the Supreme Court on appeal by the Attorney General. This decision is subject to an appeal instituted before the Supreme Court by the Attorney General. The Company intends to file a recourse before the Administrative Court for the annulment of the CPC's decision and fine (if and when a fine is imposed in reliance thereof). At this stage it is not possible to predict the amount of the fine that may be imposed upon the Company, though it is not expected that any resulting liability or damages will have a material impact on the financial position of the Company.

36.3 Other contingent liabilities

The Company, as part of its disposal process of certain of its operations, has provided various representations, warranties and indemnities to the buyers. These relate to, among other things, the ownership of the loans, the validity of the liens, tax exposures and other matters agreed with the buyers. As a result, the Company may be obliged to compensate the buyers in the event of a valid claim by the buyers with respect to the above representations, warranties and indemnities.

A provision has been made, based on management’s best estimate of probable outflows, where it was assessed that such an outflow is probable.

37. Net cash flow from operating activities

	2016	2015
	€000	€000
Profit / (loss) before tax	**168.157**	(433.382)
Adjustments for:		
Provisions for impairment of loans and advances to customers and other customer credit losses and gain on derecognition and changes in expected cash flows	**360.311**	924.538
Depreciation of property and equipment	**7.550**	8.237
Amortisation of intangible assets	**6.110**	5.756
Impairment of property and equipment	**-**	288
Impairment of other financial instruments	**12.609**	42.002
Amortisation of discounts/premiums, catch-up adjustment and interest on debt securities	**(22.596)**	(71.934)
Loss on sale and write-offs of property and equipment and intangible assets	**54**	41
(Gains)/losses on disposal of investment properties and investment properties held for sale	**(4.050)**	505
Losses from revaluation of investment properties and investment properties held for sale	**63**	35.045
Loss on dissolution/disposal of subsidiaries	**10.719**	25.612
Dividend income	**(108.073)**	(34.113)
Impairment of investments in subsidiaries and associates	**24.798**	30.455
Impairment of balances with Group companies	**33.356**	27.039
Net gains on disposal of available-for-sale investments in equity securities	**(37.013)**	(1.060)
Net gains on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	**(8.419)**	(49.502)
Loss from revaluation of debt securities designated as fair value hedges	**16.466**	11.600
Gains on disposal of stock of property	**(399)**	-
Gains on disposal of joint ventures	**-**	(13.526)
Impairment of stock of property	**11.745**	9.709
Interest on funding from central banks	**29.656**	78.187
	501.044	595.497
Change in:		
Loans and advances to banks	**49.909**	60.083
Deposits by banks	**189.877**	77.069
Obligatory balances with central banks	**(19.655)**	361.510
Customer deposits	**2.350.960**	1.364.973
Debit balances with Group companies	**64.054**	114.839
Credit balances with Group companies	**(65.841)**	17.803
Loans and advances to customers	**236.696**	220.574
Other assets	**12.091**	7.281
Accrued income and prepaid expenses	**59**	318
Other liabilities	**32.968**	(47.036)
Accrued expenses and deferred income	**(1.331)**	14.300
Derivative financial instruments	**(12.380)**	31.210
Investments at fair value through profit or loss	**7.925**	(559)
Repurchase agreements	**(110.784)**	(211.531)
Proceeds on disposal of stock of property	**28.306**	-
	3.263.898	2.606.331
Tax received/(paid)	**4.951**	(1.071)
Net cash flow from operating activities	**3.268.849**	2.605.260

37. Net cash flow from operating activities (continued)

Non-cash transactions

2016

Acquisition of S.Z. Eliades Leisure Ltd
During the year ended 31 December 2016 the Company acquired a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of the majority of the borrowing due from S.Z. Eliades Leisure Ltd to the Company, as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 47.1.1.

Sale of shares held in Visa Europe Limited
During the year ended 31 December 2016 the Company sold its shares held in Visa Europe Limited following the purchase of Visa Europe Limited by Visa Inc. The transaction in addition to the cash paid, involved the granting of preferred stock in Visa Inc. with a carrying value of approximately €5 million and a deferred cash component of a carrying value of approximately €2 million.

Repossession of collaterals
During the year ended 31 December 2016, the Company acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €258.555 thousand (2015: €1.880 thousand) (Note 26).

Closure of the operations of Bank of Cyprus (Channel Islands) Ltd
As part of the Company's strategy of focusing on its core businesses and markets, the Company decided the closure of the operations of Bank of Cyprus (Channel Islands) Ltd and the relocation of its business to other Group locations, mainly Cyprus and the UK.

2015

Disposal of the majority of the Russian subsidiaries
On 25 September 2015, the Company completed the disposal of the majority of its Russian operations, including the related subsidiaries. As part of the sales agreement, the parties agreed an asset swap arrangement which involved the exchange of certain assets between them that resulted in €41.849 thousand receivable for the Company, which was fully settled during 2016.

Disposal of Aphrodite group
During 2015, the Company disposed of a 65% shareholding in the Aphrodite group. The transaction involved the restructuring of the debt owed by this group to the Company.

Net cash flow from operating activities – interest and dividends

	2016	2015
	€000	€000
Interest paid	**(195.046)**	(268.106)
Interest received	**929.681**	1.134.300
Dividends received	**108.073**	34.113
	842.708	900.307

38. Cash and cash equivalents

Cash and cash equivalents comprise:

	2016	2015
	€000	€000
Cash and non-obligatory balances with central banks	**1.125.351**	989.007
Treasury bills repayable within three months	**-**	21.451
Loans and advances to banks with original maturity less than three months	**769.304**	833.035
	1.894.655	1.843.493

Analysis of cash and balances with central banks and loans and advances to banks

	2016	2015
	€000	€000
Cash and non-obligatory balances with central banks	**1.125.351**	989.007
Obligatory balances with central banks	**142.002**	122.347
Total cash and balances with central banks (Note 17)	**1.267.353**	1.111.354

Loans and advances to banks with original maturity less than three months	**769.304**	833.035
Other restricted loans and advances to banks	**136.398**	153.608
Other loans and advances to banks	**79.174**	125.694
Total loans and advances to banks (Note 17)	**984.876**	1.112.337

Other restricted loans and advances to banks include collaterals under derivative transactions of €55.017 thousand (2015: €82.123 thousand) which is not immediately available for use by the Company, but is released once the transactions are terminated.

39. Operating leases – The Company as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2016 and 2015 are presented below:

	2016	2015
	€000	€000
Within one year	**2.142**	2.637
Between one and five years	**4.637**	5.876
After five years	**282**	742
	7.061	9.255

The above mainly relate to property leases for the Company’s branches and offices.

40. Analysis of assets and liabilities by expected maturity

	2016			2015		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
Assets	**€000**	**€000**	**€000**	€000	€000	€000
Cash and balances with central banks	**1.125.906**	**141.447**	**1.267.353**	989.598	121.756	1.111.354
Loans and advances to banks	**850.199**	**134.677**	**984.876**	1.010.375	101.962	1.112.337
Derivative financial assets	**20.374**	**460**	**20.834**	13.938	84	14.022
Investments	**60.264**	**572.771**	**633.035**	317.542	616.121	933.663
Loans and advances to customers	**5.201.405**	**9.151.155**	**14.352.560**	4.821.788	11.184.090	16.005.878
Balances with Group companies	**159.412**	**1.205.570**	**1.364.982**	192.677	542.902	735.579
Prepayments, accrued income and other assets	**34.589**	**118.746**	**153.335**	11.049	156.437	167.486
Stock of property	**133.000**	**361.998**	**494.998**	62.683	213.412	276.095
Property, equipment and intangible assets	**-**	**217.569**	**217.569**	335	212.665	213.000
Investment properties	**-**	**11.625**	**11.625**	-	11.688	11.688
Investments in associates and joint ventures	**-**	**97.293**	**97.293**	-	97.293	97.293
Investments in Group companies	**-**	**198.708**	**198.708**	-	207.781	207.781
Deferred tax assets	**2.885**	**447.465**	**450.350**	8.828	447.651	456.479
Non-current assets classified as held for sale	**346**	**-**	**346**	9.767	-	9.767
	7.588.380	**12.659.484**	**20.247.864**	7.438.580	13.913.842	21.352.422
Liabilities						
Deposits by banks	**347.729**	**80.008**	**427.737**	204.697	33.163	237.860
Funding from central banks	**250.014**	**600.000**	**850.014**	2.744.764	1.708.086	4.452.850
Repurchase agreements	**-**	**257.367**	**257.367**	111.605	256.546	368.151
Derivative financial liabilities	**9.649**	**39.191**	**48.840**	16.041	38.367	54.408
Customer deposits	**4.206.159**	**10.838.931**	**15.045.090**	3.705.967	8.988.163	12.694.130
Balances with Group companies	**133.483**	**369.162**	**502.645**	199.170	369.316	568.486
Accruals, deferred income and other liabilities	**211.680**	**44.980**	**256.660**	184.710	48.374	233.084
Debt securities in issue	**-**	**-**	**-**	712	-	712
Deferred tax liabilities	**-**	**20.533**	**20.533**	-	19.868	19.868
	5.158.714	**12.250.172**	**17.408.886**	7.167.666	11.461.883	18.629.549

40. Analysis of assets and liabilities by expected maturity (continued)

The main assumptions used in determining the expected maturity of assets and liabilities are set out below.

The ELA funding which forms part of the funding from central banks has been included in the 'less than one year' time band as at 31 December 2016, since it was expected to be repaid within one year. Funding under ELA has a contractual maturity of less than one year.

The investments are classified in the relevant time band based on expectations as to their realisation. In most cases this is the maturity date, unless there is an indication that the maturity will be prolonged or there is an intention to sell, roll or replace the security with a similar one. The latter would be the case where there is secured borrowing, requiring the pledging of bonds and these bonds mature before the maturity of the secured borrowing. The maturity of bonds is then extended to cover the period of the secured borrowing.

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The impaired loans as defined in Note 41, net of specific and collective provisions, and the loans which are past due for more than 90 days, are classified in the 'over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

Stock of property is classified in the relevant time band based on expectations as to its realisation.

A percentage of customer deposits in Cyprus maturing within one year is transferred in the 'over one year' time band, based on the observed behavioural analysis. In Romania deposits are classified on the basis of contractual maturities.

Trading investments are classified in the less than one year time band.

The expected maturity of all prepayments, accrued income and other assets and accruals, deferred income and other liabilities is the same as their contractual maturity. If they don't have a contractual maturity, the expected maturity is based on the timing the asset is expected to be realised and the liability is expected to be settled.

41. Risk management – Credit risk

In the ordinary course of its business the Company is exposed to credit risk which is monitored through various control mechanisms, in order to prevent undue risk concentrations and to price credit facilities and products on a risk-adjusted basis.

Credit risk is the risk that arises from the possible failure of one or more customers to discharge their obligations towards the Company.

The Credit Risk department sets the Company's credit disbursement policies and monitors compliance with credit risk policy applicable to each business line and monitors the quality of the Company's loans and advances portfolio through the timely assessment of problematic customers. The credit exposures from related accounts are aggregated and monitored on a consolidated basis.

Credit Risk department, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that credit sanctioning function is being properly managed.

The credit policies are combined with the methods used for the assessment of the customers' creditworthiness (credit rating and credit scoring systems).

The loan portfolio is analysed on the basis of assessments about the customers' creditworthiness, their economic sector of activity and the country in which they operate.

The credit risk exposure of the Company is diversified both geographically and across the various sectors of the economy. The Credit Risk department determines the prohibitive/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

41. Risk management – Credit risk (continued)

The Company's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5.1.

The Market Risk department assesses the credit risk relating to investments in liquid assets (mainly loans and advances to banks and debt securities) and submits its recommendations for limits to be set for banks and countries to the ALCO for approval.

Maximum exposure to credit risk and collateral and other credit enhancements

The Company's maximum exposure to credit risk is analysed by geographic area as follows:

On-balance sheet	2016	2015
	€000	€000
Cyprus	**18.265.382**	19.423.767
Greece	**48.399**	48.126
Russia	**10.985**	55.257
United Kingdom	**22.027**	16.545
Romania	**226.751**	319.477
	18.573.544	19.863.172

Off-balance sheet		
Cyprus	**2.738.382**	2.736.014
Greece	**112.596**	131.172
Russia	**-**	20.000
Romania	**397**	307
	2.851.375	2.887.493

Total on and off-balance sheet		
Cyprus	**21.003.764**	22.159.781
Greece	**160.995**	179.298
Russia	**10.985**	75.257
United Kingdom	**22.027**	16.545
Romania	**227.148**	319.784
	21.424.919	22.750.665

41. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

The Company offers guarantee facilities to its customers under which the Company may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Company to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

Loans and advances to customers
The Credit Risk department determines the amount and type of collateral and other credit enhancements required for the granting of new loans to customers.

The main types of collateral obtained by the Company are mortgages on real estate, cash collateral/blocked deposits, bank guarantees, government guarantees, pledges of equity securities and debt instruments of public companies, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

The Company's management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

Other financial instruments
Collateral held as security for financial assets other than loans and advances is determined by the nature of the financial instrument. Debt securities and other eligible bills are generally unsecured with the exception of asset-backed securities and similar instruments, which are secured by pools of financial assets. In addition, some debt securities are government-guaranteed.

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

Settlement risk arises in any situation where a payment in cash or securities is made in the expectation of a corresponding receipt in securities or cash. The Company sets daily settlement limits for each counterparty. Settlement risk is mitigated when transactions are effected via established payment systems or on a delivery upon payment basis.

The table below presents the maximum exposure to credit risk, the tangible and measurable collateral and credit enhancements held and the net exposure to credit risk, that is the exposure after taking into account the impairment loss and tangible and measurable collateral and credit enhancements held. Personal guarantees are an additional form of collateral, but are not included in the information below since it is impracticable to estimate their fair value.

The fair value of the collateral presented in the tables below is capped to the carrying value of the loans and advances to customers.

41. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

2016	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Company							Net exposure to credit risk
		Cash	Securities	Letters of credit / guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 17)	**1.135.173**	-	-	-	-	-	-	-	**1.135.173**
Loans and advances to banks (Note 17)	**984.876**	-	-	-	-	-	-	-	**984.876**
Debt securities at fair value through profit or loss (Note 18)	**10.426**	-	-	-	-	-	-	-	**10.426**
Debt securities classified as available-for-sale and loans and receivables (Note 18)	**608.625**	-	-	-	-	-	-	-	**608.625**
Derivative financial instruments (Note 19)	**20.834**	-	-	-	-	-	-	-	**20.834**
Loans and advances to customers (Note 21)	**14.352.560**	337.198	335.599	305.202	19.259.024	501.500	(8.265.377)	12.473.146	**1.879.414**
Debtors (Note 27)	**315**	-	-	-	-	-	-	-	**315**
Balances with Group companies (Note 22)	**1.364.982**	-	-	-	-	-	-	-	**1.364.982**
Other assets	**95.753**	-	-	-	-	-	-	-	**95.753**
On-balance sheet total	**18.573.544**	**337.198**	**335.599**	**305.202**	**19.259.024**	**501.500**	**(8.265.377)**	**12.473.146**	**6.100.398**
Contingent liabilities									
Acceptances and endorsements	**6.413**	353	-	-	4.263	13	-	4.629	**1.784**
Guarantees	**797.071**	69.712	1.326	65.185	164.480	6.222	(967)	305.958	**491.113**
Commitments									
Documentary credits	**27.636**	10.837	15	102	8.112	297	-	19.363	**8.273**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.020.255**	31.347	1.050	2.221	294.839	16.158	-	345.615	**1.674.640**
Off-balance sheet total	**2.851.375**	**112.249**	**2.391**	**67.508**	**471.694**	**22.690**	**(967)**	**675.565**	**2.175.810**
Total credit risk exposure	**21.424.919**	**449.447**	**337.990**	**372.710**	**19.730.718**	**524.190**	**(8.266.344)**	**13.148.711**	**8.276.208**

41. Risk management – Credit risk (continued)

Maximum exposure to credit risk and collateral and other credit enhancements (continued)

2015	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Company							Net exposure to credit risk
		Cash	Securities	Letters of credit / guarantee	Property	Other	Surplus collateral	Net collateral	
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 17)	**957.612**	-	-	-	-	-	-	-	**957.612**
Loans and advances to banks (Note 17)	**1.112.337**	-	-	-	-	-	-	-	**1.112.337**
Debt securities at fair value through profit or loss (Note 18)	**17.430**	-	-	-	-	-	-	-	**17.430**
Debt securities classified as available-for-sale and loans and receivables (Note 18)	**874.337**	-	-	-	-	-	-	-	**874.337**
Derivative financial instruments (Note 19)	**14.022**	-	-	-	-	-	-	-	**14.022**
Loans and advances to customers (Note 21)	**16.005.878**	478.532	253.305	377.011	20.944.487	347.591	(8.058.447)	14.342.479	**1.663.399**
Debtors (Note 27)	**259**	-	-	-	-	-	-	-	**259**
Balances with Group companies (Note 22)	**735.579**	-	-	-	-	-	-	-	**735.579**
Other assets	**145.718**	-	4.600	-	19.043	-	-	23.643	**122.075**
On-balance sheet total	**19.863.172**	**478.532**	**257.905**	**377.011**	**20.963.530**	**347.591**	**(8.058.447)**	**14.366.122**	**5.497.050**
Contingent liabilities									
Acceptances and endorsements	**7.041**	666	-	-	4.352	32	-	5.050	**1.991**
Guarantees	**792.883**	52.446	687	73.436	186.975	10.442	-	323.986	**468.897**
Commitments									
Documentary credits	**18.441**	1.123	9	71	8.245	495	-	9.943	**8.498**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2.069.128**	30.339	1.302	1.744	288.908	14.433	-	336.726	**1.732.402**
Off-balance sheet total	**2.887.493**	**84.574**	**1.998**	**75.251**	**488.480**	**25.402**	**-**	**675.705**	**2.211.788**
Total credit risk exposure	**22.750.665**	**563.106**	**259.903**	**452.262**	**21.452.010**	**372.993**	**(8.058.447)**	**15.041.827**	**7.708.838**

41. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers

There are restrictions on loan concentrations which are imposed by the Banking Law in Cyprus and the relevant CBC Directives and CRR. According to these restrictions, banks are prohibited from lending more than 25% of the capital base to a single customer group. The Group's risk appetite statement imposes stricter concentration limits and the Company is taking actions to run down those exposures which are in excess of these internal limits over time.

In addition to the above, the Company's overseas branches must comply with guidelines for large exposures as set by the regulatory authorities of the countries in which they operate.

Fair value adjustment on initial recognition

The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and originated credit impaired loans. In accordance with the provisions of IFRS 3, this adjustment has decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the aforementioned adjustment is not presented within the gross balances of loans and advances.

41. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

Geographical and industry concentrations of the Company loans and advances to customers are presented below:

2016	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By economic activity	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Trade	2.044.324	-	28	11.141	-	**2.055.493**	**(87.576)**	**1.967.917**
Manufacturing	658.811	-	93	7.722	-	**666.626**	**(25.734)**	**640.892**
Hotels and catering	1.302.543	-	221	3.263	-	**1.306.027**	**(62.665)**	**1.243.362**
Construction	2.874.260	-	-	67.756	-	**2.942.016**	**(210.436)**	**2.731.580**
Real estate	2.022.559	19.599	8.239	200.642	6.934	**2.257.973**	**(114.140)**	**2.143.833**
Private individuals	6.980.383	-	15.508	3.000	-	**6.998.891**	**(227.057)**	**6.771.834**
Professional and other services	1.322.550	-	3.980	11.810	13.701	**1.352.041**	**(72.960)**	**1.279.081**
Other sectors	1.054.272	337	16	32.927	-	**1.087.552**	**(120.344)**	**967.208**
	18.259.702	**19.936**	**28.085**	**338.261**	**20.635**	**18.666.619**	**(920.912)**	**17.745.707**
By customer sector								
Corporate	7.507.790	19.936	22.969	334.440	13.701	**7.898.836**	**(473.799)**	**7.425.037**
SMEs	4.100.298	-	2.684	3.635	-	**4.106.617**	**(202.240)**	**3.904.377**
Retail								
- housing	4.202.287	-	-	100	-	**4.202.387**	**(100.509)**	**4.101.878**
- consumer, credit cards and other	2.064.802	-	2.432	86	6.934	**2.074.254**	**(135.350)**	**1.938.904**
International banking services	321.571	-	-	-	-	**321.571**	**(3.619)**	**317.952**
Wealth management	62.954	-	-	-	-	**62.954**	**(5.395)**	**57.559**
	18.259.702	**19.936**	**28.085**	**338.261**	**20.635**	**18.666.619**	**(920.912)**	**17.745.707**

41. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

2016	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By business line	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Corporate	2.547.970	19.936	18.359	237.203	-	**2.823.468**	**(63.523)**	**2.759.945**
SMEs	1.377.837	-	2.684	3.436	-	**1.383.957**	**(29.071)**	**1.354.886**
Retail								
- housing	3.531.222	-	-	100	-	**3.531.322**	**(40.640)**	**3.490.682**
- consumer, credit cards and other	1.317.434	-	883	86	-	**1.318.403**	**(26.435)**	**1.291.968**
Restructuring								
- major corporate	2.080.586	-	-	33.947	-	**2.114.533**	**(156.190)**	**1.958.343**
- corporate	1.014.853	-	-	-	-	**1.014.853**	**(22.795)**	**992.058**
- SMEs	1.219.572	-	-	-	-	**1.219.572**	**(50.393)**	**1.169.179**
Recoveries								
- corporate	1.864.381	-	4.610	63.290	13.701	**1.945.982**	**(231.291)**	**1.714.691**
- SMEs	1.502.889	-	-	199	-	**1.503.088**	**(122.776)**	**1.380.312**
- retail housing	671.065	-	-	-	-	**671.065**	**(59.869)**	**611.196**
- retail other	747.368	-	1.549	-	6.934	**755.851**	**(108.915)**	**646.936**
International banking services	321.571	-	-	-	-	**321.571**	**(3.619)**	**317.952**
Wealth management	62.954	-	-	-	-	**62.954**	**(5.395)**	**57.559**
	18.259.702	**19.936**	**28.085**	**338.261**	**20.635**	**18.666.619**	**(920.912)**	**17.745.707**

Restructuring major corporate business line includes customers with exposures over €100.000 thousand, whereas restructuring corporate business line includes customers with exposures between €6.000 thousand and €100.000 thousand.

41. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

2015	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
By economic activity	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Trade	2.267.092	-	47	12.350	-	**2.279.489**	**(121.192)**	**2.158.297**
Manufacturing	801.536	-	-	7.590	-	**809.126**	**(31.596)**	**777.530**
Hotels and catering	1.463.129	-	2.268	6.209	-	**1.471.606**	**(77.444)**	**1.394.162**
Construction	3.976.156	-	774	45.510	-	**4.022.440**	**(335.803)**	**3.686.637**
Real estate	2.130.028	43.443	39.547	249.630	6.648	**2.469.296**	**(137.185)**	**2.332.111**
Private individuals	7.282.322	-	7.429	5.585	-	**7.295.336**	**(268.496)**	**7.026.840**
Professional and other services	1.595.010	-	830	37.880	13.693	**1.647.413**	**(101.913)**	**1.545.500**
Other sectors	1.145.344	24.866	259	28.584	-	**1.199.053**	**(133.781)**	**1.065.272**
	20.660.617	**68.309**	**51.154**	**393.338**	**20.341**	**21.193.759**	**(1.207.410)**	**19.986.349**
By customer sector								
Corporate	9.222.446	68.309	15.173	386.841	13.693	**9.706.462**	**(666.631)**	**9.039.831**
SMEs	4.408.096	-	33.134	3.857	-	**4.445.087**	**(263.630)**	**4.181.457**
Retail								
- housing	4.285.058	-	-	1.306	-	**4.286.364**	**(108.267)**	**4.178.097**
- consumer, credit cards and other	2.152.950	-	2.847	1.334	6.648	**2.163.779**	**(154.174)**	**2.009.605**
International banking services	528.795	-	-	-	-	**528.795**	**(8.056)**	**520.739**
Wealth management	63.272	-	-	-	-	**63.272**	**(6.652)**	**56.620**
	20.660.617	**68.309**	**51.154**	**393.338**	**20.341**	**21.193.759**	**(1.207.410)**	**19.986.349**

41. Risk management – Credit risk (continued)

Credit risk concentration of loans and advances to customers (continued)

2015	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
By business line	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Corporate	2.188.794	68.309	15.173	305.848	-	**2.578.124**	**(83.695)**	**2.494.429**
SMEs	1.502.261	-	33.134	3.857	-	**1.539.252**	**(46.973)**	**1.492.279**
Retail								
- housing	3.657.083	-	-	1.306	-	**3.658.389**	**(45.585)**	**3.612.804**
- consumer, credit cards and other	1.409.855	-	2.847	1.334	-	**1.414.036**	**(36.834)**	**1.377.202**
Restructuring								
- major corporate	2.877.985	-	-	35.736	-	**2.913.721**	**(175.920)**	**2.737.801**
- corporate	1.814.518	-	-	-	-	**1.814.518**	**(75.945)**	**1.738.573**
- SMEs	1.376.635	-	-	-	-	**1.376.635**	**(67.758)**	**1.308.877**
Recoveries								
- corporate	2.341.149	-	-	45.257	13.693	**2.400.099**	**(331.071)**	**2.069.028**
- SMEs	1.529.200	-	-	-	-	**1.529.200**	**(148.899)**	**1.380.301**
- retail housing	627.975	-	-	-	-	**627.975**	**(62.682)**	**565.293**
- retail other	743.095	-	-	-	6.648	**749.743**	**(117.340)**	**632.403**
International banking services	528.795	-	-	-	-	**528.795**	**(8.056)**	**520.739**
Wealth management	63.272	-	-	-	-	**63.272**	**(6.652)**	**56.620**
	20.660.617	**68.309**	**51.154**	**393.338**	**20.341**	**21.193.759**	**(1.207.410)**	**19.986.349**

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value of €82.154 thousand (2015: €81.078 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €106.968 thousand (2015: €69.983 thousand).

41. Risk management – Credit risk (continued)

Currency concentration of loans and advances to customers

2016	Cyprus	Greece	United Kingdom	Romania	Russia	**Total**	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**
	€000	€000	€000	€000	€000	**€000**	**€000**	**€000**
Euro	17.556.179	19.936	200	336.832	13.701	**17.926.848**	**(876.186)**	**17.050.662**
US Dollar	149.235	-	-	-	6.934	**156.169**	**(10.281)**	**145.888**
British Pound	38.907	-	27.885	88	-	**66.880**	**(538)**	**66.342**
Russian Rouble	103	-	-	-	-	**103**	**(1)**	**102**
Romanian Lei	-	-	-	1.341	-	**1.341**	**-**	**1.341**
Swiss Franc	471.167	-	-	-	-	**471.167**	**(31.170)**	**439.997**
Other currencies	44.111	-	-	-	-	**44.111**	**(2.736)**	**41.375**
	18.259.702	**19.936**	**28.085**	**338.261**	**20.635**	**18.666.619**	**(920.912)**	**17.745.707**
2015								
Euro	19.261.824	68.309	2.260	392.100	13.693	**19.738.186**	**(1.128.137)**	**18.610.049**
US Dollar	251.075	-	-	22	6.648	**257.745**	**(11.858)**	**245.887**
British Pound	50.831	-	48.894	93	-	**99.818**	**(11.900)**	**87.918**
Russian Rouble	108	-	-	-	-	**108**	**(1)**	**107**
Romanian Lei	1	-	-	1.123	-	**1.124**	**-**	**1.124**
Swiss Franc	1.029.847	-	-	-	-	**1.029.847**	**(52.743)**	**977.104**
Other currencies	66.931	-	-	-	-	**66.931**	**(2.771)**	**64.160**
	20.660.617	**68.309**	**51.154**	**393.338**	**20.341**	**21.193.759**	**(1.207.410)**	**19.986.349**

41. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers

The following table presents the credit quality of the Company's loans and advances to customers:

	2016			2015		
	Gross loans before fair value adjustment on initial recognition	**Fair value adjustment on initial recognition**	**Gross loans after fair value adjustment on initial recognition**	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	**€000**	**€000**	€000	€000	€000
Neither past due nor impaired	**9.749.523**	**(166.185)**	**9.583.338**	9.356.952	(173.260)	9.183.692
Past due but not impaired	**2.214.988**	**(38.743)**	**2.176.245**	2.993.746	(60.803)	2.932.943
Impaired	**6.702.108**	**(715.984)**	**5.986.124**	8.843.061	(973.347)	7.869.714
	18.666.619	**(920.912)**	**17.745.707**	21.193.759	(1.207.410)	19.986.349

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery.

During the year ended 31 December 2016 the total non-contractual write-offs recorded by the Company amounted to €517.694 thousand (2015: €172.670 thousand). The remaining gross loan balance of these customers as at 31 December 2016 was €305.591 thousand (2015: €280.575 thousand) of which €19.651 thousand (2015: €56.548 thousand) were past due for more than 90 days but not impaired and €130.964 thousand (2015: €198.296 thousand) were impaired.

Loans and advances to customers that are neither past due nor impaired

The credit quality of loans and advances to customers that were neither past due nor impaired is monitored by the Company using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

2016	**Grade 1**	**Grade 2**	**Grade 3**	**Total**
	€000	**€000**	**€000**	**€000**
Cyprus	6.127.367	1.751.332	1.802.957	**9.681.656**
United Kingdom	7.224	3.357	-	**10.581**
Romania	56.857	343	86	**57.286**
	6.191.448	**1.755.032**	**1.803.043**	**9.749.523**

2015				
Cyprus	5.572.053	1.441.298	2.244.258	**9.257.609**
United Kingdom	-	9.267	-	**9.267**
Romania	45.962	34.973	9.141	**90.076**
	5.618.015	**1.485.538**	**2.253.399**	**9.356.952**

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

41. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Loans and advances to customers that are neither past due nor impaired (continued)
Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of the year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

Loans and advances to customers that are past due but not impaired

	2016	2015
Past due analysis:	**€000**	€000
- up to 30 days	**442.742**	431.813
- 31 to 90 days	**374.675**	347.009
- 91 to 180 days	**125.468**	142.245
- 181 to 365 days	**140.078**	258.038
- over one year	**1.132.025**	1.814.641
	2.214.988	2.993.746

The fair value of the collateral that the Company holds (to the extent that it mitigates credit risk) in respect of loans and advances to customers that are past due but not impaired as at 31 December 2016 is €1.706.196 thousand (2015: €2.391.828 thousand). The fair value of the collateral is capped to the gross carrying value of the loans and advances to customers.

Impaired loans and advances to customers

	2016		2015	
	Gross loans and advances	**Fair value of collateral**	Gross loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**6.374.803**	**3.953.087**	8.414.868	5.596.169
Greece	**19.936**	**17.962**	68.309	17.945
Russia	**20.635**	**13.692**	20.341	13.684
United Kingdom	**6.118**	**490**	37.196	2.845
Romania	**280.616**	**51.999**	302.347	165.994
	6.702.108	**4.037.230**	8.843.061	5.796.637

41. Risk management – Credit risk (continued)

Credit quality of loans and advances to customers (continued)

Impaired loans and advances to customers (continued)
The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

	2016	2015
Impaired:	**€000**	€000
- no arrears	**471.855**	875.488
- up to 30 days	**61.484**	78.176
- 31 to 90 days	**28.921**	24.334
- 91 to 180 days	**44.060**	63.369
- 181 to 365 days	**51.438**	303.674
- over one year	**6.044.350**	7.498.020
	6.702.108	8.843.061

Provision for impairment of loans and advances to customers

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

2016	Cyprus	Greece	Other countries	**Total**
	€000	€000	€000	**€000**
1 January	3.731.750	33.617	215.104	**3.980.471**
Acquisition of subsidiary	(8.577)	-	-	**(8.577)**
Foreign exchange and other adjustments	113.110	2.269	(685)	**114.694**
Applied in writing off impaired loans and advances	(923.723)	(27.163)	(33.693)	**(984.579)**
Interest accrued on impaired loans and advances	(138.603)	(627)	(1.282)	**(140.512)**
Collection of loans and advances previously written off	1.872	-	-	**1.872**
Charge for the year (Note 14)	394.333	(1.181)	36.626	**429.778**
31 December	**3.170.162**	**6.915**	**216.070**	**3.393.147**
Individual impairment	**2.779.380**	**6.915**	**215.585**	**3.001.880**
Collective impairment	**390.782**	**-**	**485**	**391.267**

41. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers (continued)

2015	Cyprus	Greece	Other countries	**Total**
	€000	€000	€000	**€000**
1 January	2.865.782	9.086	231.976	**3.106.844**
Foreign exchange and other adjustments	80.373	-	338	**80.711**
Transfer between geographical areas	(62.010)	6.329	55.681	**-**
Applied in writing off impaired loans and advances	(151.619)	(16.700)	(111.746)	**(280.065)**
Interest accrued on impaired loans and advances	(197.009)	(2.134)	(1.577)	**(200.720)**
Collection of loans and advances previously written off	2.671	-	-	**2.671**
Charge for the year (Note 14)	1.193.562	37.036	40.432	**1.271.030**
31 December	**3.731.750**	**33.617**	**215.104**	**3.980.471**
Individual impairment	**3.255.398**	**29.242**	**213.085**	**3.497.725**
Collective impairment	**476.352**	**4.375**	**2.019**	**482.746**

The above table does not include the provisions for impairment on financial guarantees and commitments which are part of 'Accruals, deferred income and other liabilities' (Note 31).

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases for which, based on specific facts and circumstances, a different period has been used and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero. The average liquidity haircut and selling expenses used in the provisions calculation is 10% of the current market value of the property for those collaterals for which the increase in their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop.

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

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

41. Risk management – Credit risk (continued)

Provision for impairment of loans and advances to customers(continued)

Sensitivity analysis

The Company has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 31 December 2016. The impact on the provisions for impairment of loans and advances is presented below:

	Increase / (decrease) on provisions for impairment of loans and advances
Change in provisions assumptions:	**€000**
Increase the timing of recovery from collaterals by 1 year (to an average of 4 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	27.891
Decrease the timing of recovery from collaterals by 1 year (to an average of 2 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	(26.814)
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	118.055
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	216.359
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	(73.940)
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	(168.357)
Extend the timing of recovery from collaterals by 1 year and decrease the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	90.028
Decrease the timing of recovery from collaterals by 1 year and increase the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	(45.844)

41. Risk management – Credit risk (continued)

Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2016 and 2015 by taking possession of collateral held as security, was as follows:

	2016	2015
	€000	€000
Residential property	**85.171**	1.946
Commercial and other property	**921.185**	110.771
	1.006.356	112.717

The total carrying value of the assets obtained over the years by taking possession of collateral held as security for customer loans and advances and held by the Company as at 31 December 2016 amounted to €1.268.811 thousand including an amount of €3.072 thousand relating to commercial and other property which were classified as held for sale (2015: €421.110 thousand, including an amount of €6.552 thousand relating to commercial and other property held for sale).

The disposals of repossessed assets during 2016 amounted to €128.887 thousand (2015: €28.883 thousand).

Forbearance

Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Company 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 Company. 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 Company 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 Company 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 Company has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Company.

41. Risk management – Credit risk (continued)

Forbearance (continued)

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears to the principal; that is forbearance of the arrears and addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.
- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.

Long-term restructuring solutions can include the following:

- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Company in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Company, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Company from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Company and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Company and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Company applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

41. **Risk management – Credit risk** (continued)

Rescheduled loans and advances to customers

The below tables present the Company's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.

2016	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
1 January	8.391.624	24.865	814	118.121	**8.535.424**
New loans and advances rescheduled in the year	900.616	-	35	340	**900.991**
Assets no longer classified as rescheduled (including repayments)	(1.504.769)	(97)	(234)	(41.819)	**(1.546.919)**
Applied in writing off rescheduled loans and advances	(715.713)	(24.871)	(255)	(144)	**(740.983)**
Interest accrued on rescheduled loans and advances	326.260	440	13	2.392	**329.105**
Foreign exchange adjustments	3.852	-	(96)	(9)	**3.747**
31 December	**7.401.870**	**337**	**277**	**78.881**	**7.481.365**
2015					
1 January	7.024.847	75.778	4.451	183.372	**7.288.448**
New loans and advances rescheduled in the year	2.189.524	-	-	-	**2.189.524**
Assets no longer classified as rescheduled (including repayments)	(1.125.219)	(35.927)	(3.647)	(32.178)	**(1.196.971)**
Applied in writing off rescheduled loans and advances	(80.896)	(16.700)	-	(33.888)	**(131.484)**
Interest accrued on rescheduled loans and advances	337.231	1.714	-	1.610	**340.555**
Foreign exchange adjustments	46.137	-	10	(795)	**45.352**
31 December	**8.391.624**	**24.865**	**814**	**118.121**	**8.535.424**

The classification as rescheduled loans is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. These are set out in the EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

41. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

2016	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
Neither past due nor impaired	4.021.923	-	153	85	**4.022.161**
Past due but not impaired	1.212.177	-	6	225	**1.212.408**
Impaired	2.167.770	337	118	78.571	**2.246.796**
	7.401.870	**337**	**277**	**78.881**	**7.481.365**
2015					
Neither past due nor impaired	3.636.868	-	106	60.182	**3.697.156**
Past due but not impaired	1.591.934	-	202	297	**1.592.433**
Impaired	3.162.822	24.865	506	57.642	**3.245.835**
	8.391.624	**24.865**	**814**	**118.121**	**8.535.424**

Fair value of collateral

2016	Cyprus	United Kingdom	Romania	**Total**
	€000	€000	€000	**€000**
Neither past due nor impaired	3.772.578	92	80	**3.772.750**
Past due but not impaired	1.021.347	-	182	**1.021.529**
Impaired	1.828.036	-	22.060	**1.850.096**
	6.621.961	**92**	**22.322**	**6.644.375**
2015				
Neither past due nor impaired	3.360.868	-	59.931	**3.420.799**
Past due but not impaired	1.407.575	155	178	**1.407.908**
Impaired	2.709.602	-	38.924	**2.748.526**
	7.478.045	**155**	**99.033**	**7.577.233**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

41. **Risk management – Credit risk** (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

2016	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
By economic activity					
Trade	668.305	-	-	1.624	**669.929**
Manufacturing	214.248	-	-	1.263	**215.511**
Hotels and catering	619.259	-	8	3.249	**622.516**
Construction	1.539.773	-	-	25.175	**1.564.948**
Real estate	1.047.280	-	-	47.192	**1.094.472**
Private individuals	2.515.157	-	257	60	**2.515.474**
Professional and other services	446.946	-	12	-	**446.958**
Other sectors	350.902	337	-	318	**351.557**
	7.401.870	**337**	**277**	**78.881**	**7.481.365**
By customer sector					
Corporate	3.418.231	337	3	77.556	**3.496.127**
SMEs	1.675.528	-	178	1.265	**1.676.971**
Retail					
- housing	1.661.487	-	-	-	**1.661.487**
- consumer, credit cards and other	567.426	-	96	60	**567.582**
International banking services	74.704	-	-	-	**74.704**
Wealth management	4.494	-	-	-	**4.494**
	7.401.870	**337**	**277**	**78.881**	**7.481.365**

41. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2016	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
By business line					
Corporate	711.872	337	3	77.391	**789.603**
SMEs	464.163	-	178	1.265	**465.606**
Retail					
- housing	1.494.123	-	-	-	**1.494.123**
- consumer, credit cards and other	449.107	-	96	60	**449.263**
Restructuring					
- major corporate	1.371.448	-	-	165	**1.371.613**
- corporate	790.600	-	-	-	**790.600**
- SMEs	815.597	-	-	-	**815.597**
Recoveries					
- corporate	544.311	-	-	-	**544.311**
- SMEs	395.768	-	-	-	**395.768**
- retail housing	167.364	-	-	-	**167.364**
- retail other	118.319	-	-	-	**118.319**
International banking services	74.704	-	-	-	**74.704**
Wealth management	4.494	-	-	-	**4.494**
	7.401.870	**337**	**277**	**78.881**	**7.481.365**

41. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2015	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
By economic activity					
Trade	707.105	-	-	2.936	**710.041**
Manufacturing	282.449	-	-	1.258	**283.707**
Hotels and catering	743.585	-	30	6.196	**749.811**
Construction	2.155.778	-	-	1.399	**2.157.177**
Real estate	1.069.156	-	295	82.739	**1.152.190**
Private individuals	2.526.554	-	451	153	**2.527.158**
Professional and other services	584.836	-	38	22.697	**607.571**
Other sectors	322.161	24.865	-	743	**347.769**
	8.391.624	**24.865**	**814**	**118.121**	**8.535.424**
By customer sector					
Corporate	4.368.307	24.865	27	116.385	**4.509.584**
SMEs	1.720.453	-	620	1.583	**1.722.656**
Retail					
- housing	1.685.668	-	-	-	**1.685.668**
- consumer, credit cards and other	568.986	-	167	153	**569.306**
International banking services	42.481	-	-	-	**42.481**
Wealth management	5.729	-	-	-	**5.729**
	8.391.624	**24.865**	**814**	**118.121**	**8.535.424**

41. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2015	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
By business line					
Corporate	647.785	24.865	27	115.639	**788.316**
SMEs	550.664	-	620	1.583	**552.867**
Retail					
- housing	1.562.149	-	-	-	**1.562.149**
- consumer, credit cards and other	468.368	-	167	153	**468.688**
Restructuring					
- major corporate	1.768.782	-	-	626	**1.769.408**
- corporate	1.272.086	-	-	-	**1.272.086**
- SMEs	798.010	-	-	-	**798.010**
Recoveries					
- corporate	679.654	-	-	120	**679.774**
- SMEs	371.779	-	-	-	**371.779**
- retail housing	123.519	-	-	-	**123.519**
- retail other	100.618	-	-	-	**100.618**
International banking services	42.481	-	-	-	**42.481**
Wealth management	5.729	-	-	-	**5.729**
	8.391.624	**24.865**	**814**	**118.121**	**8.535.424**

41. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

2016	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
Individual impairment	899.178	337	118	59.791	**959.424**
Collective impairment	200.069	-	1	2	**200.072**
	1.099.247	**337**	**119**	**59.793**	**1.159.496**
2015					
Individual impairment	1.144.476	22.966	504	35.402	**1.203.348**
Collective impairment	207.106	-	1	1.813	**208.920**
	1.351.582	**22.966**	**505**	**37.215**	**1.412.268**

Credit quality of Company assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and loans and advances to banks

Balances with central banks and loans and advances to banks are analysed by Moody's rating as follows:

	2016	2015
	€000	€000
Aaa – Aa3	**492.870**	169.626
A1 – A3	**220.509**	533.973
Baa1 – Baa3	**36.844**	146.428
Ba1 – Ba3	**37.067**	36.954
B1 – B3	**1.133.287**	957.021
Caa - C	**10.695**	685
Unrated	**147.692**	196.560
Other receivables from banks	**41.085**	28.702
	2.120.049	2.069.949

Band B1-B3 above includes an amount of €141.447 thousand which mainly relates to obligatory deposits for liquidity purposes with the CBC. As at 31 December 2016, bank balances with carrying value of €78.725 thousand are impaired (2015: €134.291 thousand) with cumulative impairment loss of €55.655 thousand (2015: €28.605 thousand).

41. Risk management – Credit risk (continued)

Credit quality of Company assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

Debt securities
Investments in debt securities are analysed by Moody's rating, their issuer and classification, as follows:

	2016	2015
	€000	€000
Aaa – Aa3	**349.565**	378.339
Baa1 – Baa3	**12.507**	54.626
B1 – B3	**256.979**	458.802
	619.051	891.767
Issued by:		
- Cyprus government	**256.979**	458.802
- other governments	**329.211**	421.037
- banks and other corporations	**32.861**	11.928
	619.051	891.767
Classified as:		
- investments at fair value through profit or loss	**10.426**	17.430
- available-for-sale investments	**540.551**	437.402
- investments classified as loans and receivables	**68.074**	436.935
	619.051	891.767

42. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices–namely from changes in interest rates, exchange rates and security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

Interest rate risk

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

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated separately for each currency. A rate change is applied on each item of the balance sheet for the number of days between its repricing date and the one year horizon in order to calculate the impact on net interest income.

42. Risk management – Market risk (continued)

Interest rate risk (continued)

Interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Company. There are different limits for the Euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Company capital and as a percentage of net interest income (when positive) and are allocated to the various banking units of the Company based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

Sensitivity analysis

The table below sets out the impact on the Company's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies:

	Euro	US Dollar	British Pound	Other currencies	Total
Change in interest rates	**€000**	**€000**	**€000**	**€000**	**€000**
2016					
+2% for Russian Rouble +1% for US Dollar +0,5% for all other currencies	**16.884**	**16.443**	**514**	**1.018**	**34.859**
-4% for Russian Rouble -0,5% for all other currencies	**(21.323)**	**(8.345)**	**(760)**	**(2.578)**	**(33.006)**
2015					
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	13.820	10.568	132	1.720	26.240
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for Euro Euribor ECB -1% for Euro Bank Basic Rate -0,5% for all other currencies	(23.895)	(7.489)	(241)	(1.767)	(33.392)

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Company is also affected by changes in market interest rates. The impact on the Company's equity arises from changes in the fair value of fixed rate debt securities classified as available-for-sale (unless impaired).

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Company's profit/loss before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

42. Risk management – Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis (continued)

	Impact on profit/loss before tax	Impact on equity
Change in interest rates	**€000**	**€000**
2016		
+2% for Russian Rouble +1% for US Dollar +0,5% for all other currencies	**1.828**	**(1.743)**
-4% for Russian Rouble -0,5% for all other currencies	**(1.828)**	**1.713**
2015		
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	1.192	(80)
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for all other currencies	(1.192)	80

Currency risk

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

In order to manage currency risk, the ALCO has approved open position limits for the total foreign exchange position limits. The foreign exchange position limits are lower than those prescribed by the CBC. These limits are managed by Treasury and monitored daily by market risk officers in all the banking units of the Company, who report the overnight foreign currency position of each unit to Market Risk daily.

The Company does not maintain a currency trading book.

The table below sets out the Company's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro based mainly on historical price fluctuations. The impact on profit/loss after tax includes the change in net interest income that arises from the change of currency rate.

The impact on equity arises from the hedging instruments that are used to hedge part of the net assets of the Company's branch whose functional currency is not the euro. The net assets of foreign operations are also revalued and affect equity, but their impact is not taken into account in the above sensitivity analysis as the above relates only to financial instruments which have a direct impact either on profit/loss after tax or on equity.

42. Risk management – Market risk (continued)

Currency risk (continued)

2016	**Change in foreign exchange rate**	**Impact on profit after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	**+10**	**1.936**	**-**
Russian Rouble	**+25**	**21.474**	**-**
Romanian Lei	**+10**	**(213)**	**4.459**
Swiss Franc	**+20**	**6.629**	**-**
British Pound	**+20**	**(8.152)**	**-**
Japanese Yen	**+10**	**307**	**-**
Other currencies	**+10**	**174**	**-**

2016	**Change in foreign exchange rate**	**Impact on profit after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	**-10**	**(1.584)**	**-**
Russian Rouble	**-25**	**(12.884)**	**-**
Romanian Lei	**-10**	**174**	**(3.648)**
Swiss Franc	**-20**	**(4.420)**	**-**
British Pound	**-20**	**6.669**	**-**
Japanese Yen	**-10**	**(251)**	**-**
Other currencies	**-10**	**(143)**	**-**

2015	**Change in foreign exchange rate**	**Impact on loss after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	+10	1.753	-
Russian Rouble	+40	84.392	-
Romanian Lei	+10	1	3.634
Swiss Franc	+20	9.341	-
British Pound	+10	(17.788)	-
Japanese Yen	+10	492	-
Other currencies	+10	106	-

42. Risk management – Market risk (continued)

Currency risk (continued)

2015	Change in foreign exchange rate	Impact on loss after tax	Impact on equity
	%	€000	€000
US Dollar	-10	(1.434)	-
Russian Rouble	-40	(36.168)	-
Romanian Lei	-10	(1)	(2.974)
Swiss Franc	-20	(6.228)	-
British Pound	-10	14.554	-
Japanese Yen	-10	(403)	-
Other currencies	-10	(87)	-

Price risk

Equity securities price risk
The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Company as investments.

Investments in equities are outside the Group's risk appetite. The Company monitors the current portfolio mostly acquired by the Company as part of the acquisition of certain operations of Laiki Bank, with the objective to gradually liquidate all positions for which there is a market. Equity securities may also be acquired in the context of delinquent loan workouts and are disposed of by the Company as soon as practicable.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Company, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Company (if not impaired).

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

2016	Change in index	Impact on profit/loss before tax	Impact on equity
	%	€000	€000
Cyprus Stock Exchange	**+25**	**342**	**1.039**
Athens Exchange	**+35**	**-**	**32**
Other Stock Exchanges and non listed	**+20**	**2**	**1.536**
Cyprus Stock Exchange	**-25**	**(585)**	**(796)**
Athens Exchange	**-35**	**(22)**	**(10)**
Other Stock Exchanges and non listed	**-20**	**(58)**	**(1.480)**

42. Risk management – Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

2015	Change in index	Impact on profit/loss before tax	Impact on equity
	%	€000	€000
Cyprus Stock Exchange	+30	689	1.459
Athens Exchange	+50	-	13
Other Stock Exchanges and non listed	+20	-	1.365
Cyprus Stock Exchange	-30	(791)	(1.358)
Athens Exchange	-50	(4)	(9)
Other Stock Exchanges and non listed	-20	(47)	(1.318)

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 Company. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Company invests a significant part of its liquid assets in debt securities issued mostly by governments. The average Moody's rating of the debt securities portfolio of the Company as at 31 December 2016 was B1 (2015: Baa2).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Company, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Company (if not impaired).

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

	Impact on profit/loss before tax	Impact on equity
Change in market prices	€000	€000
2016		
+6,5%	**667**	**33.614**
-6,5%	**(667)**	**(33.614)**
2015		
+5,5%	944	23.825
-5,5%	(944)	(23.825)

43. Risk management – Liquidity risk and funding

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

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management aims to achieve diversified funding sources in addition to the Company's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring cash flows and liquidity on a daily basis. The Company has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Management and structure

The Board of Directors sets the Group's Liquidity Risk Appetite being the level of risk at which the Company should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews almost at every meeting, the liquidity position of the Company. Information on inflows/outflows is also provided.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Company. It also monitors the liquidity position of its major banking units at least monthly. Given the current liquidity position of the Company, the ALCO considers the monitoring of liquid assets and the cash inflows/outflows of the Company in Cyprus, to be of utmost importance.

Group Treasury is responsible for liquidity management at Company level and for overseeing the operations of Bank of Cyprus UK Ltd, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. The Group Treasury also manages the treasury business of Bank of Cyprus Romania, which is in run-down mode. Every unit is responsible for managing its liquidity and targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Company's liquidity position.

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

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

43. Risk management – Liquidity risk and funding (continued)

Monitoring process

Daily
The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Company's activities. Market Risk prepares a report for submission to the CBC and ECB/Single Supervisory Mechanism (SSM), indicating the opening and closing liquidity position, net customer movements and other movements analysed by the main currencies. In addition, Group Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Company.

Since May 2016, Market Risk also prepares daily stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient liquidity buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

The liquidity buffer is made up of: Euro banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, money market placements up to the stress horizon, available ECB credit line and market value net of haircut of liquid unencumbered/available bonds.

The designing of the stress tests followed best practice guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA SREP. The stress tests assumptions are included in the Group Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities and cash collateral for derivatives and repos.

Weekly
Market Risk prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC.

Monthly
Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios, for all banking units and for the Company and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer in order to calculate the survival days. The fixed deposit renewal rates and deposits by tenor are also presented to the ALCO.

Market Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

Group Treasury prepares a liquidity report which is submitted to the ALCO on a monthly basis. The report indicates the liquidity position of the Company, data on monthly customer flows, as well as other important developments related to liquidity. Moreover, during 2016 Group Treasury prepared a cash flows projection report, under a base and an adverse scenario, covering a one month and two month periods, which was sent to ECB/SSM/CBC/Ministry of Finance. Following full ELA repayment in January 2017, Group Treasury has stopped producing the cash flows projection report.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and Board Risk Committee quarterly. Moreover, Market Risk reports the Net Stable Funding Ratio (NSFR), Leverage Ratio to the CBC/ECB quarterly and various other liquidity reports, included in the short-term exercise of the SSM per their SREP guidelines.

43. Risk management – Liquidity risk and funding (continued)

Monitoring process (continued)

Annually
The Company prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP).

As part of the Company's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan for handling liquidity difficulties. The plan details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The plan sets out the members of this Committee and a series of the possible actions that can be taken. This plan, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated policy with its recommendations to the Board through the Board Risk Committee for approval. The approved policy is notified to the SSM.

Liquidity ratios

The Company liquidity ratio presented in the table below, is calculated for management information purposes, based on the CBC methodology for the Euro stock liquidity ratio. The ratio is calculated as the amount of liquid assets to total deposits and other liabilities falling due within twelve months. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit/liabilities due to be paid in the next twelve months.

The Company liquidity ratio is prepared monthly by Market Risk and monitored by ALCO. Each banking unit has its own required limit for this ratio and is monitored accordingly: for the operations in Cyprus, two separate ratios are calculated; one for Euro and one for foreign currencies and the required limit is 20% for Euro and 70% for foreign currencies. For the other banking units the minimum requirement is at 15%.

It is noted that in the calculation of this ratio, as well as for the CBC regulatory reports, ELA is treated as a long term liability.

The Company's liquidity ratio was as follows:

	2016	2015
	%	%
End of reporting year	**15,06**	16,53
Average monthly ratio	**14,67**	16,19
Highest monthly ratio	**15,46**	19,50
Lowest monthly ratio	**12,60**	13,30

The Company is currently not in compliance with the regulatory liquidity requirements with respect to its operations in Cyprus and the Group is currently not in compliance with its regulatory liquidity requirements with respect to the LCR and therefore is dependent on continuing regulatory forbearance.

As at 31 December 2016 and 2015 the other banking units of the Company were in compliance with their regulatory liquidity requirements.

43. Risk management – Liquidity risk and funding (continued)

Liquidity ratios (continued)

The ratio of loans and advances to customer deposits is presented below:

	2016	2015
	%	%
End of reporting year	**95,14**	125,74
Average quarterly ratio	**111,96**	142,14
Highest quarterly ratio	**125,74**	152,69
Lowest quarterly ratio	**95,14**	125,74

Sources of funding

During the year of 2016, the Company's main sources of liquidity were its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through ELA.

Reliance on ELA funding was reduced from its peak of €11,4 billion in April 2013 to €200 million as at 31 December 2016 (2015: €3,8 billion) (Note 29). ELA was fully repaid on 5 January 2017.

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

The funding provided to the Company through ELA is short term, usually 2-4 weeks. The funding via Eurosystem monetary policy operations ranges from short term to long term.

In 2014, the Company participated in the TLTRO of the ECB for an amount of €500 million. On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount from the MRO. In December 2016, the Company borrowed an amount of €600 million through the new series of TLTRO (TLTRO II) announced by the ECB in March 2016. Additionally, an amount of €50 million was borrowed through the LTRO. As a result, in December 2016 all the ECB funding that was borrowed through the MRO, was switched to longer term funding.

In May 2016, the Company raised new funding from the ECB 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.

Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for the final repayment. The Company's subsidiary Bank of Cyprus UK Ltd cannot place funds with the Group in excess of maximum limits set by the local regulator.

Any new funding to subsidiaries requires approval from the ECB and the CBC.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

43. Risk management – Liquidity risk and funding (continued)

Collateral requirements

The carrying values of the Company's encumbered assets as at 31 December 2016 and 2015 are summarised below:

	2016	2015
	€000	€000
Cash and other liquid assets	**139.975**	154.896
Investments	**358.252**	891.701
Loans and advances	**2.609.248**	12.882.139
Property	**93.574**	93.500
	3.201.049	14.022.236

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

Investments are mainly used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond.

Loans and advances indicated as encumbered as at 31 December 2016 and 2015 are mainly used as collateral for funding from the CBC, the covered bond and 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 (Note 29).

In August 2016, the Company cancelled two own-issued bonds guaranteed by the Republic of Cyprus of €500 million each. The bonds bore an annual fixed interest rate at 5%. The bonds were guaranteed by the Republic of Cyprus and were issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds was presented in debt securities in issue in the balance sheet as all the bonds were held by the Company. The bonds were listed on the CSE and were pledged as collateral for obtaining funding from central banks. One of the bonds was released in June 2016 from the ELA pool of collateralised assets. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC.

Under the Programme, the Company issued in December 2011 covered bonds of €1.000 million. The covered bonds issued had a maturity of three years with a potential extension of their repayment by one year, bore interest at the three month Euribor plus 1,25% on a quarterly basis and were traded on the Luxemburg Bourse.

The terms of the €1.000 million covered bond secured by residential mortgage loans originated in Cyprus were amended in June 2014 and the maturity date changed to 12 June 2017 with a potential extension of one year and the interest rate to three month Euribor plus 3,25% on a quarterly basis. All the bonds issued are held by the Company.

43. Risk management – Liquidity risk and funding (continued)

Collateral requirements (continued)

On 29 September 2015, the terms of the Covered Bond Programme and the outstanding €1.000 million covered bond were amended to a Conditional Pass–Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650 million with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations.

As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

Recent developments

The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cyprus Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed.

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 as of 27 March 2017.

Analysis of financial assets and liabilities based on remaining contractual maturity

The analysis of the Company's financial assets and liabilities based on the remaining contractual maturity at 31 December is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December to the contractual maturity date.

Financial assets
The analysis of financial assets does not include any interest receivable cash flows. Financial assets have a much longer duration than financial liabilities and non-discounted interest receivable cash flows are higher than non-discounted interest payable cash flows (based on remaining contractual maturity). As a result, non-discounted cash inflows from interest receivable would have greatly exceeded non-discounted cash outflows on interest payable, thus artificially improving liquidity.

Current accounts, overdrafts and amounts in arrears are included within the first maturity time band which reflects their contractual maturity. All other loans and advances to customers are analysed according to their contractual repayment schedule.

Loans and advances to banks are analysed in the time bands according to the number of days remaining from 31 December, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'over five years' time band, unless classified as at fair value through profit or loss, in which case they are included in the 'up to one month' time band.

The investments are classified in the relevant time band according to their contractual maturity.

Financial liabilities
All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 31 December, despite the fact that the Company expects that the majority of its customers will not demand repayment of such liabilities on the earliest possible date. Fixed deposits are classified in time bands based on their contractual maturity. Although customers may demand repayment of time deposits (subject to penalties depending on the type of the deposit account), the Company has the discretion not to accept such early termination of deposits.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

43. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivable and payable amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Company after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

2016	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	1.207.967	26.213	29.157	4.016	-	**1.267.353**
Loans and advances to banks	776.854	10.056	9.725	172.674	15.567	**984.876**
Investments at fair value through profit or loss	826	8.740	1.686	-	550	**11.802**
Loans and advances to customers	5.964.788	189.555	510.167	2.868.771	4.819.279	**14.352.560**
Fair value of net settled derivative assets	17.829	2.701	59	158	87	**20.834**
Non-trading investments	7.282	6.453	42.009	326.663	238.826	**621.233**
Other assets	5.572	6.126	18.271	66.099	-	**96.068**
Balances with Group companies	24.371	60.690	74.351	1.148.224	57.346	**1.364.982**
Total financial assets	**8.005.489**	**310.534**	**685.425**	**4.586.605**	**5.131.655**	**18.719.708**
Financial liabilities						
Deposits by banks	313.934	1.955	32.731	-	83.812	**432.432**
Funding from central banks	200.014	50.000	-	600.000	-	**850.014**
Repurchase agreements	-	-	-	285.838	9.188	**295.026**
Customer deposits	8.298.556	2.875.301	2.925.752	1.040.415	4.193	**15.144.217**
Fair value of net settled derivative liabilities	7.955	1.010	53	31.687	7.504	**48.209**
Other liabilities	85.828	11.479	24.809	4.591	2.296	**129.003**
Balances with Group companies	91.935	25.819	15.729	369.162	-	**502.645**
Total undiscounted financial liabilities	**8.998.222**	**2.965.564**	**2.999.074**	**2.331.693**	**106.993**	**17.401.546**

43. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2015	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	1.062.261	20.744	27.939	410	-	**1.111.354**
Loans and advances to banks	858.603	6.745	36.774	191.869	18.346	**1.112.337**
Investments at fair value through profit or loss	1.378	-	6.719	10.711	919	**19.727**
Loans and advances to customers	6.884.219	172.935	880.654	2.945.186	5.122.884	**16.005.878**
Fair value of net settled derivative assets	12.615	733	590	39	45	**14.022**
Non-trading investments	44.922	51.367	203.219	452.953	161.475	**913.936**
Other assets	9.819	5.837	6.999	123.322	-	**145.977**
Balances with Group companies	58.542	56.813	77.322	493.237	49.665	**735.579**
Total financial assets	**8.932.359**	**315.174**	**1.240.216**	**4.217.727**	**5.353.334**	**20.058.810**
Financial liabilities						
Deposits by banks	177.080	-	16.808	8.505	38.395	**240.788**
Funding from central banks	3.953.955	-	-	502.846	-	**4.456.801**
Repurchase agreements	-	29.826	82.217	288.676	9.679	**410.398**
Customer deposits	7.166.893	2.034.743	3.239.117	350.412	2.658	**12.793.823**
Debt securities in issue	-	-	712	-	-	**712**
Fair value of net settled derivative liabilities	6.865	3.658	5.266	33.826	4.544	**54.159**
Other liabilities	60.651	11.692	27.217	4.677	2.338	**106.575**
Balances with Group companies	160.843	23.634	14.814	371.916	-	**571.207**
Total undiscounted financial liabilities	**11.526.287**	**2.103.553**	**3.386.151**	**1.560.858**	**57.614**	**18.634.463**

43. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2016	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	669.186	164.669	1.531	-	-	**835.386**
Contractual amounts payable	(652.202)	(161.871)	(1.497)	-	-	**(815.570)**
	16.984	**2.798**	**34**	**-**	**-**	**19.816**
Financial liabilities						
Contractual amounts receivable	1.060.998	188.662	1.498	-	-	**1.251.158**
Contractual amounts payable	(1.070.866)	(190.401)	(1.526)	-	-	**(1.262.793)**
	(9.868)	**(1.739)**	**(28)**	**-**	**-**	**(11.635)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2.790	2.483	1.140	-	-	**6.413**
Guarantees	160.531	153.096	242.952	152.890	87.602	**797.071**
Commitments						
Documentary credits	4.649	6.824	14.190	287	1.686	**27.636**
Undrawn formal standby facilities, credit lines and other commitments to lend	2.020.255	-	-	-	-	**2.020.255**
	2.188.225	**162.403**	**258.282**	**153.177**	**89.288**	**2.851.375**

43. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2015	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
	€000	€000	€000	€000	€000	**€000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	931.730	57.648	1.196	-	-	**990.574**
Contractual amounts payable	(920.083)	(56.874)	(1.175)	-	-	**(978.132)**
	11.647	**774**	**21**	**-**	**-**	**12.442**
Financial liabilities						
Contractual amounts receivable	408.995	160.095	167.212	-	-	**736.302**
Contractual amounts payable	(414.868)	(161.442)	(169.407)	-	-	**(745.717)**
	(5.873)	**(1.347)**	**(2.195)**	**-**	**-**	**(9.415)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2.243	2.750	2.048	-	-	**7.041**
Guarantees	66.251	140.400	245.352	254.419	86.461	**792.883**
Commitments						
Documentary credits	2.259	8.028	4.116	2.643	1.395	**18.441**
Undrawn formal standby facilities, credit lines and other commitments to lend	2.069.128	-	-	-	-	**2.069.128**
	2.139.881	**151.178**	**251.516**	**257.062**	**87.856**	**2.887.493**

44. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

The capital adequacy regulations which govern the Group's operations are established by the CBC/ECB.

The Company has complied with the minimum capital requirements (Pillar I and Pillar II) during 2016.

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

45. Related party transactions

	2016	2015	**2016**	2015
	Number of directors		**€000**	€000
Loans and advances to members of the Board of Directors and connected persons:				
- less than 1% of the Company's net assets per director	**10**	9	**314**	369
	10	9	**314**	369
Loans and advances to other key management personnel and connected persons			**2.955**	3.871
Total loans and advances as at 31 December			**3.269**	4.240
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**2.811**	3.354
- connected persons			**458**	886
			3.269	4.240
Interest income for the year			**112**	138

Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**2.981**	3.366
- connected persons			**3.559**	3.147
			6.540	6.513
Interest expense on deposits for the year			**69**	187

Accruals and other liabilities as at 31 December:				
- balances with entity providing key management personnel services			**2.635**	4.957
Staff costs, consultancy and restructuring expenses			**10.782**	10.693

45. Related party transactions (continued)

The above table does not include year-end balances for members of the Board of Directors and their connected persons who resigned during the year.

Interest income and expense are disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

In addition to loans and advances, there were contingent liabilities and commitments in respect of members of the Board of Directors and their connected persons, mainly in the form of documentary credits, guarantees and commitments to lend, amounting to €61 thousand (2015: €135 thousand). As at 31 December 2016 and 2015, none of the directors or their connected persons had total loans and advances which exceeded 1% of the net assets of the Company per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €385 thousand (2015: €856 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2016 amounted to €635 thousand (2015: €1.094 thousand).

At 31 December 2016 the Company has a deposit of €4.370 thousand with Piraeus Bank SA in which Mr Arne Berggren is a non-executive Director. The Company has also provided certain indemnities to Piraeus Bank SA as part of the disposal of Kyprou Leasing SA in 2015 (Note 47.3.3).

There were no transactions during the years ended 31 December 2016 and 2015 with connected persons of the current members of the Board of Directors or with any members who resigned during the two years.

Connected persons include spouses, minor children and companies in which directors/other key management personnel, hold directly or indirectly, at least 20% of the voting shares in a general meeting, or act as executive director or exercise control of the entities in any way.

Additional to members of the Board of Directors, related parties include entities providing key management personnel services to the Company.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Company's employees.

Fees and emoluments of members of the Board of Directors and other key management personnel

	2016	2015
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**1.848**	1.061
Employer's contributions	**110**	66
Retirement benefit plan costs	**168**	128
	2.126	1.255
Non-executives		
Fees	**861**	818
Total directors' emoluments	**2.987**	2.073
Other key management personnel emoluments		
Salaries and other short term benefits	**2.693**	3.084
Termination benefits	**200**	-
Employer's contributions	**140**	139
Retirement benefit plan costs	**121**	149
Total other key management personnel emoluments	**3.154**	3.372
Total	**6.141**	5.445

45. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The termination benefits relate to compensation paid to a member of the Executive Committee who left the Group under the voluntary exit plan.

Executive Directors

The salaries and other short term benefits of the Executive Directors are analysed as follows:

	2016	2015
	€000	€000
John Patrick Hourican (Chief Executive Officer)	**1.652**	910
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	**196**	151
	1.848	1.061

The retirement benefit plan costs for 2016 amounting to €168 thousand (2015: €128 thousand) relate to: Mr John Patrick Hourican €150 thousand (2015: €110 thousand) and Dr Christodoulos Patsalides €18 thousand (2015: €18 thousand).

Non-executive Directors

	2016	2015
	€000	€000
Josef Ackermann	**150**	150
Wilbur L. Ross Jr.	**120**	120
Vladimir Strzhalkovskiy	**-**	21
Arne Berggren	**115**	107
Maksim Goldman	**120**	116
Michalis Spanos	**100**	100
Ioannis Zographakis	**115**	115
Marios Kalochoritis	**90**	89
Michael Heger	**51**	-
	861	818

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company, as well as of committees of the Board of Directors.

Other key management personnel

The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other members of the management team who report directly to the Chief Executive Officer or to the Deputy Chief Executive Officer and Chief Operating Officer.

46. Group companies

The main subsidiary companies and branches of the Company, their country of incorporation, their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2016 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	n/a
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	54
Finerose Properties Ltd	Cyprus	Financing services	100
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	n/a
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	n/a
Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	n/a
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	n/a
Cyprus Leasing S.A. (formerly Cyprus Leasing Romania IFN SA)	Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100
Fortuna Astrum Ltd	Serbia	Problem asset management company	100

46. Group companies (continued)

In addition to the above companies, at 31 December 2016 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakon Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, Eurolife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Pamaco Platres Complex Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmon Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Soluto Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Canemia Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Renalandia Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Valiro Properties Ltd, Avolo Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Vidalaco Properties Ltd, Jemina Properties Ltd, Hovita Properties Ltd, Flitous Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Belzeco Properties Ltd, Bothwick Properties Ltd, Fireford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Sylvesta Properties Ltd, Camela Properties Ltd, Nerofarm Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Landeed Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Nabela Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Cavadino Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Singleserve Properties Ltd, Consento Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozy Properties Ltd, Orasmo Properties Ltd, Palmco Properties Ltd, Crolandia Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lasmane Properties Ltd, Lorman Properties Ltd, Caruzoco Properties Ltd, Consoly Properties Ltd, Eracor Properties Ltd, Alomnia Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balisimo Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd and K. Athienitis Kalamon Ltd.

Romania: Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Frozenport Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Melgred Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2016 the Company had 100% shareholding in Iperi Properties Ltd, Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd whose main activities are the holding of shares and other investments and they are registered in Cyprus.

At 31 December 2016 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

46. Group companies (continued)

Cyprus: Belvesi Properties Ltd, Warmbaths Properties Ltd, Tavoni Properties Ltd, Tezia Properties Ltd, Carnota Properties Ltd, Demoro Properties Ltd, Primaco Properties Ltd, Amary Properties Ltd, Hamura Properties Ltd, Gileco Properties Ltd, Meriaco Properties Ltd, Venetolio Properties Ltd, Flymoon Properties Ltd, Senadaco Properties Ltd, Desogus Properties Ltd, Intelamon Properties Ltd, Weinar Properties Ltd, Holstone Properties Ltd, Balasec Properties Ltd, Nouralia Properties Ltd, Mazima Properties Ltd, Diafor Properties Ltd, Prosilia Properties Ltd, Fantasio Properties Ltd, Lancast Properties Ltd, Alepar Properties Ltd, Nelipo Properties Ltd, Allodica Properties Ltd, Resocot Properties Ltd, Jomento Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Unoplan Properties Ltd, Paradexia Properties Ltd, Rosalica Properties Ltd, Zandexo Properties Ltd, Calandomo Properties Ltd, Paramina Properties Ltd, Cramonco Properties Ltd, Bigwaive Properties Ltd, Tasabo Properties Ltd, Coeval Properties Ltd and Bendolio Properties Ltd.

Romania: Mirodi Properties SRL, Nallora Properties SRL and Selilar Properties SRL.

In addition, the Company holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Mirodi Properties Ltd, Nallora Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Hydrobius Ltd and Landanafield Properties Ltd.

The Group also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Fairford Properties Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Calomland Properties Ltd, Lameland Properties Ltd, BOC Asset Management Ltd and Pariza Properties Ltd.

Greece: Kyprou Commercial SA and Kyprou Properties SA.

All Group companies are accounted for as subsidiaries using the full consolidation method.

Termination of the leasing activities of Cyprus Leasing Romania IFN SA

On 26 September 2016 the shareholders of Cyprus Leasing Romania IFN SA decided to:

- deregister the company from the Registry of non-banking financial institutions held by the National Bank of Romania,
- terminate the leasing and crediting activity of the company, and
- change the name of the company to Cyprus Leasing S.A.

As a consequence of the above, the main activity of the company is now the collection of the existing portfolio of receivables, including third party collections.

The matter was approved by the National Bank of Romania on 21 November 2016.

46. Group companies (continued)

Change in the control holding of MC Investment Assets Management LLC

In the context of the disposal of the majority of the Russian operations in September 2015, the Company increased its controlling interest in MC Investment Assets Management LLC to 100% from 80% during 2015.

Control over CLR Investment Fund Public Ltd (CLR) without substantial shareholding

The Company considers that it exercises control over CLR through control of the members of the Board of Directors and is exposed to variable returns through its holding.

Dissolution and disposal of subsidiaries

As at 31 December 2016, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, Kyprou Securities SA, BOC Ventures Ltd, Tefkros Investments Ltd, Salecom Ltd, Longtail Properties Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC, Unknownplan Properties SRL and Bank of Cyprus (Channel Islands) Ltd.

Tefkros Investments (CI) Ltd, Bank of Cyprus Mutual Funds Ltd, Laiki EDAK Ltd, Limestone Holdings Ltd and Turnmill Properties Ltd were either dissolved or striken off during the year ended 31 December 2016. Mainport Properties Ltd, Besadoco Properties Ltd, Odaina Properties Ltd, Icecastle Properties Ltd, Gilfront Properties Ltd, Glodas Properties Ltd, Denmor Properties Ltd, Benely Properties Ltd, Arcozil Properties Ltd, Varony Properties Ltd, Coramono Properties Ltd, Galozy Properties Ltd, Primantela Properties Ltd, Browneye Properties Ltd, Givolo Properties Ltd, Kandoramo Properties Ltd and Cronaland Properties Ltd were disposed of during the year ended 31 December 2016 as part of the Company's strategy to dispose of repossessed properties.

As part of the Company's strategy of focusing on its core businesses and markets, the Company decided the closure of the operations of Bank of Cyprus (Channel Islands) Ltd and to relocate its business to other Group locations. The company's licenses in Guernsey for banking and investment business have been surrendered, its capital has been repatriated to the Company and the company entered the process of liquidation in December 2016.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the Bank of Cyprus branch in Romania are expected to be terminated during 2017, subject to regulatory approvals. The remaining assets and liabilities of the branch will be transferred to other entities of the Group.

Carrying value of investments in subsidiaries

	2016	2015
	€000	€000
1 January	**207.781**	236.369
Additions (Note 47.1 and 47.2)	**47.962**	3.000
Contribution to subsidiaries	**80**	-
Reduction of share capital of subsidiaries	**(1.799)**	(613)
Impairment of investments in subsidiaries (Note 14)	**(24.798)**	(30.455)
Repatriation of capital	**(30.518)**	-
Disposal of subsidiaries (Note 47.3)	**-**	(520)
31 December	**198.708**	207.781

47. Acquisitions and disposals

47.1 Acquisitions during 2016

47.1.1 Acquisition of S.Z. Eliades Leisure Ltd

In the context of its loan restructuring activities, the Company acquired on 15 June 2016 a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of borrowings due from it of a total gross amount of €52.335 thousand. S.Z. Eliades Leisure Ltd operates in land development and the operation of a golf resort in Cyprus. The fair value of the consideration for the acquisition of the 70% share in S.Z. Eliades Leisure Ltd amounts to €43.758 thousand. The acquisition did not include any cash consideration. The Company considers that it controls S.Z. Eliades Leisure Ltd.

47.1.2 Acquisition of K. Athienitis Kalamon Ltd

In the context of the loan restructuring activities of the parent company of K. Athienitis Kalamon Ltd, the Company acquired on 23 December 2016 a 100% interest in the share capital of K. Athienitis Kalamon Ltd. K. Athienitis Kalamon Ltd operates in the development and rental of immovable property.

The fair value of the consideration for the acquisition of the 100% share in K. Athienitis Kalamon Ltd amounts to €4.204 thousand, which is also the cash consideration paid for the acquisition of the company. Part of the consideration paid was used to reduce the outstanding loan facilities of the parent company of K. Athienitis Kalamon Ltd. The Company considers that it controls K. Athienitis Kalamon Ltd.

47.2 Acquisition during 2015

47.2.1 Acquisition of shares of Laiki Financial Services Ltd (LFS)

On 30 January 2015, the Annual General Meeting of the shareholders of LFS approved the disposal of the shares of LFS to the Company for a consideration of €3 million. Previously, LFS was 100% owned by LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd), a subsidiary of the Company.

In November 2015, CISCO, a subsidiary of the Company, issued 1.000 thousand shares of a nominal value €1,71 each, at a total premium of €534 thousand, for the transfer of the Company's investment in LFS to CISCO. Following the transfer of shares, LFS was dissolved, without liquidation, under the Merger and Reconstruction Scheme and its net assets were transferred to CISCO in accordance with a court order.

47.3 Disposals during 2015

47.3.1 Disposal of the majority of the Company's Russian operations

On 25 September 2015, the Company completed the disposal of the majority of the operations of its Russian operations, comprising (i) its 100% holding in its subsidiary, BOC Russia (Holdings) Ltd, and through this its 80% holding in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its 80% holding in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC and (ii) certain other Russian loan exposures.

The transaction resulted in a loss on disposal of €31.479 thousand. As part of the sales agreement, the parties agreed an asset swap arrangement which involved the exchange of certain assets between them that resulted in a €41.849 thousand receivable for the Company on the date of the transaction.

Following the disposal of the above operations, the remaining net exposure of the Company as at 31 December 2016 in Russia is €10.985 thousand, comprising primarily of customer loans.

47.3.2 Disposal of Aphrodite group

In September 2015, the Company completed the sale of shares representing a 65% shareholding in the Aphrodite Hills Resort Ltd and Aphrodite Hills (Lakkos tou Frangou) Ltd, for the amount of €500 thousand. Following the sale, the Company retained a 10% minority equity stake in the Aphrodite group. The transaction also involved the restructuring of the debt owed by these companies to the Company.

47.3.3 Disposal of Kyprou Leasing SA

Following the disposal of the Company's leasing operations in Greece to Piraeus Bank SA through a Decree issued on 26 March 2013, the Company completed the transfer of the legal ownership of its subsidiary, Kyprou Leasing SA to Piraeus Bank SA during the first quarter of 2015. As a result, certain assets and liabilities of Kyprou Leasing SA were undertaken by the Company.

48. Events after the reporting date

48.1 New holding company and listing on the London Stock Exchange

Bank of Cyprus Holdings Public Limited Company was incorporated in the Republic of Ireland on 11 July 2016 for the purposes of the Group's listing on the London Stock Exchange (LSE). The Republic of Ireland was considered to be the most suitable jurisdiction as it is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for listing on the LSE. The Company's headquarters, management and operations remain in Cyprus. Bank of Cyprus Holdings Public Limited Company is tax resident in Cyprus.

The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved the scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and the shareholders of the Company. The scheme of arrangement introduces Bank of Cyprus Holdings Public Limited Company as the new holding company of the Company. Additionally the EGM authorised the directors of the Company 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 the Company 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 the Company (the Existing Shares) resulting in the creation of a capital reduction reserve in the accounts of the Company, 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 the Company 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 the Company;
(iii) to apply the reserve arising in the books of account of the Company 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 Company, which shall be issued and allotted, credited as fully paid, to Bank of Cyprus Holdings Public Limited Company or its nominee(s) in accordance with the Scheme; and
(iv) the authorisation of the directors of the Company 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 the Company 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 the Company were cancelled and the Company issued and allotted 8.922.944.533 new ordinary shares of nominal value €0,10 each, credited as fully paid to Bank of Cyprus Holdings Public Limited Company; and Bank of Cyprus Holdings Public Limited 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 Depository Interest represents one New Share for each individual holding of 20 Existing Shares.

On 19 January 2017 the total issued share capital of 446.199.933 ordinary shares of nominal value €0,10 each of Bank of Cyprus Holdings Public Limited 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.

48. Events after the reporting date (continued)

48.2 Share-based payments – share options

The Long Term Incentive Plan approved by the shareholders at the annual general meeting on 24 November 2015 as described in Note 32, was replaced on 18 January 2017 by the Share Option Plan implemented by Bank of Cyprus Holdings Public Limited Company following the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Company. The Share Option plan is identical to the Long Term Incentive Plan except that the number of shares in Bank of Cyprus Holdings Public Limited 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.

48.3 Full repayment of ELA

ELA was fully repaid on 5 January 2017. All ELA collateralised loans have subsequently been released but ELA pledged properties remain pledged as of 27 March 2017.

48.4 Issue of Tier 2 Capital

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note (Note) under the Company's EMTN Programme. The Note was priced at par with a coupon of 9,25%. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents.

48.5 Funding through the new series of TLTRO II

In March 2017 the Company has borrowed an additional amount of €230 million through the new series of TLTRO II, to be received on 29 March 2017.

Building a better working world

Ernst & Young Cyprus Ltd
Jean Nouvel Tower
6 Stasinou Avenue
P.O.Box 21656
1511 Nicosia, Cyprus

Tel: +357 22209999
Fax: +357 22209998
ey.com/cy

Independent Auditor's Report

To the Members of Bank of Cyprus Public Company Ltd

Report on the Financial Statements

Opinion

We have audited the financial statements of parent company Bank of Cyprus Public Company Ltd (the 'Company') on pages 194 to 318, which comprise the balance sheet as at 31 December 2016, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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 3 "Going concern" to the financial statements which discusses management's assessment as to the ability of the Company to continue as a going concern and the fact that the Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus, which indicates the existence of a material uncertainty of the Company's ability to continue as a going concern. Our opinion is not modified 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. In addition to the matter described in the material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. 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. For each matter included in Appendix A, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

The areas of highest risk to the audit and where we focused most effort and resources were:

- Impairment of customer loans and advances
- Recoverability of deferred tax assets
- Valuation of stock of property

The nature of Key Audit Matters and the procedures performed to support our discussions and conclusions are described in **Appendix A** of this report.

Other information included in the annual report

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and 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, 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.

Responsibilities of the Board of Directors for the Financial Statements

The Company's Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines 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 Board of Directors is 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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 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, 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.

We also provide the Board of Directors through its Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
27 March 2017

APPENDIX A – Key Audit Matters

Impairment of customer loans and advances
Nature of the key audit matter
Provisions for credit losses is the area which involves the highest level of critical judgment. They are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for significant loans. The determination of the provision for loan losses requires the exercise of significant judgment and assumptions by management. We consider this as a key audit matter since this is an accounting estimate with high estimation uncertainty, the balances of the provisions are material and the nature of the calculation is subjective. The disclosures regarding provisions for credit losses are included in notes 5.1, 14 and 41 to the financial statements.
How our audit addressed the key audit matter
Among others, we have performed the following procedures: ▸ We assessed and tested the design and operating effectiveness of the controls over impairment provisions data and calculations. These controls included those over the identification of which loans and advances were impaired, the data transfer from source systems to impairment models and model output to the general ledger, and the calculation of the impairment provisions. In addition, we tested IT controls for systems used for impairment calculation. We determined that we could rely on these controls for the purposes of our audit. ▸ We obtained an understanding of the estimation process for the provisions for credit losses. ▸ For collective impairment provisions the appropriateness of the methodology was independently assessed by reference to IFRS and market practices and model calculations were tested through re-performance. The underlying logic of data preparation, transformation and related formulas for computing collective provisions was assessed via a source code review of the related IT components involved. ▸ The appropriateness of management's judgements was also independently considered in respect of segmentation, economic factors and judgemental overlays and the valuation of recovering the collateral. ▸ For individual impairment provisions, the appropriateness of provisioning was independently assessed for a sample of loans selected on the basis of risk. ▸ We engaged specialists to review the model developed by the Company for forecasting future property prices movement over the period of realization of collateral. ▸ We performed data integrity validation checks to ensure that the inputs used by the Company in the calculation of provisions are correct.

Recoverability of deferred tax assets
Nature of the key audit matter
The Company has recognized deferred tax assets in respect of tax losses that may be carried forward to future years. The recoverability of the deferred tax assets requires management's estimation on the future profitability of the Company so as to assess whether sufficient taxable profits will be generated against which the tax losses carried forward (which is the largest part of the deferred tax assets recognized by the Company) may be utilized. For this assessment, management prepares a forecast for the following years and this forecast is a result of management's best estimates and expectations regarding the Company's future performance. The estimation of future taxable profits is inherently judgmental, particularly when this extends beyond the normal planning cycle. We consider this as a key audit matter due to the materiality of the balances and the subjective nature of the calculation. The disclosures regarding the deferred tax assets are included in notes 5.5 and 15 to the financial statements.
How our audit addressed the key audit matter
Among others, we have performed the following procedures: ‣ We updated our understanding of the process for evaluating the recoverability of the deferred tax assets. The main management controls are review type controls. ‣ In order to obtain sufficient audit evidence that it was probable that sufficient taxable profits would exist to utilize the deferred tax assets, we tested the supporting calculations based on the Company's 3 year plan which formed the basis of the projections until 2028 (expiry date of the majority of the tax losses) and the tax rates applied. ‣ The basis for management's assessment of recoverability including the profit projections and underlying assumptions and the calculations performed to arrive at taxable profits from these projections, was challenged using our knowledge of the business, future strategy and past performance. We utilized the services of valuation specialists to assist in performing our substantive audit procedures related to the Company's recoverability exercise. The specialists were involved in the review of key assumptions used in the valuation. ‣ The range of reasonably possible alternative outcomes was assessed. ‣ The completeness and accuracy of the disclosures was also assessed.

Valuation of stock of property
Nature of the key audit matter
The Company has acquired a significant number of properties over the last couple of years as a result of restructuring agreements with clients. These properties are classified by the Company as stock of property in accordance with IAS 2. Given the large increase in the number of properties acquired and the high estimation uncertainty in the property valuation to determine the net realizable value, especially taking into account the current liquidity of the property market in Cyprus, we consider this a key audit matter. The disclosures regarding stock of property are included in notes 5.8 and 26 to the financial statements.
How our audit addressed the key audit matter
Among others, we have performed the following procedures: ‣ We obtained an understanding of the valuation process of stock of property. ‣ We assessed and tested the design and operating effectiveness of the controls over the valuation process of stock of property. ‣ For a sample of properties, we obtained the valuation reports received by the Company from independent valuers and ensured that the fair value used in the calculation of the net realizable value ("NRV") is in accordance with these valuations. ‣ We obtained from the Company the comparison of the cost with the NRV and ensured that the lower of the two was recorded as the value of the stock of property as at the reporting date. ‣ We assessed the reasonableness of the selling costs incorporated in the Company's calculation of the NRV. ‣ We assessed the reasonableness of the external valuers' assumptions used in the valuations by utilizing the services of an independent valuation specialist. ‣ We performed substantive analytical review procedures.

Introduction

The Board of Directors (the 'Board') of the Bank of Cyprus Public Company Limited (the 'Company') is committed to good governance which is vital to creating trust and engagement between the Company and its stakeholders and contributes towards its long-term success. The Board aims to ensure on an ongoing basis that the Company is a modern, transparent and competitive organisation that applies best practices of corporate governance and corporate administration. By adopting these best practices, the Company achieves a dynamic and effective communication between the Board, management and shareholders, leading to the successful implementation of its strategy.

A key objective of the governance framework of the Company together with its subsidiaries (the 'Group') is to ensure compliance with applicable legal and regulatory requirements. The Company is subject to the Code of Corporate Governance of the Cyprus Stock Exchange ('CSE Code') as well as the Directive on Governance and Management Arrangements of the Central Bank of Cyprus ('CBC Directive on Governance').

The Company has also elected to comply with the UK Corporate Governance Code 2014 published by the Financial Reporting Council in the UK (the 'UK Code') as of 4 October 2016.

Part A

The Company has adopted the CSE Code as well as the UK Code, has incorporated their provisions in the Group's Policy on Corporate Governance and fully implements their principles. The policy together with the Board manual, the terms of reference and the practices followed by the Board and its committees, constitute important foundations for maximising shareholder value.

Part B

The Company confirms that it has complied with the provisions of the CSE Code. Details of how the Company applied the main and supporting principles of the CSE Code throughout 2016 are set out in this Corporate Governance Report and in the Remuneration Policy Report. The narrative that follows also covers the disclosure requirements set out in the UK Code.

The Directors further consider that the Company has also complied with the provisions of the UK Code as of 4 October 2016, other than as set out herein:

- Provision C.3.1 of the UK Code recommends that the audit committee should comprise of three independent non-executive members. During 2016 the Audit Committee was comprised of 2 independent non-executive Directors and one non-independent non-executive Director. As of 1 January 2017 the Audit Committee is comprised of three independent non-executive Directors.
- Provision B.7.1 recommends the annual election of the Directors by shareholders. The Articles of Association of the Company provide for one third of the Directors to retire and offer themselves for re-election. The Articles of Association of the Company will be amended prior to the next Annual General Meeting ('AGM') so that henceforth all Directors will retire every year and offer themselves for re-election if they wish.

The Company continually monitors and reviews its governance framework and that of its subsidiary companies (where applicable) through effective oversight. The Directors are aware that in case they have material concerns about the overall governance of the Group, these should be reported without delay to the Board and, if their concerns are not satisfactorily addressed, the Directors should report these concerns to the Central Bank of Cyprus ('CBC').

The Board has delegated authority to committees of the Board to support its oversight of risk and control. The committees are the Group Audit Committee ('the AC'), the Group Risk Committee ('the RC'), the Group Nominations and Corporate Governance Committee ('the NCGC'), the Group Human Resources and Remuneration Committee ('the HRRC') and the recently constituted Technology Committee ('the TC'). Details of these committees are set out in section 3 of this report. The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. The committee terms of reference are reviewed annually by the relevant committees and by the Board and are available on the Group's website www.bankofcyprus.com or by request to the Company Secretary.

1. Board of Directors

The authorities of the members of the Board derive from the Articles of Association of the Company, and are specified by the CSE and UK Codes, the relevant Companies, Stock Exchange and Banking Laws and the Directives of the CBC. The role of the Board and its committees is well described and analysed in the Board manual that has been fully revised to incorporate all additional responsibilities that emanate from the UK Code.

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

The Group considers that it has a robust governance framework with a clear organisational structure, well defined, transparent and consistent lines of responsibility and effective processes through which to identify, manage, monitor and report risks to which it is or might be exposed. It has appropriate internal control mechanisms, including sound administrative and accounting procedures, Information Technology ('IT') systems and controls. The governance framework is subject to review at least once every year.

1.1 Composition of the Board of Directors

As at 31 December 2016 the Board was comprised of ten Directors: the Group Chairman who was independent on appointment, two executive Directors and seven non-executive Directors, six of whom were considered to be independent non-executive Directors in accordance with the provisions of the UK Code and the CSE Code. On 7 February 2017, Mrs Lyn Grobler was appointed as independent non-executive Director, bringing the total number of Directors to eleven. On 1 March 2017, Mr. Wilbur Ross resigned from the Board following his appointment as U.S. Secretary of Commerce. The Board has appointed Mr. James B. Lockhart III on the same date, pending the approval of the European Central Bank ('ECB'). Mr. Lockhart will replace Mr. Ross on both the NCGC and the RC. The names and brief biographical details of the Directors are included in section 2 of this report.

The NCGC reviews annually the structure, size, tenure and composition of the Board (including skills, knowledge, experience, independence and diversity) to ensure that there is an appropriate mixture of skills, experience as well as gender. The Committee also ensures plans are in place for the selection, appointment and orderly succession of executive Directors and senior managers. In addition, where any appointment or resignation will alter the overall size of the Board, a review is undertaken to ensure that the composition remains appropriate and the Board and its committees comprise of Directors with an all-embracing perception of the Group's activities and the risks associated with them. The Board considers its current size and composition appropriate given the size and operations of the Group and the time demands placed on the Directors.

The Group carries out a review of the ongoing fitness and probity of Directors and Executive Committee (ExCo) members on an annual basis, whereby they are asked to confirm any changes in their circumstances in respect of their compliance with the CBC Directive on the Assessment of the Fitness & Probity of the members of the management body and managers of authorised credit institutions ('CBC Fitness & Probity Directive'). Following the review of 2016, no changes were reported. In January 2017 the Attorney General of Cyprus instituted criminal proceedings against a number of individuals relating to events occurring before the financial crisis of 2013 and the bailing-in of the Company. The individuals charged include three persons currently employed by the Company namely a current executive member of the Board, the Finance Director and the Group Treasurer who at the time were all officers of the Company. The Board has indicated that it fully supports the three executives and confirms their fitness and probity.

1.1.1 Executive Directors

The Group Chief Executive Officer ('CEO') and the Group Deputy CEO & Chief Operating Officer ('DCEO & COO') are employees of the Company. The CEO's termination of employment is subject to four months' notice to be given by either party. The DCEO & COO's employment is mainly based on the provisions of the collective agreement between the Company and the labour union.

1. Board of Directors (continued)

1.1 Composition of the Board of Directors (continued)

1.1.2 Non-Executive Directors

Non-executive Directors are not Company employees and do not participate in the daily management of the Group. They are responsible for monitoring executive activity and contributing to the development of strategy. Their role is to constructively challenge the Company's existing strategy and contribute to the development of new strategies, to scrutinize the performance of senior management in meeting agreed goals and objectives, to monitor the reporting of the performance, and to satisfy themselves on the integrity of financial information and that the systems of financial controls, compliance and risk management frameworks and the internal control framework are robust and defensible.

1.2 The Role of the Board

The Board's role is to provide leadership of the Group and promote the Group's vision, values, culture and behaviour, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board also ensures that its obligations towards its shareholders and other stakeholders are understood and met.

The Board is accountable for ensuring that, as a collective body, it has the appropriate skills, knowledge, diversity and experience to perform its role effectively. The Board is collectively responsible for the long-term success of the Group; it sets the Group's strategic objectives, integrates sustainability into the way business is conducted, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects, including in relation to the annual and interim financial statements and other price-sensitive public reports and reports required by regulators and by law.

The Board is the decision-making body for all matters of importance that are significant to the Group as a whole because of their strategic, financial or reputational implications or consequences. Specific decisions and matters are reserved for approval by the Board. These are:
- Objectives and strategy
- Overall risk policy and risk management procedures
- Annual and three-year budgets and business plans
- Capital expenditures for amounts over €20 million
- Unusual transactions
- Mergers, acquisitions and disposals of the Group's assets for amounts over €20 million
- Directors' conflicts of interest
- The selection, appointment, re-appointment of Directors of the Company, and the termination of the services of the Chief Executive Officer
- The succession planning
- The establishment and oversight of policies for selecting, developing and replacing senior management and heads of internal control functions
- The Remuneration Policy

The appointment of individuals who may have a material impact on the risk profile of the Group is also subject to Board approval. Their appropriateness for the role is monitored on an on-going basis.

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight process across the Group. The Board approves the Group Risk Appetite Statement on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through the Risk Report reviewed monthly.

Detailed information relating to Group risk management is set out in Notes 43 to 46 of the Consolidated Financial Statements and the Additional Risk Disclosures section of the 2016 Annual Financial Report.

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.1 Information and Support

The Board meets on a regular basis and has a formal schedule of matters for consideration which is annually reviewed. The Board receives regular reports and presentations from the Group CEO and other senior management on strategy and developments in the operations of the Group. Regular reports are also provided on the Group's risk appetite, top and emerging risks, risk management, credit exposures and the Group's loan portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

The key areas of focus in 2016 for the Board were:

- Group strategy and long term objectives in light of the regulatory and economic environment:
    - Three-year financial plan
    - Voluntary exit plan for employees
    - Set up and operation of Real Estate Management Unit ('REMU')
    - Acquisitions and divestments
- Risk and governance:
    - Approval of the Group's Risk Appetite Statement
    - Approval of Internal Capital Adequacy Assessment Process ('ICAAP') Report
    - Approval of Internal Liquidity Adequacy Assessment Process ('ILAAP') Report
    - Discussion of International Financial Reporting Standards ('IFRS') provisioning parameters
    - Review of monthly risk reports
- Legal issues/actions against the Company
- Review and approval of Group financial results (monthly, quarterly and annual)
- Directors & Officers (D & O) liability insurance
- Deposit strategy and Emergency Liquidity Assistance ('ELA') repayment plan
- Budget and performance oversight:
    - Review the monthly management accounts
    - Approval of the annual budgets and capital plans
- External environment:
    - Review of the banking industry outlook
    - Cyprus economic developments
- Monitoring key regulatory issues affecting the Group:
    - Supervisory Review and Evaluation Process ('SREP')
    - On-site inspections and approval of relevant responses to the Single Supervisory Mechanism ('SSM')
    - Discussion of new regulatory developments and requirements
    - Key regulatory correspondence and related response
- Review the progress of managing non-performing exposures
- Approval of appointments to the Board and major subsidiary boards and review of corporate governance matters
- Approval of changes to management structure of the Group
- Discussion, approval and oversight of the listing on the London Stock Exchange (LSE)
- Establishing a Board Technology Committee.

In early 2016 the Board approved a framework of oversight of major subsidiaries which included close working relations between the Chairpersons of the relevant subsidiary board committees with the respective Group committees.

1.2.2 Meetings of the Board of Directors

During 2016 the Board held 17 meetings. Further details on the number of the meetings of the Board and its committees and attendance by individual Directors are set out below. In March 2016 the Board held an offsite two day meeting specifically focused on strategy.

Agendas and papers are circulated in a timely manner prior to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them adequate time to review the relevant information to enable them to fully discharge their duties.

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.2 Meetings of the Board of Directors (continued)

The attendance of the members of the Board for 2016 is presented in the following table:

Board of Directors 1/1/2016-31/12/2016

Name	Board of Directors	AC	HRRC	NCGC	RC	AC & RC Joint
Josef Ackermann (Chairman)	17/17			8/8		
Maksim Goldman (Vice Chairman)	16/17	11/12		8/8		6/7
Wilbur L. Ross (Vice-Chairman)	13/17			7/8	17/20	4/7
Arne Berggren	17/17	12/12			20/20	7/7
Michael Heger*	9/9		4/4		10/10	3/3
John P. Hourican	17/17					
Marios Kalochoritis	17/17		9/9		19/20	7/7
Christodoulos Patsalides	16/17					
Michael Spanos	16/17		9/9			
Ioannis Zographakis	17/17	12/12			20/20	7/7
Total meetings	***17***	***12***	***9***	***8***	***20***	***7***

* Appointed on 9 June 2016

The Company Secretary is closely involved in preparing the schedule of all Board and committee meetings and the agendas for these meetings, in conjunction with the Chairman, ensuring that relevant information is dispatched timely to all members of the Board.

Under the supervision of the Chairman of the Board, the Company Secretary's responsibilities include facilitating the flow of information within the Board and its committees, between senior management and non-executive Directors and between heads of internal control functions and non-executive Directors, as well as facilitating the induction, development and evaluation of members of the Board.

All Directors have access to the advice and services of the Company Secretary and the Corporate Governance Compliance Officer who can provide relevant information related to Board procedures and the CSE and UK Codes. Independent professional advice is also available to the Directors in accordance with the internal policy that was formulated and approved by the Board. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

1.2.3 Conflicts of interest

The Board manual has documented procedures relating to directors' conflicts of interest, setting out how these are to be identified, reported and managed to ensure that the Directors act at all times in the best interests of the Company. The Board Manual is reviewed and revised if necessary, at least annually.

The Group's Policy on Conflicts of Interest which applies to all employees and Directors clarifies the duty of all employees to avoid, disclose and manage conflicts of interests. The policy is reviewed annually and is communicated throughout the Group.

The Board has adopted a Dealing Code for transactions in the Company's securities by Persons Discharging Managerial Responsibilities (PDMRs). The Dealing Code complies with the European Market Abuse Regulation. All Directors have complied with the Dealing Code during 2016. All Directors and PDMRs have been informed in writing about their obligations under the Dealing Code.

None of the Directors had, during the year or at the end of the year, a material interest, directly or indirectly in any contract of significance with the Group.

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.4 Time commitment

The Board has determined the time commitment expected of non-executive Directors to be 30-35 days per annum. Time devoted to the Company can be considerably more, particularly if serving on Board committees.

The NCGC considers, amongst others, whether a potential Director is able to devote the requisite time and attention to the Company's affairs, prior to the Board's approval of the individual's appointment.

The CBC Fitness and Probity Directive which incorporates the provisions on the management body of credit institutions in Article 91 of the European Capital Requirements Directive ('CRD IV'), 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

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

The Company has been classified as a 'significant institution' under the European Union (Capital Requirements) Regulation 2014. The ECB which supervises the Company following the European Union Regulation 468/2014 which established the framework for cooperation within the SSM between the ECB and national competent authorities may in exceptional cases, and taking into consideration the nature and complexity of the business of the Group, authorise members of the Board to hold one additional directorship.

At the time of their appointment, the CBC was the relevant competent authority to grant permission to five of the Directors to hold one additional non-executive directorship to the above. At present only Mr. Maksim Goldman holds an additional directorship (five non-executive directorships). Mr. Wilbur Ross who resigned on 1 March 2017 also held five non-executive directorships.

The Directors hold positions on the board of directors of other companies as noted in their biographical details included in section 2 of this report. Their participation in other boards does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company and is within the limits set by the CBC Fitness and Probity Directive. It was estimated that in 2016 each non-executive Director spent at least 36 days on board-related duties.

1.2.5 Group Chairman and Group Chief Executive Officer

There is a clear and distinct segregation of duties between the Chairman of the Board and the Group CEO. The terms of reference of these two roles form part of the Group Board Manual which has been approved by the Board and they distinguish between the running of the Board and the executive responsibility for running the Company's business.

The Chairman ensures the effective functioning of the Board on all aspects of its role including:
- Providing leadership to the Board of Directors
- Ensuring that the Board determines the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy
- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making
- Encouraging the active participation of members of the Board
- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision-making and voting on any matter on which they may have a conflict of interest
- Ensuring that adequate time is allowed for discussion of complex or contentious or strategic issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion
- Promoting high standards of corporate governance

1. Board of Directors (continued)

1.2 The Role of the Board (continued)

1.2.5 Group Chairman and Group Chief Executive Officer (continued)

The Chairman commits a substantial amount of time to the Group. There were no changes to the other significant commitments of the Chairman during the year ended 31 December 2016. During the year the Chairman and non-executive Directors met without the executive Directors present, to discuss a range of business matters.

The Group CEO is responsible to develop and present to the Board the strategy of the Group and execute the approved strategy, lead the senior management team in the day-to-day running of the business, make decisions on all matters affecting the operations, performance and strategy of the Group's business with the exception of those matters reserved for the Board. The Group CEO's service contract was reviewed and renewed on 1 February 2016 for a further two-year period.

1.2.6 Senior Independent non-Executive Director

The Senior Independent Director ('SID') is available to shareholders and Directors if they have concerns that are not resolved through normal communication channels. He provides a sounding board for the Chairman, providing support to the Chairman in delivering his objectives. He chairs an executive session of the non-executive Directors to assess the performance of the Chairman as part of the annual evaluation of Board performance provided for in the CBC Governance Directive.

1.3 Board Balance and Independence

Both the CSE Code and the UK Code provide that at least 50% of the Board of Directors, excluding the Chairman, should be independent non-executive Directors, so that no individual or small group of individuals can dominate the Board's decision-taking.

The NCGC and the Board considers the independence status of each Director on appointment. In addition the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence remains appropriate.

In 2016 the Board considered the principles relating to independence contained in the CSE Code and the UK Code, as well as the CBC Fitness and Probity Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 2 of this report.

Mr. Maksim Goldman is a senior executive of a corporation controlled by a significant shareholder in the Company and therefore he is not considered independent by reference to the provisions of the CBC Directive on Fitness and Probity, the CSE Code and the UK Code. The Board considers that each non-executive Director brings independent challenge and judgement to the working of the Board, through their character, objectivity and integrity.

The Board comprises a majority of independent non-executive Directors to ensure that no individual or small group can dominate its decision making.

A relevant 'Confirmation of Independence' based on the independence criteria of provision A.2.3 of the CSE Code is signed by each of the independent non-executive Directors and is submitted to the Cyprus Stock Exchange together with the Corporate Governance Report.

2. Members of the Board of Directors

2.1 Non-Executive Directors

Josef Ackermann (Chairman)

Born in 1948. Dr. Ackermann is the former Chairman of the Management Board and the Group Executive Committee at Deutsche Bank. Dr. Ackermann joined Deutsche Bank's Board of Managing Directors in 1996, where he was responsible for the investment banking division. Under his leadership, this business unit developed into one of Deutsche Bank's principal revenue sources and entered the top group of global investment banks. Prior to Deutsche Bank, Dr. Ackermann was President of Schweizerische Kreditanstalt (SKA), today's Credit Suisse.

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Josef Ackermann (Chairman) (continued)

Dr. Ackermann has held numerous board positions including sitting on the Board of Directors at Zurich Insurance Group, Royal Dutch Shell plc, Siemens AG and EQT Holdings AB among others. Dr. Ackerman also served as Vice-Chairman of the Foundation Board of the World Economic Forum. Dr. Ackermann is also an Honorary Fellow of the London Business School, was visiting professor in finance at the London School of Economics, and was appointed honorary professor at the Johann Wolfgang Goethe University in Frankfurt. Dr. Ackermann studied economics and social sciences at the University of St. Gallen, where he earned his doctorate, and holds an honorary doctorate from the Democritus University of Thrace in Greece.

Dr. Ackermann has extensive experience of the financial services industry, having spent more than 40 years in various senior strategic, investment and oversight roles in Scheizerische Kreditanstalt and Deutsche Bank.

Term of Office:

Appointed to the Board in November 2014

External Appointment:

Investor AB
Renova Management AG
Honorary Chairman of the St. Gallen Foundation for International Studies
Honorary Senate Member of the Foundation Lindau Nobel Prizewinners Meetings at Lake Constance
Vice Chair and Member of the Board of Trustees of The Conference Board

Independent:

On appointment

Committee Membership:

Chairman of the Nominations and Corporate Governance Committee

Wilbur L. Ross (Vice-Chairman)

Born in 1937. Mr. Ross is the Founder, Chairman and Chief Strategy Officer of WL Ross & Co. LLC, a private equity firm. Mr. Ross was also formerly the Chief Executive Officer of WL Ross prior to April 30, 2014 when he became its Chairman and Chief Strategy Officer. In March 2014 Mr. Ross became the Chairman and Chief Executive Officer of WL Ross Holding Corp, a special purpose acquisition company. Mr. Ross formerly served as a Member of the Board of Directors of many banks, financial and other companies, including but not limited to The Governor and Company of the Bank of Ireland until June 2014, BankUnited, Inc., until March 2014; Talmer Bancorp., Assured Guaranty, International Textile Group; NBNK Investments PLC; PB Materials Holdings, Inc.; Ohizumi Manufacturing; Ocwen Financial Corp.; Navigator Holdings until November 2014; Plascar Participacoes SA until 2014 and Air Lease Corporation from 2010 to December 2013; International Coal Group from April 2005 to June 2011, Montpelier Re Holdings Ltd. from 2006 to March 2010, The Greenbrier Companies from June 2009 until January 2013. Mr. Ross was Executive Managing Director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. He is a graduate of Yale University and of Harvard Business School. Through the course of Mr. Ross' career, he has assisted in restructuring more than $400 billion of corporate liabilities.

Mr. Ross has been elected to both the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. He has been appointed by President Clinton to the Board of Directors of the U.S-Russia Investment Fund and has served as Privatization Advisor to New York City Mayor Guiliani. He was awarded a medal by President Kim Dae Jung for assisting Korea during its financial crisis and in 2014 was awarded the Order of the Rising Sun with Gold and Silver Stars by the Japanese Government.

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Wilbur L. Ross (Vice-Chairman) (continued)

Term of Office:

Appointed to the Board in November 2014
Resigned on 1 March 2017 following his appointment as U.S. Secretary of Commerce

External Appointment:

WL Ross Holding Corp.
Arcelor Mittal
EXCO Resources, Inc.
DSS Holdings LP
Sun Bancorp
Brookings Economic Studies Council
Palm Beach Civic Association
The Japan Society Inc.
Margritte Museum
British American Business Inc.
Harvard Business School Club of New York Inc.
Yale University School of Management Board of Advisors
Partnership of New York City

Independent:

Yes

Committee Membership:

Member of the Nominations and Corporate Governance Committee
Member of the Risk Committee

Arne Berggren (Chairman of the Risk Committee)

Born in 1958. Mr. Berggren has been involved in corporate and bank restructurings, working for both the private sector as well as for international organisations since the early 90s, starting with Nordea during the Swedish financial crisis. This was followed by bank crises management and bank restructuring assignments in numerous countries in Latin America, Eastern Europe and Asia, and more recently during the current financial crisis in the Baltics, Spain and Slovenia. He has been Head of Financial Restructuring and Recovery at Carnegie Investment Bank AB and Swedbank AB and as CEO of Swedcarrier AB he led the restructuring of parts of Swedish Rail. Mr Berggren has held numerous Board positions in the financial and corporate sector, including a position on the Board of Directors at LBT Varlik Yönetim AS and DUTB Ldt. He is a graduate of the University of Uppsala, Sweden.

Mr. Berggren has significant experience in corporate and bank restructurings, bank crises management and risk management and has extensive experience in oversight from a number of directorships.

Term of Office:

Appointed to the Board in November 2014

External Appointment:

Eusticon AB
Pireaus Bank Group

Independent:

Yes

Committee Membership:

Chairman of the Risk Committee
Member of the Audit Committee

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Maksim Goldman (Vice Chairman)

Born in 1971. Mr. Goldman currently serves as Director of Strategic Projects at Renova where he is responsible for coordinating the business development of various significant assets under management of the Group. Previously, Mr. Goldman served as Deputy Chief Investment Officer of Renova Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. During 2005 to 2007 he worked as Vice President and International Legal Counsel of Sual-Holding, which was the management company for OAO 'SUAL', the second largest aluminium company in Russia, and also participated in the creation of UC Rusal through combination of the assets of Sual-Holding, Rusal and Glencore. From 1999 to 2005 Mr. Goldman worked as an associate at Chadbourne & Parke LLP in New York and in Moscow. Mr. Goldman holds a J.D. from the School of Law, University of California (Los Angeles). He also holds a Bachelor of Arts degree in History at the University of California (Los Angeles).

Mr. Goldman has extensive experience in investments and business developments and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board in November 2014

External Appointment:

United Company RUSAL Plc
OAO 'Volga'
FC 'Ural'
United Company of Kalahari Ltd

Independent:

No

Committee Membership:

Member of the Risk Committee
Member of the Nominations and Corporate Governance Committee

Lyn Grobler

Born in 1964. Mrs Grobler is an experienced executive with a strong track-record in technology and IT roles. She was appointed Group Chief Information Officer (CIO) at Hyperion Insurance Group in 2016. Prior to this she was Vice President and CIO Corporate Functions at BP where she led the transformation of both the organisation and the digital landscape through introducing sustained change in process, capability and technology, having held a variety of roles across IT and global trading over 16 years. Before BP, Mrs Grobler managed large scale global technology projects and strategies within banking and trading based in both London and South Africa. Mrs Grobler has been recognised as one of the 25 most influential women in UK IT and has been shortlisted for CIO of the Year at the 2016 Women in IT awards. Mrs Grobler holds an HND in Computer systems from Durban University in South Africa.

Mrs Grobler has significant experience in IT and digital transformation and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board in February 2017

External Appointment:

Board Intelligence Ltd
Hyperion Services Ltd
Howden Broking Group

Independent:

Yes

Committee Membership:

Chairperson of the Technology Committee

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Michael Heger

Born in 1955. Dr. Heger currently serves as the general manager of finance and investment and as an independent senior advisor for S.I.F. International Holding S.A., Luxembourg at its representative office in Vienna. Previously, during 2009-2012 he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland. He began his career in 1980 as a manager in export finance and legal affairs for Waagner-Biro AG in Vienna, Austria. Having spent two years at Waagner-Biro AG, he moved to UniCredit Bank Austria Group, where he held various management positions from 1982 to 2002. Between 2001-2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002-2003, he served as the deputy general manager and head of International division for Raiffeisenlandesbank Niederosterreich-Wien AG. Dr. Heger then joined MPH Management and Participation Holding S.A., a special purpose company for equity participation in commercial and industrial companies, financial institutions and in property developments as well as for financial and consulting services for domestic and international clients and commodity trading, as the general manager of finance and investment and head of the representative office from 2004-2009. Dr. Heger holds a doctorate in law from the University of Vienna and obtained a postgraduate degree in law from the College of Europe in Bruges, Belgium.

Dr. Heger has extensive banking experience having spent more than 20 years in various senior positions in UniCredit Bank Austria Group and has considerable strategic knowledge of industrial and commercial companies, financial institutions and property developments.

Term of Office:

Appointed to the Board in June 2016

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Audit Committee
Member of the Human Resources and Remuneration Committee
Member of the Technology Committee

Marios Kalochoritis

Born in 1973. Mr. Kalochoritis is a Financial Executive with experience in investment banking, hedge fund management, private equity, wealth management and as a Chief Financial Officer. Geographically he has covered North and South America, Western and Eastern Europe and the Middle East. He is experienced in start-ups and turnout situations. He is the founder and Managing Partner of Loggerhead Partners, a Consulting and Advisory firm, based out of Dubai. Previously he spent five and a half years in Cyprus where, as the Managing Director, he had set up and ran the operations and risk management of a global macro hedge fund. Prior to that he was Senior Vice President for Credit Suisse Bank in Zurich and he was heading business development for Central and Eastern Europe and Turkey. Between 2003 and 2006 he was the Chief Financial Officer for Amana Group in Dubai, a major regional construction group. He had moved to Dubai following a couple of years in New York where he was the co-founder of a boutique investment bank. He started his career at Enron in Houston where, as a financial analyst and later an associate in the finance department, he analysed and made investments in oil & gas, energy and other infrastructure opportunities around the world. He also interned with J.P. Morgan Bank in New York and McKinsey & Co in Athens. He holds an MBA from Harvard Business School and a BSc in Finance from Louisiana State University.

Mr. Kalochoritis is an experienced financial services professional having served in various senior roles in banking and other industries.

2. Members of the Board of Directors (continued)

2.1 Non-Executive Directors (continued)

Marios Kalochoritis (continued)

Term of Office:

Appointed to the Board in September 2013

External Appointment:

Carouge Investments
Loggerhead Management Consultants
Loggerhead Holdings

Independent:

Yes

Committee Membership:

Member of the Risk Committee
Member of the Human Resources and Remuneration Committee

James B. Lockhart III

Born in 1946. Mr. Lockhart serves as Vice Chairman of WL Ross & Co LLC in New York since 2009 and as a member of Investment Committees and the Management Committee thereof. Prior to this position, Mr Lockhart served in the U.S Government in several positions. In 2008-2009 he was the Director (CEO) and Chairman of the Federal Housing Finance Agency (FHFA) Oversight Board. In 2006-2007 he served as the Director (CEO) of the Office of Federal Housing Enterprise Oversight. He also served on the Troubled Asset Relief Program's (TARP's) Financial Stability Oversight Board which is chaired by the Federal Reserve Chairman. From 2002 to 2006, Mr. Lockhart served as the Principal Deputy Commissioner and Chief Operating Officer of the Social Security Administration (SSA). He served on the Executive Committee of President Bush's Management Council and as Secretary of Social Security's Board of Trustees. Mr. Lockhart's private sector financial services experience includes senior positions with NetRisk, National RE, Smith Barney, pension Benefit Guaranty Corporation, Alexander & Alexander Services and Gulf Oil Corporation. He graduated from Harvard University with an MBA and from Yale University with a bachelor's degree in Liberal Arts.

Mr. Lockhart has extensive experience in the financial services and through his government roles has important insight in the regulatory environment as well as oversight experience of banking institutions.

Term of Office:

Appointed to the Board in March 2017
(subject to ECB approval)

External Appointment:

WL Ross & Co. LLC
Cascade Bancorp
Shellpoint Partners LLC
Bruce Museum
Bipartisan Policy Centre Commission on Retirement Security

Independent:

Yes

Committee Membership:

Member of the Risk Committee (subject to ECB approval)
Member of the Nominations and Corporate Governance Committee (subject to ECB approval)

Michael Spanos (Senior Independent Director)

Born in 1953. Mr. Spanos is Managing Director of M.S. Business Power Ltd, which provides consultancy services on strategic and business development (since 2008). Mr. Spanos worked at Lanitis Bros Ltd from 1981 to 2008 as Marketing Manager, General Manager and Managing Director. Between 2005 and 2009, Mr. Spanos served as Vice-Chairman of the Board of Directors of the Cyprus International Institute (Republic of Cyprus and Harvard School of Public Health). Mr. Spanos has also served on other boards, such as Coca-Cola Içecek (2012-2016), Heineken-Lanitis Cyprus Ltd (2005 to 2007), Lumiere TV Public Ltd (2000 to 2012), A. Petsas & Sons Public Ltd (2000 to 2007) and CypriaLife Insurance Ltd (1995 to 2000). Mr. Spanos is a former member of the Central Bank of Cyprus Board of Directors. Mr. Spanos holds a Master's degree in economics from North Carolina State University.

2. Directors (continued)

2.1 Non-Executive Directors (continued)

Michael Spanos (Senior Independent Director) (continued)

Mr. Spanos as an experienced Managing Director and member of a number of Boards has in-depth knowledge of international business, management, finance and strategic development.

Term of Office:	**External Appointment:**
Appointed to the Board in November 2014	M.S. Business Power Ltd Green Dot (Cyprus) Ltd Lanitis Bros Ltd
Independent:	**Committee Membership:**
Yes	Chairman of the Human Resources and Remuneration Committee

Ioannis Zographakis

Born in 1963. Mr. Zographakis is a senior Executive with a broad and diverse international experience in the banking industry. He has worked with Citibank for over 20 years, in the USA, UK and Greece. His line/business positions and divisional/corporate responsibilities, have provided him with an extensive background in corporate governance, business restructuring, re-engineering, crisis management, separation of businesses, business strategy, profit & loss management, finance, product and segment management, operations & technology management, and dealing with various regulatory bodies and industry related organisations. He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle-East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he was the Chief Financial Officer for the Consumer Assets Division. From 1998 until 2004 he worked in the Student Loan Corporation (SLC), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the Chief Financial Officer, became the Chief Operations Officer and in 2001 he was named the Chief Executive Officer. In 2005 he moved back to Europe as Citibank's Consumer Lending Head for EMEA and UK Retail Bank Head. Deciding to move closer to home in 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested. He has been a Director for the Student Loan Corporation in the US, a Director for Tiresias (Greek Credit Bureau) and the Secretary of the Audit Committee, a Director and member of the Audit Committee for Diners Club Greece, the Vice-Chairman of the Citi Insurance Brokerage Board in Greece and the Chairman of the Investments and Insurance Supervisory Committee in Citibank Greece. He holds an MBA from Carnegie Mellon University in the USA and a Bachelor’s degree in Civil Engineering from Imperial College in London.

Mr. Zographakis has extensive experience of the banking industry, having spent more than 20 years in various senior operational and financial roles in Citibank and on the Board of a number of financial entities.

Term of Office:	**External Appointment:**
Appointed to the Board in September 2013	None
Independent:	**Committee Membership:**
Yes	Chairman of the Audit Committee Member of the Risk Committee Member of the Technology Committee

2. Directors (continued)

2.2 Executive Directors

John Patrick Hourican (CEO)

Born in 1970. Mr. Hourican served as Chief Executive of The Royal Bank of Scotland ('RBS') Group's Investment Bank (Markets & International Banking) from October 2008 until February 2013. Between 2007 and 2008, he served on behalf of a consortium of banks (RBS, Fortis and Santander) as Chief Financial Officer of ABN AMRO Group and as a Member of its Managing Board. He joined RBS in 1997 as a Leveraged Finance banker. He held a variety of senior positions within RBS's wholesale banking division, notably on the division's Board as Finance Director and Chief Operating Officer. He also ran the bank's Leveraged Finance business in Europe and Asia. Mr. Hourican started his career at PriceWaterhouse and he is a Fellow of the Institute of Chartered Accountants in Ireland. He is a graduate of the National University of Ireland and Dublin City University.

Mr. Hourican is an experienced Chief Executive Officer, Finance Director and Chief Operating Officer having served in various senior roles for over fifteen years with the Royal Bank of Scotland.

Term of Office:

Appointed to the Board in December 2013

External Appointment:

Atradius N.V.

Independent:

No

Committee Membership:

None

Christodoulos Patsalides (DCEO & COO)

Born in 1962. From 1989 to 1996, Dr. Patsalides worked for the Central Bank of Cyprus in the management of Government External Debt and Foreign Exchange Reserves Department. In 1996, Dr. Patsalides joined the Company where he has held a number of positions in corporate banking, treasury and private banking, among others. From December 2013 to April 2016, Dr. Patsalides served as Finance Director and was responsible for finance, treasury, investor relations, economic research and procurement. In his current capacity as the DCEO & COO, he is responsible for human resources, corporate affairs, central operations, legal services, organisation and methods, information technology, business transformation and administrative operations. Dr. Patsalides holds a PhD and an MSc in economics from the London School of Economics and a BSc in economics from Queen Mary College in London.

Dr. Patsalides is an experienced financial services professional having served in a number of senior roles in the Group including as Finance Director.

Term of Office:

Appointed to the Board in November 2014

External Appointment:

Cyprus Anti-Cancer Society

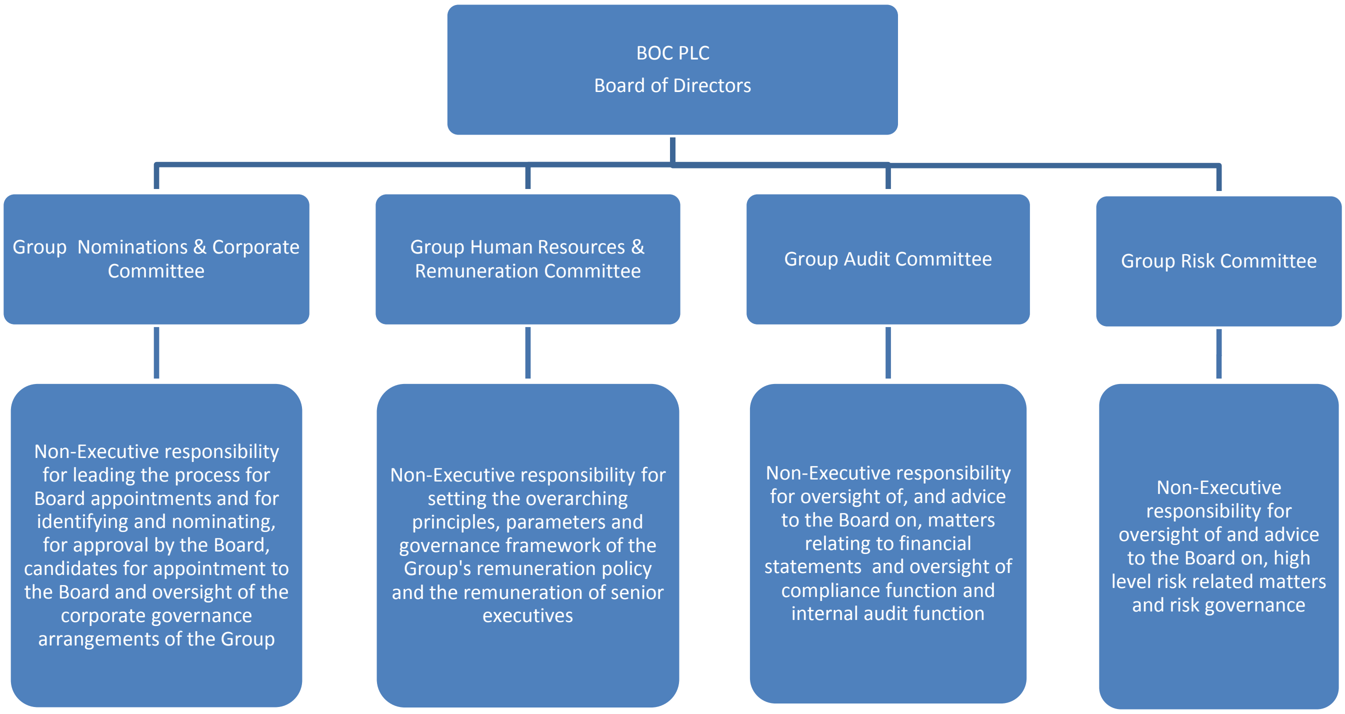
Independent:

No

Committee Membership:

None

3. Board Committees



In order to exercise proper oversight of risk and control, the Board has set up four main Board committees in accordance with the relevant requirements of the CSE Code, the UK Code and the relevant provisions of the CBC Governance Directive. The key roles of the Board committees are described above.

The Board has made a conscious decision to delegate a broader range of issues to the Board committees. This linkage is important between the committees and the Board given that it is impractical for all independent non-executive Directors to be members of all the committees. The terms of reference of the committees are based on the relevant provisions of the CSE and UK Codes and the CBC Governance Directive (where applicable).

The overall responsibility for approving and monitoring the Group's strategy, risk appetite and policies for managing risks lies with the Board, which exercises this responsibility through two of its main committees, namely the Risk Committee and the Audit Committee.

In addition to a number of cross-committee memberships, the chairperson of each committee reports to each meeting of the Board on the activities of the committee since the previous Board meeting and the Board receives the minutes of each of the committee's meetings.

The Board has recently set up a Technology Committee to drive the digital transformation of the Company. The Committee is comprised of three non-executive members and is chaired by Mrs Lyn Grobler whose extensive knowledge and experience in this industry will be instrumental.

3.1 Nominations and Corporate Governance Committee

At 31 December 2016 the NCGC comprised three non-executive Directors, two of whom were independent. It is chaired by the Chairman of the Board and its composition is fully compliant with the CSE Code, the UK Code and the CBC Governance Directive. The members of the Committee as at the date of this report following Mr. Ross' resignation are:

- Josef Ackermann (Chairman)
- Maksim Goldman

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

Biographical details, including each member's background, experience and independence status are set out in section 2 of this report.

The NCGC leads the process for appointments and renewals of the Board and Board committees, overseeing the process for non-executive Director appointments and renewals to key subsidiary boards as well as overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries. Furthermore, the role of the NCGC is to support and advise the Board in relation to the Directors' development and succession planning and to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of Directors.

The Committee with the support of the Corporate Governance Compliance Officer, keeps the Board's governance arrangements under review and makes appropriate recommendations to the Board to ensure that these arrangements are consistent with best practice and corporate governance standards.

During 2016, the Committee held 8 meetings. Matters considered by the Committee were:
- Structure, size, diversity and composition (skills, knowledge and expertise) of the Board and Board committees
- The independence of the non-executive members
- Board and individual member performance evaluation
- Effectiveness of performance of each committee
- Nominations, appointments to the Board and major subsidiary boards
- The alignment of the corporate governance framework to the UK Code
- Director rotation
- Diversity Policy and gender diversity targets
- Annual Corporate Governance Report
- Corporate governance quarterly reports
- Changes to the management structure of the Company
- Potential conflicts of interest with Directors' other appointments
- Updated the Corporate Governance Guidelines for Group subsidiaries to align practice across the Group, and to enhance the oversight framework for subsidiaries
- Remediation plan and response to ECB's risk governance and appetite thematic review
- Approval of the annual Director training agenda

The Committee reviewed a gap analysis of the existing corporate governance framework with the UK Code and implemented an action plan to close the few identified gaps by the time the London listing was achieved. To this effect, it approved the revision to the Group Board of Directors manual, the terms of reference of Board committees and the Corporate Governance Policy.

The Committee reviewed the composition of the boards of Eurolife Ltd and General Insurance of Cyprus Ltd and recommended to the Board the appointment of independent Directors to these subsidiaries. Additionally, the Director rotation of the Company was discussed and a recommendation was made to the Board. The Committee also began a search for the nomination of a new member to the Board in line with the recommendations deriving from the Board performance evaluation and the assessment of the composition of the Board.

The Committee also approved the revised:
- Group Board Nominations Policy
- Group Corporate Governance Policy
- Board manual
- Terms of reference of the main committees

in order to align them with the provisions of the UK Code.

The internal evaluation report on the performance of the Board, its committees and members was ratified and submitted to the Board for approval.

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

3.1.1 Diversity

The non-executive Directors have diverse skills, knowledge and experience that combine to provide independent perspective and effective board dynamics. The effectiveness of the Board depends on ensuring the right balance of Directors with banking or financial services experience and broader commercial experience.

Following review in 2016, the NCGC determined that the skills of the Board were appropriate and relevant to the business of the Group including financial services, strategy development, finance, risk management, business experience, economics etc. Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group. The Group recognises the benefits of having a diverse Board and is committed to this respect. In reviewing board compositions and identifying suitable candidates, the NCGC considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, industry experience, nationality, gender, age and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Board.

During 2016, the NCGC reviewed the Board Diversity Policy (the latest version of which is available on the Group's website www.bankofcyprus.com) which sets out to achieve gender diversity by 2020 with appointments based on meritocracy. The Board has set a target to achieve and maintain 40% female representation by the end of 2020 and a plan prepared by the Company Secretary has been approved by the NCGC describing all key intervening milestones leading to the accomplishment of this target. On 30 August 2016 the Board had appointed Mrs Lyn Grobler subject to ECB approval, which was provided on 7 February 2017.

The Code of Conduct similarly ensures equal opportunities to all members of staff and treats diversity with fairness and respect aiming to provide fair treatment for everyone at work.

3.1.2 Appointment, Retirement and re-election of Directors

The Board recognises the need to identify the best qualified and available people to serve on the Board. It is responsible for the appointment of Directors. In accordance with the Board Nominations Policy all appointments are made on merit against objective criteria (including skills and experience) with due regard for the benefits of diversity on the Board. The Board plans for its own renewal with the assistance of the NCGC which regularly reviews Board composition, tenure and succession planning.

According to the Articles of Association of the Company one third of the Directors retire each year and if eligible offer themselves for re-election. At the AGM of shareholders on 25 October 2016, Mr. Maksim Goldman, Mr. Michael Spanos and Mr. Arne Berggren resigned and, being eligible, offered themselves for re-election. Dr. Michael Heger was elected to the Board following his appointment on 9 June 2016. Mrs Lyn Grobler was also elected to the Board subject to ECB approval which was provided on 7 February 2017.

The Board may at any time appoint any person who is willing to act as Director and who fulfils the criteria as these are determined in the Board Nominations Policy, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors should not exceed 13. Any Director so appointed is subject to election at the Annual General Meeting following his appointment.

The NCGC, prior to assessing candidates, identifies the skills and experience required for the role, assesses the time commitment involved and, having regard to the formal assessment of the skills profile of the Board and succession planning, recommends the nomination to the Board. The recruitment process for non-executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Group then works with that firm to shortlist candidates, conduct interviews/meetings (including meetings with members of the NCGC) and complete comprehensive due diligence. In accordance with the Board Nominations Policy, the assessment process and the due diligence completed is extensive and includes self certification confirmations of probity and financial soundness and external checks involving a review of various publicly available sources.

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

3.1.2 Appointment, Retirement and re-election of Directors (continued)

The process also involves the NCGC satisfying itself as to the candidate's ability to devote sufficient time to the role, independence, fitness and probity and assessing and documenting its consideration of possible conflicts of interest. The NCGC then makes recommendations to the Board. The process described above was followed in the selection of Mrs Lyn Grobler in August 2016. Egon Zehnder, an external search consultancy firm with no other connection to the Company was engaged in respect of this non-executive Director appointment.

Non-executive Directors are appointed for an initial three-year term, and are typically expected to serve two three-year terms. The Board may invite Directors to serve additional periods once their performance has been assessed as adequate. A non-executive's term of office will not extend beyond 12 years in total and any re-appointment beyond 6 cumulative years will be subject to rigorous review and should take into account the need for progressive refreshing of the Board. The Articles of Association of the Company will be amended prior to the next AGM so that henceforth all Directors will retire every year and offer themselves for re-election, if they so wish.

Letters setting out the terms of appointment of each of the non-executive Directors, including the time commitment expected of each of them, are available on the Company's website www.bankofcyprus.com. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings, training sessions and briefings and preparation time for meetings. In addition, non-executive Directors are normally required to sit on at least one committee of the Board, which involves the commitment of additional time. Certain non-executive Directors such as the Senior Independent Director and committee chairpersons are required to allocate additional time in fulfilling those roles.

3.1.3 Directors' induction and ongoing development

Full, formal and tailored induction programmes, with particular emphasis on risk management and internal control systems are arranged for newly appointed Directors. The programmes also entail a series of meetings with senior executives and other Directors to enable new Directors to familiarise themselves with the business, management and governance structure including the function of the Board and the role of the committees. The Company Secretary under the supervision of the Chairman develops programmes based on the Director's individual needs. Following appointment, each Director receives a relevant package and undergoes an induction programme.

Focused training of the Board is arranged in conjunction with scheduled Board meetings where information is provided to ensure that Directors receive adequate insight into a particular area and through dedicated training sessions on particular issues (refer to table below for 2016 training schedule) usually identified by the Directors and the Company Secretary. A training schedule is prepared at the beginning of each year and Directors are expected to attend accordingly.

All the members of the Board were provided on appointment with an information pack which includes, among others, the Board manual, key legislation, directives and regulations and the Company's Articles of Association. As demonstrated in the table below, specialised training sessions were provided covering issues relating to the London Stock Exchange listing with the contribution of external advisors.

Name	Overseas listing Legal and other considerations	London Stock Exchange listing Corporate Governance considerations	Further London Stock Exchange listing considerations
J. Ackermann	√	√	√
M. Goldman	√	√	√
W. L. Ross	√	√	√
A Berggren	√	√	√
M. Heger	√	√	√
J. Hourican	√	√	√
M. Kalochoritis	√	√	√
C. Patsalides	√	√	√
M. Spanos	√	√	√
Y. Zographakis	√	√	√

3. Board Committees (continued)

3.1 Nominations and Corporate Governance Committee (continued)

3.1.3 Directors' induction and ongoing development (continued)

The training material is distributed to all Directors regardless of attendance. In 2016 the Company introduced e-learning and three such sessions were made available to the Directors at the end of the year to cover such matters as Anti-Money Laundering ('AML'), Whistleblowing and Anti-Bribery and Corruption.

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors. The Company Secretary ensures all Directors are provided with relevant information on a timely basis to enable them to consider issues for decision-making and discharge of their oversight responsibilities. The Directors also have access to the advice of the Group external legal advisors and to independent professional advice, at the Group's expense, if and when required. Board committees have similar access and are provided with sufficient resources to undertake their duties. The Directors also receive comprehensive guidance from the Company Secretary on Board procedures as well as guidance on duties and obligations by the Group Corporate Governance Compliance Officer.

In the performance of their roles, executive Directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management and through presenting on the Group's business to investors and analysts. They remain abreast of developments affecting the financial services sector and banking by representing the Group's interests at conferences, advisory groups and other events and meetings with regulators and other authorities.

3.1.4 Board Performance Evaluation

The Board is committed to regular and at least annual evaluation of its effectiveness and that of its committees. The internal evaluation of performance of the Board, its committees and individual members conducted in June 2016 by the Corporate Governance Compliance Officer, indicated a strong and diverse composition of experiences that could be further enhanced by appointing members with IT background, while at the same time striving for gender diversity. The annual Board performance evaluation report made several recommendations and an action plan for the implementation of these recommendations was set up. The assessment carried out through questionnaires considered overall performance relative to the role of the Board.

The outcome of the Board evaluation was considered by the NCGC and collectively discussed by the Board which concluded that the Board continues to be effective. The Board also concluded that each Director continues to make a valuable contribution to the deliberations of the Board and all the members of the Board have the appropriate qualifications and broad relevant experience and continue to be effective and demonstrate continuing commitment to the role.

The Senior Independent Director led the process of evaluation of the Chairman's performance based on a discussion during an executive session of the non-executives (without the Chairman). The Board concluded that the Chairman continues to lead the Board effectively, continues to make valuable contribution and demonstrates continuing commitment to the role.

3.2 Remuneration and Human Resources Committee

Information on the composition and the role of the Committee as well as issues reviewed during 2016 is presented in the Remuneration Policy Report, on page 356 of this report. The Committee is chaired by the Senior Independent Director and its composition complies with the requirements of the CSE Code and the UK Code. From 1 January 2016 the Committee comprised of only two independent non-executive Directors pending the appointment of Michael Heger who became the third independent non-executive member of the Committee as from 9 June 2016, upon the approval of his appointment to the Board by the ECB.

3.2.1 Loans to Directors and Other Transactions

Details of loans to Directors and other transactions with the Group are set out in Note 48 of the Consolidated Financial Statements for the year ended 31 December 2016.

3. Board Committees (continued)

3.2 Remuneration and Human Resources Committee (continued)

3.2.1 Loans to Directors and Other Transactions (continued)

The Banking Law currently forbids the extension of any credit to any independent member of the Board, but the CBC may exempt any exposure from time to time having regard to the exceptionally low risk arising from the exposures concerned. Furthermore, any credit to be extended to non-independent members of the Board must comply with the following provisions of the Law:

- be approved by a resolution of the Board carried by a majority of two-thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution,
- the exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice,
- the total value of exposures in respect of all members of the management body should not exceed at any time 10% of the Company's own funds, or such other lower percentage as the CBC may determine from time to time,
- the total value of any unsecured exposures granted to all members of the Board should not exceed at any time 1% of the Company's own funds or such other lower percentage as the CBC may determine from time to time,
- the total value of exposure to any member of the Board should not exceed at any time the amount of €500.000 or such other lower amount as the CBC may determine from time to time, and
- no financing is permitted to any executive member of the management body that does not comply to the commercial terms or exceeds the limits that apply to all staff or such other lower amount as the CBC may determine from time to time.

All members of the Board of Directors complied with the relevant provisions of the CSE Code and the Banking Law as at 31 December 2016.

3.3 Audit Committee

The Audit Committee during 2016 comprised three non-executive Directors, two of whom were independent. As of 1 January 2017, Maksim Goldman resigned from the AC and was replaced by Michael Heger in order for the Company to comply with the UK Code and the requirement that the audit committee be comprised only of independent non-executive Directors.
The members of the Audit Committee as at the date of this report are as follows:

- Ioannis Zographakis (Chairman)
- Arne Berggren
- Michael Heger (since 1 January 2017)

The Board considers that the AC as a whole has a relevant mix of skills and financial/banking experience. The Board further believes that Ioannis Zographakis can be regarded as having recent and relevant financial experience for the purposes of the UK Code and can be regarded as an AC financial expert. Biographical details, including each member's background, experience and independence status are set out in section 2 of this report.

The role of the Committee, inter alia, is:

- To oversee the system of internal controls including reviewing its effectiveness
- To monitor the integrity of the Group's financial statements and related announcements
- To monitor the effectiveness of the internal audit function
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor
- To review the Company's financial and accounting policies and practices
- To monitor the effectiveness of the Group's whistle-blowing procedures
- To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory/ethics compliance

and make recommendations to the Board on such matters.

3. Board Committees (continued)

3.3 Audit Committee (continued)

The role of the Committee is fundamental to ensuring the financial integrity and accuracy of the Company's financial reporting. Good, open relationships between the Committee, the Finance Director, the Group Internal Audit Director and the Director of Group Compliance as well as the external auditors, are essential to adding value to the organisation. This is achieved by holding management to account for the implementation of all audit recommendations (internal and external) and inviting appropriate divisional directors to meetings to explain how they are delivering the agreed actions for which they are responsible. In addition to providing assurance within the governance and accountability structures of the Group, it is essential that the Committee contributes, delivers results and adds value to the Group.

The Committee has:

- Endorsed the going concern assessment for the purposes of the basis of preparation of the financial statements.
- Reviewed and monitored the appropriateness and completeness of the published financial statements and related announcements to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgments and estimates made by the Group.
- Discussed key areas of judgments and estimates in the Group's financial results with the external auditors, Ernst & Young Cyprus Ltd; particular areas for discussion included their findings/observations as part of their audit/review of the Group's financial statements, including inter alia, loan provisioning and impairment policies, going concern issues and the recoverability of deferred tax assets.
- Advised the Group Board that the Group Annual Financial Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.
- Considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.
- Reviewed accounting policies and practices, including approval of the critical accounting policies.
- Considered management's recommendations in respect of provisions for impairment of loans and advances and any other impairment losses and charges as reported in the Group's financial statements.

The Committee has the responsibility for examining any significant transactions in any form, carried out by the Company and/or its subsidiary companies, where any member of the Board, CEO, senior executive officer, Secretary, auditor or large shareholder has, directly or indirectly, any significant interest. It ensures that these transactions are carried out within the framework of the Company's normal commercial practices (at arm's length).

The Committee received regular reports from the Group Finance Director, the Group Internal Audit Director and the Director of Group Compliance.

The Committee reviewed the adequacy of resources, qualifications and experience of staff in the finance division. Reports were submitted to the Committee on internal control matters. The Group Finance Director, the Group Internal Audit Director, the Director of Group Compliance, external auditors and other senior executives attended the Committee's meetings. The Committee has regular discussions with the external auditor, the Group Internal Audit Director and the Director of Group Compliance with opportunity to discuss issues without management present.

The AC considered loan impairment allowances and charges, discussing with management the basis of calculation and the reasons for significant changes. Judgements and estimates discussed included impairment of customer advances; interest income recognition on acquired loans, and the disclosures relating to provisions and contingent liabilities for legal proceedings and regulatory matters; and the recoverability of deferred tax assets which entails significant judgement due to the uncertainties that exist in projecting into the future. Further the AC considered management's assessment of the appropriateness of preparing the financial statements of the Group for all quarters of year 2016 on a going concern basis. The considerations assessed by the AC are set out in Note 3 of the Consolidated Financial Statements.

3. Board Committees (continued)

3.3 Audit Committee (continued)

The AC and the RC liaise closely and in joint committee meetings review the appropriateness of and completeness of the system of internal controls. The AC is primarily responsible to review the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal controls system, including accounting control systems, thereby maintaining an effective system of internal controls.

The Board has delegated authority to the NCGC to draw up the Corporate Governance Report, but the Audit Committee retains its duty to review and approve the Annual Corporate Governance Report.

In addition AC has responsibility for:
- Assisting the Board in meeting its obligations under relevant Stock Exchange listing rules and other applicable laws and regulations
- Monitoring and reviewing the effectiveness of the Group's internal audit function and its operations

3.3.1 Committee Activities in 2016

The Committee held 12 meetings during 2016.

The AC considered the following key significant accounting and other related issues in its review of the financial statements for the year ended 31 December 2016. In addressing these issues, the AC considered the appropriateness of management's judgments and estimates and where appropriate, discussed those judgments and estimates with the external auditor:
- Discussion of the results of the audit of the financial statements with the external auditors
- Discussion of the IFRS provisioning parameters
- Consideration of key accounting judgements and estimates
- Review of monthly audit reports and internal control issues
- Appointment of the external auditors
- Assessment of the independence of external auditors
- Review of the Annual Audit Report of the Group Internal Audit Division and major audit findings
- Review of the Triennial Audit Plan 2016-2018
- Review and approval of the Audit Plan, the AML Compliance Department Action Plan, the Regulatory & Ethics Compliance Department Action Plan
- Consideration of major compliance issues and reports submitted to it by the Group Compliance Division
- Review and approval of the AML Compliance Department Annual Report, the AML Risk Management Report, the Regulatory & Ethics Compliance Department Annual Report
- Review of the monthly reports of the AML Compliance Department and the Regulatory & Ethics Compliance Department
- Approval of the enhanced AML on-site visit methodology to the various branches of the first line of defence
- Review of quarterly Customer Complaints Management Report
- Review of the Annual Corporate Governance Report
- Review of quarterly reports of Cybercrime and Security Incident Response Plan
- Review and approval of the AML risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy
- Review and approval of the various regulatory & ethics compliance policies
- Review of the independence of the Group Internal Audit Division and the Group Internal Audit Director
- Review of Group Internal Audit Succession Planning
- Review and approval of the quarterly Financial Results
- Review of the provisions for impairment of loans and advances
- Review and discussion of the prospectus and financial information and reports prepared for the listing on the London Stock Exchange (LSE)
- Approval of audit, tax compliance and non-audit fees for year
- Review of the Triennial Assessment of the Group's internal control framework
- Approval of the revised Group Internal Audit charter
- Update on the Quality Assurance and Improvement Program of the Group Internal Audit Division
- Approval of revised terms of reference of the Audit Committee
- Review of group subsidiaries' audit reports

3. Board Committees (continued)

3.3 Audit Committee (continued)

3.3.1 Committee Activities in 2016 (continued)

- Review of Management Responses to the ECB's onsite inspection on risk management and risk control system
- Updated on important forthcoming regulatory developments
- Approval of a roadmap for the rotation of auditors
- Approval of non-audit work assigned to the auditors to ensure independence

3.3.2 Internal Audit independence

The Group Internal Audit and Group Compliance Divisions report directly to the Board through the AC. They are organisationally independent of units with executive functions and are not subordinated to any other unit of the Company, except the Director of Group Compliance who has a dotted reporting line to the DCEO & COO, for administration matters.

The Committee's activities included the consideration of reports submitted by the Group Internal Audit and Group Compliance Divisions. The Committee has satisfied itself that the Group Internal Audit Division was effective and adequately resourced through regular meetings held with and reports provided by the Group Internal Audit Director on internal audit issues, including the effectiveness and adequacy of resources. In early 2016 it received the final report of the triennial review of the effectiveness of the system of internal controls of the Group both on a consolidated and an individual basis that had started in 2015. The Committee received reports over the course of 2016 on the activities of the internal audit function and reviewed its planned activities for the following year.

Management's responses to Group Internal Audit's findings and recommendations were reviewed and monitored. The monthly reports issued by the Group Internal Audit Director and Director of Group Compliance enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time.

The Committee proposes to the Board the appointment or replacement of the Group Internal Audit Director and the Director of Group Compliance. It submits a report to the Board on: a) the adequacy of the audits carried out, the conclusions and the proposals of the Group Internal Audit, and b) subjects that are related to the independence and smooth execution of audit work carried out by Group Internal Audit.

The independence of the two functions as well as the independence of the Group Internal Audit Director was reviewed by the AC.

3.3.3 Arrangements relating to the external auditor

The objectivity and independence of the external auditors is safeguarded through monitoring of their relationship with the Group by the AC, including the monitoring of the balance between audit and auxiliary non-audit services. The external auditors provided written confirmation of their objectivity and independence to the Group. In addition, the external auditors do not provide internal audit services to the Group. The AC reviews annually a detailed analysis of the audit and non-audit fees relating to work done by the external auditors. The Committee reviews this to confirm the independence of the external auditors and refers this analysis to the Board.

The AC discussed the EU Regulation on audit reform of public interest entities and its implications relating to the rotation of the external auditors. In accordance with the transitional provisions under the new regulatory framework, the maximum tenure for the current auditors to remain as statutory auditors is year-end 2020. The AC agreed on a roadmap for auditor rotation, with the tender process starting in 2017 and leading to the appointment of a new auditor when practicable in the context of the independence constraints imposed by the new framework.

3. Board Committees (continued)

3.4 Risk Committee

The Risk Committee on 31 December 2016 comprised five non-executive Directors all of whom were independent. The members of the Committee as at the date of this report following Mr. Ross' resignation are:

- Arne Berggren (Chairman)
- Maksim Goldman (since 1 January 2017, replaced Dr. Michael Heger)
- Marios Kalochoritis
- Yiannis Zographakis

Biographical details, including each member's background, experience and independence status are set out in section 2 of this report.

To ensure coordination with the work of the AC, the chairman of the AC is a member of the RC and the chairman of the RC is a member of the AC. At least one member of the RC is also a member of the HRRC to ensure that remuneration decisions take into account a risk perspective.

The RC is responsible for advising the Board on high-level risk related matters and risk governance and for non-executive oversight of risk management and internal controls (other than financial reporting).

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and Risk Appetite remain appropriate. Specifically it:

- Advises the Board on risk appetite and alignment with strategy
- Monitors the effectiveness of the Group's risk management and internal control systems except from financial reporting and compliance internal control systems
- Monitors the Group's risk appetite and risk profile against key performance/risk indicators as set out in the Group's Risk Appetite Statement
- Identifies the potential impact of key issues and themes that may impact the risk profile of the Group
- Ensures that the Group's overall risk profile and Risk Appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment
- Seeks to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees
- Advises the Board on alignment of remuneration with Risk Appetite (through advice to the Group HRRC).
- Advises the Board on risks associated with proposed strategic acquisitions and disposals

The Group, like all other financial institutions, is exposed to risks, the most significant of which are credit risk, liquidity and funding risk, market risk, operational risk and property price risk. The Group monitors and manages these risks through various control mechanisms and reviews the mitigating actions proposed by management.

To ensure consistency of scope and approach by subsidiary company committees, the RC has established core terms of reference to guide subsidiary companies when adopting terms of reference for the non-executive risk committees. The Committee's endorsement is required for any proposed material changes to subsidiary company risk committee terms of reference and for appointments to such committees.

Detailed information relating to Group Risk Management is set out in Notes 43 to 46 of the Consolidated Financial Statements and the Additional Risk Disclosures section of the 2016 Annual Financial Report.

During 2016 the RC held 20 meetings. Key areas of focus for the Committee during the year were to set strategies and ensure compliance with reference to non-performing exposures management, review risk policies where necessary to comply with the changing regulatory environment and better support business needs and review the enhancements of the provisioning methodology.

The Committee identified the current and potential impact of key issues and themes that have an actual or potential impact on the Group's risk profile and performed deep dive discussions in order to better understand and provide guidance to the management. Deep-dive discussions for 2016 covered such matters as the recoveries portfolio, corporate management department and small and medium enterprises of Recoveries and Restructurings Division, REMU, liquidity and funding risk, interest rate risk and loan origination optimisation programme.

3. Board Committees (continued)

3.4 Risk Committee (continued)

3.4.1 Committee Activities in 2016

The Risk Committee undertook the following key activities in 2016:

- Oversight of executive risk management. Regular reports were received from the Group Chief Risk Officer including a risk map which provides analysis of risk profiles for categories of risk identified in the Group Risk Appetite Statement.
- Review of risk management and internal controls. The Committee recommended to the Board the annual reports of Risk Management, Information Security, ICAAP and ILAAP.
- Review of risk appetite. The Committee reviewed the alignment of risk appetite and Group strategy. Regular reviews were undertaken of the Group's risk profile against the key performance indicators set out in the Risk Appetite Statement which considered the need for any adjustment to the risk appetite.
- Review of the top and emerging risks.
- Review of acquisitions and disposals. The Committee received reports on risk issues relating to disposals and advised the Board accordingly.
- Review of the operational risk. The Committee received regular reports on the Group's operational risk management framework.
- Review of risk management policies. Approved a number of risk management related policies such as Group Information Security Policy, Country Risk Policy, Market Risk Policy, Framework for Model Risk Governance, Valuation Policy, Business Continuity Management Policy, Fraud Management Policy, Operational Risk Management Policy and Reputational Risk Policy.
- Review of the terms of reference and Committee's effectiveness. The Committee undertook a review of its terms of reference and of its own effectiveness.
- Approval/recommendation for approval of a large number of restructurings and contractual or non-contractual write-offs.
- Approval/recommendation for approval of special restructuring products and solutions.
- Update on Group Regulatory/Supervisory Activity.
- Approval of risk-related limits.
- Update on the Assets-Liabilities Committee meetings minutes.
- Preparation of the 2017 Committee's calendar aiming to fully cover governance and regulatory requirements and the Committee's terms of reference.

4. Internal Control

The Board is responsible for the adequacy and effectiveness of the system of internal controls in the Group. This system ensures that:

- The effectiveness of the governance framework is monitored and periodically assessed and appropriate steps are taken to address any deficiencies
- The appropriate compliance framework is in place
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate
- The appropriate information security framework for the protection of confidential information is in place

Policies and procedures have been designed in accordance with the nature, scale and complexity of the Group's operations in order to provide reasonable but not absolute assurance against material misstatements, errors, losses, fraud or breaches of laws and regulations. The Group's key policies and procedures pertain to the Group's capital adequacy assessment process, compliance policies and obligations and the internal control system.

The Board, through the AC and RC, conducts reviews on a frequent basis, regarding the effectiveness of the Group's internal control systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information provided to investors. The reviews cover all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. In carrying out their reviews, the AC and RC receive regular business and operational risk assessments, regular reports from the Group Internal Audit Director, the Director of Group Compliance and the Group Chief Risk Officer, internal and external audit reports, as well as regulatory reports. Additionally, the Board receives a confirmation on an annual basis by the Group CEO as to the effectiveness of compliance, risk management and information security system of internal controls.

4. Internal Control

The Board, through the AC and RC, has received confirmation that executive management has taken or is taking the necessary actions to remedy all weaknesses identified through the operation of the Company's framework of internal controls.

Based on the internal audit work carried out in 2016, significant steps have been made which further strengthened the Group's system of internal controls. An area where progress was made is the non-performing exposure management and the arrears management process, even though it still poses the most important risk for the Group. Moreover, there is still room for improvement in certain areas within the Information Systems and Information Security environment. Overall, the Board of Directors confirms the effectiveness of internal controls.

The Board confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations, except those that are known by the relevant authorities (where applicable).

4.1 Going concern

Management has made an assessment of the Group's ability to continue as a going concern. The conditions that existed during 2016 and the developments up to the date of approval of the consolidated financial statements that have been considered in management's going concern assessment include, amongst other, the operating environment in Cyprus and of the Group.

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 a number of factors 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 in Note 3 of the consolidated financial statements despite a number of uncertainties as set out in Notes 4.2.3 and 45 of the consolidated financial statements.

4.2 Group Code of Conduct and Whistleblowing Policy

The Group has set out the standards that are expected from all the employees of the Group in a Code of Conduct applicable to all employees and Directors which gives guidance on how these standards should be applicable.

The Group also has a Whistleblowing Policy in place for all staff, including Directors, which is in accordance with international practice. The policy is reviewed annually. The policy's general principles are:

- Concerns in good faith, about wrongdoing or malpractice can be raised in confidence without fear of victimization, discrimination, disadvantage or dismissal
- Procedures for the reporting of any matters of concern are clearly provided. The persons concerned must be able to bypass the main channels for whistleblowing if these prove inappropriate, and use the anonymous reporting line
- Disclosures are managed in a timely consistent and professional manner
- The appointment of the Chairman of the AC, an independent non-executive Director as a Whistleblowing Champion with specific responsibilities

The Board and Group CEO are committed to this Policy, which encourages staff to raise concerns.

5. Other matters

On 15 November 2016, the Company announced that it is applying for a standard listing on the London Stock Exchange with a view to applying for a premium listing at a future date. To achieve this objective, the Company proposed to introduce a new parent company of the BOC Group, by a way of a scheme of arrangement. In addition to the listing on the LSE, the shares would also be listed on the Cyprus Stock Exchange. The Company has determined that an Irish-incorporated holding company would be appropriate since Ireland is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for a listing on the LSE. To facilitate the scheme, a new company called Bank of Cyprus Holdings Public Limited Company ('BOCH') would be incorporated in Ireland and the shareholders of Bank of Cyprus Public Company Ltd would continue to own 100% of the Company. The Directors of the Company would also be the Directors of BOCH.

5. Other matters

At the Extraordinary General Meeting of the shareholders of the Company on 13 December 2016 the scheme was approved. Under the scheme, the share capital of the Company was reduced by the cancellation of all the existing shares resulting in a reserve arising in the books of accounts. This reserve was then used to issue fully paid-up shares in BOCH. As a result, the Company would become a wholly owned subsidiary of BOCH. The scheme of arrangement was sanctioned by the District Count of Nicosia on 21 December 2016 and became effective on 18 January 2017.

5.1 Company Secretary

The Board appointed Mrs Katia Santis as Company Secretary.

5.2 Group Internal Auditor

The Board appointed Mr. George Zornas as Group Internal Audit Director.

5.3 Corporate Governance Compliance Officer

The Board appointed Mr. Marios Skandalis as Corporate Governance Compliance Officer.

6. Remuneration Policy Report

The Remuneration Policy Report was prepared by the Board following a proposal by the HRRC in accordance with Annex 1 of the CSE Code and the UK Code. It is presented in the Annual Financial Report of the Group, after the Report on Corporate Governance. The Remuneration Policy Report is presented to the AGM of shareholders for approval. Information on the remuneration of the members of the Board for the year 2016 is disclosed in Note 48 of the Consolidated Financial Statements of the Group, as well as in the Remuneration Policy Report.

7. Shareholder Relations

On 30 August 2016, the Board appointed Mrs Annita Pavlou, Manager Investor Relations Department, as Investor Relations Officer, responsible for the communication between shareholders and the Group, following the departure of Mr. Constantinos Pittalis. Information concerning the Group is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner free of charge.

The Senior Independent Director, Mr. Michael Spanos, is available to shareholders if they have concerns that are not resolved through the normal communication channels.

All shareholders of the Company are treated on an equal basis. There are no shareholders of securities with special control rights. Shareholders are promptly and accurately informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

The Board of Directors provides to holders of at least 5% of the Company's share capital the opportunity to request the inclusion of items on the agenda of General Meetings. The Board is available at the AGM to answer shareholders' questions.

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

Major shareholders do not have different voting rights from those of other shareholders. As at 31 December 2016 the following were the major shareholders in Bank of Cyprus Public Company Limited:

- Cyprus Popular Bank Public Co Ltd 9.62%
- Lamesa Holding S.A 9.27%
- TD Asset Management 5.24%
- European Bank for Reconstruction and Development 5.02%
- Tyrus Capital S.A.M 3.47%
- Osome Invstments Ltd 3.32%
- Senvest Management LLC 3.22%

The powers of the Directors are determined by the Companies Law and the Company's Articles of Association. The Directors are authorised to issue and allot shares subject to annual shareholder approval at the AGM.

7. Shareholder Relations (continued)

The AGM was held on 25 October 2016 at the Company's headquarters. The Chairman of the Board (who is also the Chairman of the NCGC) and the Chairmen of the AC, the RC and the HRRC were present to hear the views of the shareholders and answer questions. As is the practice, all Directors of the Board at the time of the AGM attended the AGM. At the 2016 AGM, separate resolutions were proposed on each substantially separate issue and voting was conducted by poll. The results of every AGM of the Company including details of votes cast for and against on each resolution are posted on the Group's website www.bankofcyprus.com and released to the Stock Exchange.

The AGM of the Company in 2017 is scheduled to be held on 29 August 2017.

Remuneration Policy Report for the year 2016

1. Introduction

In accordance with the provisions of the Code of Corporate Governance (the 'CSE Code') published by the Cyprus Stock Exchange ('CSE') (4th Edition (Revised) April 2014) and in particular Annex 1 of the Code, the Human Resources and Remuneration Committee ('HRRC') prepares the Annual Board of Directors' Remuneration Policy Report which is ratified by the Board of Directors (the 'Board') and submitted to the shareholders' Annual General Meeting. The Board of Directors Remuneration Policy Report for the year 2016 was ratified by the Board on 27 March 2017.

The Bank of Cyprus Group's objective to attract, develop, motivate and retain high value professionals is considered fundamental in achieving the goals and objectives of the Group and ensuring that the right people are in the right roles whilst managing the Group's remuneration strategy and policies in a manner aligned with the Group's shareholders.

2. Human Resources and Remuneration Committee

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

The Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the CBC Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the European Banking Authority ('EBA') Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions pertinent to the banking sector currently.

It is acknowledged that the implementation of the relevant requirements by financial institutions and the policies and practices that are to be adopted will evolve over time, as further experience and knowledge is gained and with the development of best practice in this area. Within this context, the Group aims to review its remuneration policies and practices on an ongoing basis and amend them where necessary, with the aim of ensuring that they are consistent with and promote sound and effective risk management.

Every year, the Committee proposes to the Board the Annual Remuneration Policy Report as part of the Annual Report of the Group, which is submitted to the shareholders' Annual General Meeting for approval. The Committee also reviews the related party transactions note (Note 48) of the Consolidated Financial Statements of the Group and the Remuneration Report itself.

3. Governance of Group Remuneration Policy

3.1 Principles of the CSE Code of Corporate Governance

Companies should implement official and transparent procedures for developing policies concerning the remuneration of executive Directors and fixing the remuneration of each Board member separately.

The level of remuneration should be sufficient to attract and retain the Directors needed to run the Company successfully, but companies should avoid paying more than is necessary for this purpose. Part of the remuneration of executive Directors should be determined in such a way as to link rewards to corporate and individual performance.

The Company's Corporate Governance Report includes a statement of the Remuneration Report and relevant criteria, as well as the total remuneration of the executive and non-executive members of the Board.

Remuneration Policy Report for the year 2016 (continued)

3. Governance of Group Remuneration Policy (continued)

3.2 EBA Guidelines

In accordance with EBA guidelines for identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these employees known as Other Risk Takers.

3.3 Terms of Reference of the Human Resources and Remuneration Committee

The Role of the Committee

The Committee's primary role is to ensure that people contribute to sustainable growth by staying ahead of challenges and opportunities.

The role of the Committee is:

- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement
- To ensure that the Group is equipped with the information capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies
- To set the overarching principles and parameters of compensation & benefits policies across the Group and exercise oversight for such issues
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee compensation policy bearing in mind the EBA Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code

The Committee reviews the implementation and effectiveness of the Remuneration Policy and ensures this is in line with the Remuneration Framework as this is described in the CBC Governance Directive.

The Committee exercises oversight of negotiations with the labour union in Cyprus and provides guidance and support to management. It advises the Board on the approval of the collective agreements and reviews the framework of industrial relations and collective agreements to ensure they are relevant to best practices and conducive to good performance.

It ensures that internal control functions are involved in the design, review and implementation of the Remuneration Policy and that staff members who are involved in the design, review and implementation of the Remuneration Policy and practices have relevant expertise and are capable of forming independent judgment on the suitability of the Remuneration Policy and practices, including their suitability for risk management.

The Committee reviews any voluntary retirement/separation schemes for material subsidiaries in cooperation with the Group Human Resources Division ('HRD') and succession planning for all divisions and subsidiaries for Identified Staff throughout the Group.

The Committee monitors compliance with the Code of Conduct and reviews disciplinary controls and measures of the Group as presented by HRD on an annual basis. It also reviews the annual training plan as presented by HRD and approved by the Group CEO and ensures that it creates and/or develops the right competencies and behaviours that are necessary for meeting the Company's strategic priorities.

The Committee reviews and approves the content of any resolutions submitted for approval at the General Meeting of the shareholders, which are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the Code and concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

Remuneration Policy Report for the year 2016 (continued)

3. Governance of Group Remuneration Policy (continued)

3.3 Terms of Reference of the Human Resources and Remuneration Committee (continued)

Senior Management and other Identified Staff
The Committee reviews and approves remuneration packages of Group divisional directors, senior managers and subsidiaries' general managers, including salary, pension policy, option plans, and other types of compensation, recommended by the Group CEO or by the chairmen of the Risk and Audit Committees (in the case of the heads of internal control functions) in consultation with the Group CEO and HRD.

The Committee also reviews the performance appraisals of Group divisional directors (except heads of internal control functions), senior managers and subsidiaries' general managers performed by the Group CEO.

The Committee reviews and approves appointments, transfers and dismissals of Group divisional directors, senior managers and subsidiaries' general managers (except heads of internal control functions), recommended by the Group CEO, and ensures that all contractual obligations are adhered to.

The chairman of the Committee is available to shareholders in the Annual General Meeting to answer any questions regarding the Remuneration Policy of the Group.

Appointment of the Committee

The Committee on 31 December 2016 comprised of 3 independent non-executive members who are appointed by the Board on an annual basis. The members of the Committee as at the date of this Report are as follows:
- Michael Spanos (Chairman)
- Marios Kalochoritis
- Michael Heger (since 9 June2016)

Biographical details, including each member's background, experience and independence status are set out in section 2 of the Corporate Governance Report.

On 23 October 2015 Maksim Goldman resigned from the Committee to limit his participation to two committees and thereafter the Committee continued with only two Independent non-executive members until 9 June 2016 when Michael Heger was appointed to the Board and to the HRRC. The chairman of the Committee is the Senior Independent Director.

4. Committee's Activities in 2016

The Committee held 9 meetings during 2016 and, inter alia, undertook the following activities:
- Review and approval of the Group's Remuneration Policy
- Evaluation of Highly Valued Employees ('HVEs'), with emphasis on front line
- Review of the training plan for the year
- Review of the update on the Long Term Incentive Plan ('LTIP')
- Review of Management Practices Survey
- Review of the Remuneration Report
- Review of changes to the management structure of the Company
- Review and approval of the staff optimisation plan
- Review and update on the Performance Appraisal Policy
- Review of the performance appraisal for senior management
- Approval of the revised terms of reference of the HRRC
- Approval of the Employee Recognition Policy and the Internal Communication Policy
- Update on collective agreement process with the local labour union

4.1 Remuneration of non-Executive Directors

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

4. Committee's Activities in 2016 (continued)

4.1 Remuneration of non-Executive Directors

The Committee proposes fees payable to the Chairman and the two Vice Chairmen, while the Chairman makes recommendations for the remuneration of the non-executive Directors to the Board for approval by the AGM, considering the following factors:

- The time allocated and effort exerted by non-executive Directors to meetings and decision-making in the management of the Group
- The undertaken level of risk
- The increased compliance and reporting requirements
- The requirement not to link remuneration of non-executive Directors to the profitability of the Group
- The requirement that non-executive Directors do not participate in the pension schemes of the Group
- The requirement not to include share options as remuneration of non-executive Directors

Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

The Chairman receives annual fees of €120.000, each of the Vice Chairmen of €80.000, the Senior Independent Director of €70.000 and the members of €45.000. Additionally the Group reimburses all Directors for expenses incurred in the course of their duties.

The chairmen of the Audit and Risk Committees receive annual fees of €45.000 each and members receive €25.000. The chairmen of the HRRC and the NCGC receive annual fees of €30.000 each. Each member of the HRRC receives €20.000 per annum, while each member of the NCGC receives €15.000 per annum.

4.2 Remuneration and Other Benefits of Executive Directors

Executive Directors
The Committee reviews and approves the remuneration packages vis-a-vis their performance.

Contracts of Employment

The employment contract of the Group CEO, Mr. John Patrick Hourican, has been renewed for a period of two years from 1 February 2016 to 31 January 2018.

Following the final Supervisory Review and Evaluation Process (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.

Service Termination Agreements

The service contract of the Group CEO includes a clause for termination, by service of four months' notice to that effect by the executive Director, without cause but at the Company's 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 Dr. Christodoulos Patsalides, DCEO & COO and executive member of the Board, are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation based on years of service.

Bonus

No bonus was recommended by the Company's Board of Directors for executive Directors for 2016.

Retirement Benefit Schemes

The Group CEO, Mr. John Patrick Hourican, and the DCEO & COO, Dr. Christodoulos Patsalides, participate 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 the year ended 2016.

4. Committee's Activities in 2016 (continued)

4.2 Remuneration and Other Benefits of Executive Directors (continued)

Share Options

No share options were granted to executive Directors during 2016.

Other Benefits

Other benefits provided to the executive Directors include 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 the year ended 2016.

5. Information Regarding the Remuneration of Directors for Year 2016

	Remuneration for services*	Remuneration for participation in the Board of Directors and its Committees	Total remuneration for services	Remuneration and benefits from other Group companies	Remuneration in the form of profit and/or bonus distribution	Assessment of the value of benefits that are considered to form remuneration	Total remuneration and benefits	Annual contribution to retirement benefits
Executive Directors								
John P. Hourican	1.743.634	-	1.743.634	-	-	-	**1.743.634**	**150.433**
Christodoulos Patsalides	214.760	-	214.760	-	-	-	**214.760**	**17.550**
Non-Executive Directors								
Josef Ackermann	-	150.000	150.000	-	-	-	**150.000**	**-**
Maksim Goldman	-	120.000	120.000	-	-	-	**120.000**	**-**
Wilbur L. Ross	-	120.000	120.000	-	-	-	**120.000**	**-**
Arne Berggren	-	115.000	115.000	-	-	-	**115.000**	**-**
Michael Heger		50.500	50.500	-	-	-	**50.500**	**-**
Marios Kalochoritis	-	90.000	90.000	-	-	-	**90.000**	**-**
Michael Spanos	-	100.000	100.000	-	-	-	**100.000**	**-**
Ioannis Zographakis	-	115.000	115.000	-	-	-	**115.000**	**-**
	1.958.394	**860.500**	**2.818.894**	**-**	**-**	**-**	**2.818.894**	**167.983**

* Includes employers' contributions excluding contributions to retirement benefits.

27 March 2017

Additional Risk and Capital Management Disclosures

2016

1. Credit risk

The Central Bank of Cyprus (CBC) issued to credit institutions the Loan Impairment and Provisioning Directives of 2014 and 2015 (Directive), which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of International Financial Reporting Standards (IFRSs) in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Directive, in addition to those presented in Notes 2 and 43 of the consolidated financial statements for the year ended 31 December 2016, are set out in the following tables. The tables disclose Non-Performing Exposures (NPEs) based on the definitions of the European Banking Authority (EBA) standards.

According to the EBA standards, NPEs are defined as those exposures that satisfy one of the following conditions:

(i) The debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in Regulation (EU) No 575/2013 Article 178.
(iii) Material exposures (as defined below) which are more than 90 days past due.
(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
(v) Performing forborne exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

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

- Material arrears/excesses are defined as follows:
  - Retail exposures:
    - Loans: Arrears amount greater than €500 or number of instalments in arrears is greater than one.
    - Overdrafts: Excess amount is greater than €500 or greater than 10% of the approved limit.
  - Exposures other than retail: Total customer arrears/excesses are greater than €1.000 or greater than 10% of the total customer funded balances.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

(i) The extension of forbearance measures does not lead to the recognition of impairment or default.
(ii) One year has passed since the forbearance measures were extended.
(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

1. Credit risk (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

31 December 2016	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances[1]	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	**103.626**	4.241	4.978	4.073	**2.685**	1.615	1.861	1.555
Other financial corporations	**487.262**	372.797	234.505	203.512	**220.013**	216.926	119.703	119.701
Non-financial corporations	**11.590.608**	6.818.489	5.052.743	3.738.859	**3.020.161**	2.932.686	1.211.059	1.178.127
Of which: Small and Medium sized Enterprises[2]	**9.398.025**	6.116.979	4.306.269	3.294.185	**2.642.367**	2.564.855	1.030.218	998.465
Of which: Commercial real estate[2]	**8.951.533**	5.535.377	4.413.488	3.252.816	**2.240.852**	2.168.019	1.004.617	974.143
Non-financial corporations by sector								
Construction	**2.921.229**	2.242.250			**1.009.104**			
Wholesale and retail trade	**2.060.864**	1.060.451			**445.368**			
Accommodation and food service activities	**1.334.040**	705.634			**262.566**			
Real estate activities	**2.900.224**	1.438.774			**664.801**			
Manufacturing	**682.641**	394.884			**165.308**			
Other sectors	**1.691.610**	976.496			**473.014**			
Households	**7.948.599**	3.838.722	2.803.740	1.942.888	**1.237.836**	1.168.475	334.936	317.645
Of which: Residential mortgage loans[2],	**5.413.446**	2.601.852	2.166.098	1.469.563	**603.504**	551.690	192.535	179.947
Of which: Credit for consumption[2]	**1.062.416**	589.843	312.853	242.723	**292.588**	283.181	65.865	62.917
Total on-balance sheet	**20.130.095**	**11.034.249**	**8.095.966**	**5.889.332**	**4.480.695**	**4.319.702**	**1.667.559**	**1.617.028**

[1] Excluding loans and advances to central banks and credit institutions.
[2] The analysis shown in lines 'non financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

1. **Credit risk** (continued)

31 December 2015	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances[1]	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	**115.358**	4.858	5.241	4.448	**345**	345	1.771	1.518
Other financial corporations	**450.287**	269.232	164.356	141.861	**175.712**	158.570	86.439	85.905
Non-financial corporations	**13.687.340**	9.447.487	6.250.424	5.101.675	**3.938.616**	3.852.385	1.651.274	1.618.835
Of which: Small and Medium sized Enterprises[2]	**7.595.447**	5.361.281	2.724.405	2.254.873	**2.412.273**	2.364.850	752.559	736.962
Of which: Commercial real estate[2]	**10.998.641**	8.009.181	5.684.179	4.661.835	**2.996.289**	2.931.498	1.418.013	1.390.942
Non-financial corporations by sector								
Construction	**4.023.260**	3.440.287			**1.391.760**			
Wholesale and retail trade	**2.286.348**	1.308.725			**552.581**			
Accommodation and food service activities	**1.484.868**	975.111			**329.840**			
Real estate activities	**3.034.255**	1.789.356			**705.072**			
Manufacturing	**809.277**	510.071			**219.188**			
Other sectors	**2.049.332**	1.423.937			**740.175**			
Households	**8.339.490**	4.246.315	2.912.440	2.133.845	**1.286.170**	1.193.223	327.292	310.740
Of which: Residential mortgage loans[2]	**5.565.680**	2.879.120	2.168.251	1.622.346	**614.752**	553.454	181.776	172.587
Of which: Credit for consumption[2]	**1.109.776**	637.137	306.799	255.511	**315.413**	298.330	70.554	66.974
Total on-balance sheet	**22.592.475**	**13.967.892**	**9.332.461**	**7.381.829**	**5.400.843**	**5.204.523**	**2.066.776**	**2.016.998**

[1] Excluding loans and advances to central banks and credit institutions.
[2] The analysis shown in lines 'non financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

1. **Credit risk** (continued)

The analysis of loans and advances to customers excluding loans and advances to general governments by year of origination is presented in the tables below for balances as at 31 December 2016 and 2015.

31 December 2016	Gross loans and advances				Loans and advances to non-financial corporations				Loans and advances to other financial corporations				Loans and advances to households			
	Total gross loans and advances	NPEs	Provision for impairment	Fair value adjustment on initial recognition	Total gross loans and advances	NPEs	Provision for impairment	Fair value adjustment on initial recognition	Total gross loans and advances	NPEs	Provision for impair-ment	Fair value adjustment on initial recognition	Total gross loans and advances	NPEs	Provision for impair-ment	Fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	2.613.418	956.324	105.081	50.621	1.797.382	729.022	76.321	47.403	43.695	1.179	316	-	772.341	226.123	28.444	3.218
1– 2 years	1.717.484	572.168	86.962	29.105	1.219.786	433.754	75.491	27.943	5.365	4.786	106	-	492.333	133.628	11.365	1.162
2 – 3 years	799.077	253.268	84.858	24.802	464.035	135.966	52.981	20.453	18.857	8.132	6.370	2	316.185	109.170	25.507	4.347
3 – 5 years	1.608.809	1.038.286	347.856	99.381	983.008	688.261	251.112	65.055	93.601	68.433	30.235	11.724	532.200	281.592	66.509	22.602
5 – 7 years	3.503.311	1.874.723	610.315	161.315	1.630.886	1.026.092	420.738	91.948	46.032	37.689	20.662	5.299	1.826.393	810.942	168.915	64.068
7 – 10 years	6.428.917	4.336.616	1.605.626	406.134	3.439.414	2.558.051	1.101.876	226.763	193.260	171.045	34.657	66.445	2.796.243	1.607.520	469.093	112.926
More than 10 years	3.355.453	1.998.623	710.866	155.088	2.056.097	1.247.343	461.356	100.721	86.452	81.533	32.953	11.244	1.212.904	669.747	216.557	43.123
Total	**20.026.469**	**11.030.008**	**3.551.564**	**926.446**	**11.590.608**	**6.818.489**	**2.439.875**	**580.286**	**487.262**	**372.797**	**125.299**	**94.714**	**7.948.599**	**3.838.722**	**986.390**	**251.446**
General governments	103.626	4.241	678	2.007												
Total on balance sheet	**20.130.095**	**11.034.249**	**3.552.242**	**928.453**												

The table includes rescheduled loans amounting to €1.049 million which cannot be split by origination date and are included in the 'Within 1 year time' time band.

1. **Credit risk** (continued)

31 December 2015	Gross loans and advances				Loans and advances to non-financial corporations				Loans and advances to other financial corporations				Loans and advances to households			
	Total gross loans and advances	**NPEs**	**Provision for impairment**	**Fair value adjustment on initial recognition**	**Total gross loans and advances**	**NPEs**	**Provision for impairment**	**Fair value adjustment on initial recognition**	**Total gross loans and advances**	**NPEs**	**Provision for impair-ment**	**Fair value adjustment on initial recognition**	**Total gross loans and advances**	**NPEs**	**Provision for impair-ment**	**Fair value adjustment on initial recognition**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	1.967.003	887.825	98.983	48.404	1.394.714	677.063	86.665	43.736	6.008	5.116	647	-	566.281	205.646	11.671	4.668
1– 2 years	1.120.993	475.365	107.696	50.225	686.925	336.853	77.867	45.069	20.575	7.749	6.129	-	413.493	130.763	23.700	5.156
2 – 3 years	921.065	526.017	141.108	46.619	603.367	386.855	114.675	29.302	52.486	1.368	4.144	9.421	265.212	137.794	22.289	7.896
3 – 5 years	3.456.302	2.164.384	778.143	175.892	2.041.959	1.482.521	591.352	104.429	162.440	97.952	55.027	15.426	1.251.903	583.911	131.764	56.037
5 – 7 years	4.567.922	2.819.809	745.431	280.559	2.344.246	1.744.733	525.483	202.312	32.368	26.951	10.731	3.569	2.191.308	1.048.125	209.217	74.678
7 – 10 years	7.433.478	5.225.683	1.669.249	470.583	4.516.382	3.485.351	1.219.077	336.014	115.629	76.868	25.015	18.569	2.801.467	1.663.464	425.157	116.000
More than 10 years	3.010.354	1.863.951	652.126	135.480	2.099.747	1.334.111	461.967	100.668	60.781	53.228	24.167	2.867	849.826	476.612	165.992	31.945
Total	**22.477.117**	**13.963.034**	**4.192.736**	**1.207.762**	**13.687.340**	**9.447.487**	**3.077.086**	**861.530**	**450.287**	**269.232**	**125.860**	**49.852**	**8.339.490**	**4.246.315**	**989.790**	**296.380**
General governments	115.358	4.858	697	(352)												
Total on balance sheet	**22.592.475**	**13.967.892**	**4.193.433**	**1.207.410**												

The table above includes rescheduled loans amounting to €915 million which cannot be split by origination date and are included in the 'Within 1 year' time band.

2. Liquidity risk and funding

2.1 Encumbered and unencumbered assets

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations.

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, is no longer available to the Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €3.446.873 thousand as at 31 December 2016 (2015: €14.023.263 thousand).

An asset is classified as unencumbered if it has not been pledged as collateral against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can be pledged and those that are not readily available to be pledged. As at 31 December 2016, the Group held €12.608.521 thousand (2015: €4.686.789 thousand) of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs and €4.595.181 thousand (2015: €3.067.147 thousand) of unencumbered assets that are not readily available to be pledged for funding requirements in their current form.

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 Emergency Liquidity Assistance (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 European Central Bank (ECB) (Note 30 of the consolidated financial statements for the year ended 31 December 2016). At 31 December 2016 the Company's subsidiary Bank of Cyprus UK Ltd has pledged as collateral loans and advances to customers of €244 million (2015: nil) 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 consolidated balance sheet as ownership remains with the Bank of England.

The table below presents an analysis of the Group's encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes. The carrying amount of such assets is disclosed below.

31 December 2016	Encumbered	Unencumbered		Total
	Pledged as collateral	which can be pledged	which are not readily available to be pledged	
	€000	€000	€000	€000
Cash and bank placements	139.975	2.092.643	361.615	2.594.233
Investments	359.813	298.419	15.412	673.644
Loans and advances to customers	2.853.511	8.659.324	4.136.566	15.649.401
Non-current assets and disposal group classified as held for sale	-	11.065	346	11.411
Property	93.574	1.547.070	81.242	1.721.886
Total on-balance sheet	**3.446.873**	**12.608.521**	**4.595.181**	**20.650.575**

31 December 2015				
Cash and bank placements	154.896	2.210.295	371.791	2.736.982
Investments	892.728	62.688	53.871	1.009.287
Loans and advances to customers	12.882.139	1.834.519	2.474.974	17.191.632
Non-current assets and disposal group classified as held for sale	-	15.018	33.485	48.503
Property	93.500	564.269	133.026	790.795
Total on-balance sheet	**14.023.263**	**4.686.789**	**3.067.147**	**21.777.199**
Bonds guaranteed by the Cyprus Government	1.000.000	-	-	1.000.000
Total	**15.023.263**	**4.686.789**	**3.067.147**	**22.777.199**

2. Liquidity risk and funding (continued)

2.1 Encumbered and unencumbered assets (continued)

Encumbered assets primarily consist of loans and advances to customers and investments in debt securities and property. These are mainly pledged for the funding facilities under the Eurosystem monetary policy operations and the ELA of the CBC (Note 30 of the consolidated financial statements for the year ended 31 December 2016) and for the covered bond. In the case of the ELA, as collateral is not usually released upon repayment of the funding, there may be an inherent buffer which could be utilised for further funding if required. Investments are mainly used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond (Note 45 of the consolidated financial statements for the year ended 31 December 2016). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond.

In August 2016, the Company cancelled two own-issued bonds guaranteed by the Republic of Cyprus of €500 million each. The bonds bore an annual fixed interest rate at 5%. The bonds were guaranteed by the Republic of Cyprus and were issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds was presented in debt securities in issue in the consolidated balance sheet as all the bonds were held by the Company. The bonds were listed on the Cyprus Stock Exchange (CSE) and were pledged as collateral for obtaining funding from central banks. One of the bonds was released in June 2016 from the ELA pool of collateralised assets. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities (Note 45 of the consolidated financial statements for the year ended 31 December 2016).

On 29 September 2015, the terms of the Covered Bond Programme and the outstanding €1.000 million covered bond were amended to a Conditional Pass–Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650 million with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB (Note 45 of the consolidated financial statements for the year ended 31 December 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 not able to include Cyprus Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed.

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 as of 27 March 2017.

Unencumbered assets that are available and can be pledged include Cyprus loans and advances which are less than 90 days past due as well as loans of overseas subsidiaries and branches which are not pledged. Customer loans of overseas subsidiaries and branches cannot be pledged with the CBC as collateral for ELA. Moreover, for some of the overseas subsidiaries and branches, these assets are only available to be pledged for other purposes for the needs of the particular subsidiary/branch and not to provide liquidity to any other entity of the Group. Balances with central banks are reported as unencumbered and can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as unencumbered since it is not readily available as collateral.

2. Liquidity risk and funding (continued)

2.1 Encumbered and unencumbered assets (continued)

Unencumbered assets that are not readily available to be pledged primarily consist of loans and advances which are prohibited by contract or law to be encumbered or which are over 90 days past due or for which there are pending litigations or other legal actions against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred in the name of the Company or the subsidiary are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table below as they are primarily due to the insurance policyholders.

The carrying and fair value of the encumbered and unencumbered investments of the Group as at 31 December 2016 and 2015 are as follows:

31 December 2016	Carrying value of encumbered investments	Fair value of encumbered investments	Carrying value of unencumbered investments	Fair value of unencumbered investments
	€000	€000	€000	€000
Equity securities	1.562	1.562	52.514	52.514
Debt securities	358.251	358.454	261.317	262.491
Total investments	**359.813**	**360.016**	**313.831**	**315.005**
31 December 2015				
Equity securities	1.027	1.027	91.644	91.644
Debt securities	891.701	900.287	24.915	24.915
Total investments	**892.728**	**901.314**	**116.559**	**116.559**

2.2 Liquidity regulation

In addition to the liquidity ratios applicable at each banking location that the Group operates, the Group has to comply with the Liquidity Coverage Ratio (EU) 2015/61 (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 Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The Capital Requirements Regulation (CRR) requires phased-in compliance with the LCR standard as from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% in 2016, 80% in 2017 and 100% as from January 2018. Starting from January 2016, the LCR is calculated monthly based on the final published Delegated Regulation (EU) 2015/61. The Delegated Regulation was enacted in September 2016 and the LCR is calculated under this Regulation.

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.

As at 31 December 2016 the Group is not in compliance with its regulatory liquidity requirements with respect to the LCR. On the basis of Regulation (EU) 2015/61 the Group's LCR as at 31 December 2016 was 49% (2015: 0%); on the basis of Basel QIS standards the Group's NSFR was 95% (31 December 2015: 83%). Following the full repayment of ELA funding on 5 January 2017, the Group is aiming to build up available liquid assets in order to comply gradually with its regulatory liquidity ratios.

2. Liquidity risk and funding (continued)

2.2 Liquidity regulation (continued)

Furthermore, the Company and the other units must comply with their local regulatory liquidity ratios. The minimum regulatory liquidity ratios for the operations in Cyprus are set by the CBC. As at 31 December 2016 the Company was not in compliance with the regulatory liquidity requirements with respect to its operations in Cyprus.

2.3 Liquidity reserves

	31 December 2016		31 December 2015	
Composition of the liquidity reserves	**Liquidity reserves**	**Liquidity reserves of which Delegated Reg (EU) 2015/61 LCR eligible Level 1**	Liquidity reserves	Liquidity reserves of which Delegated Reg (EU) 2015/61 LCR eligible Level 1
	€000	**€000**	€000	€000
Cash and balances with central banks	**1.505.120**	**1.146.015**	1.421.733	1.002.649
Nostro and overnight placements with banks	**423.603**	**-**	537.722	-
Other placements with banks	**376.145**	**-**	477.604	-
Liquid investments	**154.787**	**256.325**	19.594	2.421
Available ECB Buffer	**124.998**	**-**	178.792	178.792
Other investments	**6.340**	**-**	8.637	-
Total	**2.590.993**	**1.402.340**	2.644.082	1.183.862

Investments under Liquidity Reserve are shown at market value net of haircut (as prescribed by regulators) in order to reflect the actual liquidity value that can be obtained and include only the international issues of Government of Cyprus. Under LCR Liquidity Reserves, all Cyprus Government Bonds remain eligible for inclusion as Level 1 assets given that they are issued by a Member State. LCR does not require liquid assets to be eligible as collateral for central bank operations and are included at market value.

The Liquidity Reserves are managed by Group Treasury.

ELA was fully repaid on 5 January 2017. ELA is available to solvent Euro area credit institutions and although the Company has received no specific assurance, management expects that the Company will continue to have access to the central bank liquidity facilities, in line with applicable rules if it were to face a 'stress event' that gave rise to temporary liquidity problems. If a stress event were to occur in the future, the Company would seek to utilise ELA funding, assuming it has sufficient available eligible collateral at the time.

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.

2. Liquidity risk and funding (continued)

2.3 Liquidity reserves (continued)

In May 2016, the Company raised new funding from ECB using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

In 2014, the Group participated in the TLTRO of the ECB for an amount of €500 million. On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million and borrowed the same amount from the MRO. In December 2016, the Group borrowed an amount of €600 million through the new series of TLTRO (TLTRO II) announced by the ECB in March 2016. Additionally, an amount of €50 million was borrowed through the LTRO. As a result, in December 2016 all the ECB funding that was borrowed through the MRO, was switched to longer term funding.

Following the full repayment of ELA on 5 January 2017, all ELA collateralised loans have subsequently been released, but ELA pledged properties remain pledged as of 27 March 2017.

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note (Note) under the Company's EMTN Programme. The Note was priced at par with a coupon of 9,25%. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents.

In March 2017 the Company has borrowed an additional amount of €230 million through the new series of TLTRO II, to be received on 29 March 2017.

3. Other risks

3.1 Operational risk

Operational risk is defined as the risk of a direct or indirect impact loss resulting from inadequate or failed internal processes, people and systems or external events. The Group includes in this definition compliance, legal and reputational risk.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate information to the Group's management at all levels in relation to the operational risk profile at a Company, Unit and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and have minimal impact on the Group's profitability and corporate objectives.
Operational risks can arise from all business lines and from all activities carried out by the Group and are thus diverse in nature. To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises management and staff who have immediate responsibility of day-to-day operational risk management and own the risk. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities.

The second line of defence comprises the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence, supported by other specialist control and support functions such as the Group Compliance, Legal, Information Technology and Information Security, Health and Safety functions. The third line of defence comprises the Internal Audit function, which provides independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

3. Other risks (continued)

3.1 Operational risk (continued)

During 2016, significant progress has been achieved towards further enhancement of Operational Risk Management, since a new improved system 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. Furthermore, a Data Governance Office and a Data Governance Framework were established, as the Group is focusing on effective management of its data, and improvement of data quality.

Operational risk loss events are classified and recorded in the Group's internal loss database to enable risk identification, corrective action and statistical analysis. During the year ended 31 December 2016, 86 loss events with gross loss equal to or greater than €1.000 each were recorded (2015: 151).

The Group strives to continuously enhance its risk control culture and increase awareness of its employees on operational risk issues through ongoing staff training.

The Group also maintains adequate insurance policies to cover for unexpected material operational losses.

Business resilience is treated as a priority and as such the Group places significant importance on continuously enhancing the continuity arrangements for all markets in which the Group operates, to ensure timely recovery in the case of events that may cause major disruptions to the business operations.

3.2 Regulatory risk

The Group's operations are supervised by the CBC and the ECB as a supervisory body for all the banks in the Eurozone area (referred to as the Single Supervisory Mechanism, SSM). The ECB and the national central banks together constitute the Eurosystem, the central banking system of the Eurozone. The ECB exercises its supervisory responsibilities in cooperation with the national central banks. As such, in Cyprus the ECB cooperates with the CBC, as the Company is considered as a significant credit institution for the purposes of the ECB Regulation.

The overseas subsidiaries and branches of the Group are also supervised by the national regulatory authorities in the countries where they operate.

In this context, the Group is exposed to a series of regulatory and legal risks:
- Legislative action and regulatory measures which may materially impact the Group and the financial and economic environment in which it operates.
- The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with regulatory requirements and any adverse regulatory and governmental developments.
- The implementation of a more demanding and restrictive regulatory framework (including CRD IV/CRR) with respect to, amongst others, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, poses additional risks for banks.
- Changes in laws or regulations might also restrict certain types of transactions, affect the Group's strategy and lead to modification of the customer charges for banking products or transactions.
- The Group is subject to certain regulatory and legal constraints in originating new loans, managing and restructuring existing loans and foreclosing on collateral.
- The Group's Restructuring Plan, approved by the CBC in November 2013, restricts certain actions of the Group. These restrictions were affirmed by the ECB, in its capacity as SSM, including a prohibition on the distribution of dividends and the provision of variable remuneration to Group employees as well as a requirement that the Company should obtain the prior approval of the ECB before providing capital or funding to any subsidiary. Notwithstanding, the ECB's prohibition on variable pay, lifted and replaced with a limitation on variable remuneration to 10% of net revenues in 2016 SREP decision.
- As a result of the Group's dependency on ELA funding over the last years, its limited access to interbank and wholesale markets and a reduction in deposits in Cyprus in earlier years, the Group is not in compliance with its regulatory liquidity requirements.
- The Group is exposed to tax risk and failure to manage such risk may adversely impact the Group.

3. Other risks (continued)

3.2 Regulatory risk (continued)

The EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD) establishes a framework for the recovery and resolution of European Union (EU) credit institutions. The stated aim of the BRRD is to provide supervisory resolution authorities, with common tools and powers to address banking crises pre-emptively in order to ensure the continuity of the institution's critical financial and economic functions whilst safeguarding financial stability and minimising taxpayers' exposure to losses. The BRRD includes the concept of loss absorption and a minimum requirement for own funds and eligible liability (MREL).

The BRRD also has significant funding implications for credit institutions, which include the establishment of pre-funded resolution funds of 1% of deposits covered under the EU Deposit Guarantee Schemes Directive 2014/49 to be built up by 31 December 2024. The BRRD has been implemented in Cyprus.
The EU has also established a Single Resolution Mechanism (SRM), set up under the Single Resolution Mechanism Regulation No 806/2014 as part of the European Banking Union. Under the SRM, a single resolution process applies to all credit institutions supervised by the SSM. This process is co-ordinated by the Single Resolution Board (SRB). The Company is subject to the supervision of the SSM and accordingly the SRM.

The SRM Regulation is closely connected with the BRRD. For credit institutions within the SSM, the SRB effectively takes on the role of the relevant national resolution authority established under the BRRD. The Company is subject to the supervision of the SRB.

On 1 January 2016 the Directive 2009/138/EC of the European Parliament and of the Council and the relevant Regulations on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) came in force. Additionally on 11 April 2016 the Law on Insurance and Reinsurance Services and Other Related Issues (Law 38(I)/2016) became effective. The new legal and regulatory framework introduced significantly increased quantitative and qualitative requirements. The Insurance Companies Control Service (Ministry of Finance) supervises the minimum required capital which should be maintained by insurance companies in order to ensure they meet the solvency capital requirement. Additional targets are set by the insurance subsidiaries of the Group, EuroLife Ltd and General Insurance of Cyprus Ltd, in order to maintain sound capital ratios which can support operational targets. The insurance subsidiaries of the Group manage their capital base by monitoring the coverage of solvency capital requirements on a quarterly basis using high quality own funds. Both subsidiaries are compliant with the solvency capital requirements imposed by the Insurance Companies Control Service during 2016.

The Cyprus Investment and Securities Corporation Ltd (CISCO) is a member of the Investor Compensation Fund (ICF) which was established pursuant to Article 59(1) and (2) of Law 144(I)/2007 which provides for the Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and other Related Matters as an investor compensation fund for ICF clients other than credit institutions. The powers and functions of the ICF are regulated by the provisions of the aforementioned law and of the Directive 144-2007-15 of the CySEC for the Continuance of the Operation and the Operation of the IF Investor Compensation Fund. CISCO is obliged to contribute annually an amount of up to 0,1% of the eligible funds and financial instruments of the member's clients and to contribute when called upon by CySEC an extraordinary supplementary contribution, if it deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure of a member of the ICF. The amount of the extraordinary supplementary contribution is not designated (nor capped).

The EU Investor Compensation Schemes Directive 97/9/EC (the ICSD) requires member states to establish investor compensation schemes (ICS) to protect investors with respect to firms carrying on investment business (which may be an investment firm or a credit institution). An ICS will typically make payouts if an investment firm or credit institution carrying on investment business fails.
In Cyprus, the Investor Compensation Fund for Clients of Banks (the Fund) was established pursuant to Article 59(1) and (2) of Law 144(I)/2007 which provides for the Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and other Related Matters. Such a Fund is administered by the CBC. The Company is obligated to contribute annually an amount of up to 0.001% of the eligible funds and financial instruments of the Company's clients.

3. Other risks (continued)

3.3 Intensity of competition

The Group faces intense competition in the markets in which it operates. In Cyprus the competition primarily originates from other commercial banks, co-operative credit institutions, branches and subsidiaries of foreign banks, and insurance companies offering savings and investment products.
Following the acquisition of certain operations of Laiki Bank in 2013, the Group's market share in loans and deposits in Cyprus was significantly boosted, even though depositor psychology led to substantial deposit outflows from the Cyprus banking system. During 2015 and 2016 the Group's market share in deposits increased due to deposit inflows. The Group remains today the biggest and most systemically important local banking organisation in Cyprus.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

3.4 Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 38 of the consolidated financial statements for the year ended 31 December 2016) and in the event that legal issues are not properly dealt with, by the Group, resulting in the cancellation of contracts with customers thus exposing the Group to legal actions against it.

3.5 Political risk

External factors which are beyond the control of the Group, such as developments in the European and the global economy, as well as political and government actions in Cyprus can affect the operations of the Group, its strategy and prospects, either directly or indirectly through their possible impact on the domestic economy.

Cyprus is a small open economy particularly exposed to weakness in Russia, the UK and Greece. Cyprus is also exposed to international developments particularly in the European Union and the Eurozone that may lead to a payments crisis or changes in the regulatory and supervisory framework.

The exit of the UK following the EU referendum of 23 June 2016 may lead to an economic recession in the UK itself and to possible disruptions in the Eurozone with pressure to bear on the euro and the currency markets generally.

An exit of the UK from the EU may impact Cyprus. Cyprus has trade, investment links with the UK, and it is a popular tourist destination for British tourists. In 2016 the UK accounted for 36% of all tourist arrivals. The possible loss of UK tourist arrivals may be mitigated at least in part, by increases in arrivals of tourists from other countries, as tourist traffic may continue to divert away from other regional destinations. In total about 9% of Cyprus imports and 7% of Cyprus exports are with the UK based on available statistics for 2015. Additionally there is a relatively sizeable community of British expatriates in Cyprus, many of whom have purchased homes and live permanently on the island.

Consequences for the Cyprus economy may potentially derive from the wider implications for the UK economy and on the EU from exiting. Additionally, the exit of the UK from the EU will change the balance of power in the EU and will also exacerbate the division between the northern and southern countries.

Developments in other non-EU countries with which Cyprus maintains significant economic links, the unresolved Cyprus problem, and political and social unrest or escalation of military conflict in neighboring countries and/or other overseas areas may adversely affect the Cyprus economy.

Russia is an important economic partner of Cyprus both in terms of tourism and international business flows. Any developments that impact negatively on these linkages will have a negative impact on the economy and will thus affect the Group's operations.

3. Other risks (continued)

3.5 Political risk (continued)

As a result of sanctions and the steep decline in oil and commodity prices, Russia entered a steep recession in 2015 when the economy contracted by 3,7% and further by 0,6% in 2016. Russia's economy is expected to grow again in 2017 by 0,8% (European Commission, European Economic Forecast, Winter 2017). This will be largely due to a trimmed down budget based on more realistic oil prices. Rating agencies have even raised the country's outlook from negative to stable. However, uncertainty is linked with oil price dynamics, geopolitical tensions and a possible prolongation of sanctions. A re-emergence of volatility amongst emerging economies, driven by further tightening of monetary policies in the US or by changes in global trade policies, could also adversely impact the Russian economy.

In relation to Greece, the economy contracted by 0,2% in 2015 and registered zero growth in 2016 in real terms according to Eurostat. The economy is projected to expand by 2,7% in 2017 and by 3,1% in 2018 according to the European Commission (European Economic Forecast, Winter 2017).
Negotiations over the Greek bailout programme have resumed and there seems to be an understanding among the creditors regarding fiscal targets and debt relief. The IMF may also be in a position to soon join the programme. Greece will need to make significant debt repayments in July. The creditors have still to decide on the release of bailout funds and Greece is required to introduce reforms prior to that.

Global economy risks remain elevated as highlighted by extremely low interest rates, which turned negative in many European countries and Japan. Changes in monetary policies or loss of confidence in the ability of central banks to manage economic pressures, might lead to financial distress in the emerging world with broader consequences for economic activity in the advanced countries.

The euro will come under pressure if adverse developments in the cohesion of the Eurozone escalate further. Greece continues to entail risks amidst a fragmenting European Union. Elections in a number of Eurozone countries in 2017 including France, Germany and possibly Italy, may cause further instability.

Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties, which may have a significant impact on the Group's activities, operating results and position.

4. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholder value.

The Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework on 1 January 2014. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, and allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, 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 supersedes the national discretions unless they are stricter than the EU Regulation 2016/44.

The CET1 ratio of the Group at 31 December 2016 stands at 14,5% (transitional) and the total capital 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.

4. **Capital management** (continued)

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) and based on the Supervisory Review and Evaluation Process (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.

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 the year of 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.

Following the enactment of the amendments in the Cypriot Banking Law on 3 February 2017, the Capital Conservation Buffer (CCB) is gradually phased-in at 0,625% in 2016, 1,25% in 2017, 1,875% in 2018 and is fully implemented on 1 January 2019 at 2,5%.

The BRRD requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain 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 liabilities has not yet been finalised, the Bank is monitoring developments in this area very closely.

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.

4. Capital management (continued)

4.1 Capital position

The capital position of the Group under CRD IV/CRR basis (after applying the transitional arrangements set by the CBC) is presented below.

Regulatory capital	**31 December 2016**	31 December 2015
	€000	€000
Transitional Common Equity Tier 1 (CET1)[3,5]	**2.727.997**	2.747.772
Transitional Additional Tier 1 capital (AT1)	**-**	-
Tier 2 capital (T2)	**21.423**	30.290
Transitional total regulatory capital[5]	**2.749.420**	2.778.062
Risk weighted assets – credit risk[4]	**16.861.793**	17.618.578
Risk weighted assets – market risk	**6.231**	7.811
Risk weighted assets – operational risk	**1.997.200**	2.039.888
Total risk weighted assets	**18.865.224**	19.666.277
	%	%
Transitional Common Equity Tier 1 ratio	**14,5**	14,0
Transitional total capital ratio	**14,6**	14,1

During 2016 the CET1 was positively affected by the profit for the year and by the disposal of non-core assets and it was negatively affected by the phase in of transitional adjustments, mainly deferred tax asset. The RWA were positively affected by the Group's ongoing efforts for risk-weighted assets optimisation. As a result of the above, the CET1 ratio increased by 50 bps during the year.

Additional information on capital management can be found in the 2016 Pillar 3 Disclosures Report, www.bankofcyprus.com (Investor Relations).

[3] CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €88.407 thousand and €35.193 thousand as at 31 December 2016 and 31 December 2015 respectively.
[4] Includes Credit Valuation Adjustments (CVA).
[5] Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the deferred tax asset phase-in period reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016.

5. Leverage ratio

According to CRR Article 429, the leverage ratio, expressed as a percentage, is calculated as the capital measure divided by the total exposure measure of the Group.

The leverage ratio of the Group is presented below:

Transitional basis	**31 December 2016**	31 December 2015
	€000	€000
Capital measure (CET 1)	**2.727.997**	2.747.772
Total exposure measure	**22.833.225**	22.866.525
Leverage ratio (%)	**11,9**	12,1
Fully loaded basis		
Capital measure (CET 1)	**2.611.563**	2.568.503
Total exposure measure	**22.785.112**	22.687.256
Leverage ratio (%)	**11,5**	11,3

Additional information on leverage can be found in the 2016 Pillar 3 Disclosures Report, www.bankofcyprus.com (Investor Relations).

6. Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP)

The Group prepared the ICAAP and ILAAP reports for year 2015. Both reports were approved by the Board of Directors and have been submitted to the ECB in April 2016. Currently, the Group is preparing the ICAAP and ILAAP reports for the year 2016, due for submission around 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 quarter of 2016 and in the fourth quarter of 2016 covering the period up to end of June 2016 and the period up to end of September 2016, respectively.

A quarterly review is also performed for the ILAAP through quarterly stress tests submitted to the Assets and Liabilities Committee (ALCO) and Board Risk Committee, as from 2016. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows.

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