Annual Financial Report 2017

Bank of Cyprus

Contents

BANK OF CYPRUS GROUP
Board of Directors and Executives
as at 26 March 2018

Board of Directors of Bank of Cyprus Public Company Limited	Prof. Dr. Josef Ackermann CHAIRMAN Maksim Goldman VICE CHAIRMAN Arne Berggren Lyn Grobler Dr. Michael Heger John Patrick Hourican Dr. Christodoulos Patsalides Michalis Spanos Ioannis Zographakis Anat Bar-Gera
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Legal Advisers as to matters of Irish Law	Arthur Cox
Legal Advisers as to matters of English and US Law	Sidley Austin LLP
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Forward Looking Statements and Notes

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

The definitions and explanations on Alternative Performance Measures Disclosures are presented in 'Definitions and explanations on Alternative Performance Measures Disclosures' of the Annual Financial Report 2017.

The Annual Financial Report 2017 is available at the Bank of Cyprus Public Company Limited Registered Office (at 51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

The Board of Directors submits to the shareholders of Bank of Cyprus Public Company Limited (the Company) their Management Report together with the audited Consolidated Financial Statements (Consolidated Financial Statements) and Financial Statements (Financial Statements) of the Company for the year ended 31 December 2017.

Activities

The principal activities of the Company and its subsidiary companies involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt.

All Group companies and branches are set out in Note 50 of the Consolidated Financial Statements. Acquisitions and disposals made during the year 2017 are detailed in Notes 50 and 51 of the Consolidated Financial Statements.

Operating environment in Cyprus

Economic recovery in Cyprus accelerated in 2017 and the medium term outlook is favourable driven by an improving labour market, broadening investments and increasing resilience. Cyprus continues to face challenges primarily in relation to public and private indebtedness and non-performing exposures (NPEs), but while more remains to be done, considerable progress has been achieved.

Real Gross Domestic Product (GDP) in Cyprus increased by 3.9% in 2017 according to the Cyprus Statistical Service, compared with a 3.4% increase the previous year. In the labour market, the unemployment rate dropped to 11% on average in the year from 13% the year before according to the Cyprus Statistical Service. Average consumer inflation was marginally positive at 0.5% after four years of deflation. In the public sector the budget surplus increased significantly and the trend in the public debt to GDP ratio appears to be reversing downward. In the banking sector funding conditions continued to improve against a backdrop of favourable developments regarding NPEs.

The growth momentum is expected to be maintained in the medium term. Real GDP is expected to grow by 3.6% in 2018 and by 2.9% in 2019, slowing towards 2.5% by 2022 according to the International Monetary Fund (IMF) (Cyprus country report, December 2017). Growth will be supported by private consumption and investment expenditures and by an improving and robust labour market. On the supply side, growth is expected to be driven by favourable developments in the tourism sector and robust performance in business services. Tourism remains robust and continues to benefit from geopolitical uncertainties in competing destinations. Tourist arrivals in 2017 reached 3.7 million persons, an all-time high, and revenues reached an estimated €2.6 billion or c.13.7% of GDP.

The budget surplus increased to 1.9% of GDP in 2017 according to estimates by the IMF (Cyprus country report, December 2017) from 0.5% the previous year. The budget is expected to generate sizeable surpluses in the medium term (IMF, Cyprus country report, December 2017). The debt to GDP ratio is estimated at 97.5% in 2017, according to the Cyprus Statistical Service and it is expected to decline to 75% by 2022 also according to IMF (Cyprus country report, December 2017). Debt remains affordable with interest charges at 2.6% of GDP in 2016-2017 compared with 3.3% of GDP in 2013 (IMF, Cyprus country report, December 2017). The government took advantage of favourable conditions in debt markets to issue a new €850 million 7-year bond in June 2017 yielding 2.8% to pre-finance borrowing needs through to end-2018, and to smooth its repayment schedule beyond 2018.

In the banking sector there have been significant improvements in funding conditions and asset quality. Total deposits increased marginally by 0.8% in the year, with resident deposits increasing by 3.3%. Loan deleveraging continued in the year with total loans outstanding dropping by 7.1% and loans to residents dropping by 4.8% (according to Central Bank of Cyprus (CBC) data).

Operating environment in Cyprus (continued)

Cyprus' consistent fiscal outperformance and favourable outlook indicate a more rapid reversal in the public debt ratio and the ratio of NPEs, than previously expected. The outlook over the medium term is generally positive according to the IMF and the European Commission, while the economy continues to face challenges. Upside factors relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and stronger investment spending as property prices are stabilising and as projects in tourism, energy and public works are being implemented. Downside risks to this outlook are associated with the still high levels of NPEs and public debt ratio, and with a possible deterioration of the external environment.

The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB from BB- with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.

Financial results

The main financial highlights for 2017 are set out below:

Consolidated Income Statement		
€ million	**2017**	2016
Net interest income	**583**	686
Net fee and commission income	**180**	167
Net foreign exchange gains and net gains on other financial instruments and disposal/dissolution of subsidiaries	**48**	48
Insurance income net of claims and commissions	**50**	44
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	**27**	6
Other income	**19**	12
Total income	**907**	963
Staff costs	**(228)**	(224)
Other operating expenses	**(171)**	(153)
Special levy and contribution to Single Resolution Fund (SRF)	**(23)**	(20)
Total expenses	**(422)**	(397)
Operating profit	**485**	566
Provision charge	**(779)**	(370)
Impairments of other financial and non-financial assets	**(65)**	(47)
Provisions for litigation and regulatory matters	**(98)**	(18)
Total provisions and impairments	**(942)**	(435)
Share of profit from associates and joint ventures	**9**	8
(Loss)/profit before tax and restructuring costs	**(448)**	139
Tax	**(77)**	(16)
Loss/(profit) attributable to non-controlling interests	**2**	(4)
(Loss)/profit after tax and before restructuring costs	**(523)**	119
Advisory, Voluntary Exit Plan and other restructuring costs	**(29)**	(114)
Net gain on disposal of non-core assets	**-**	59
(Loss)/profit after tax	**(552)**	64

Financial results (continued)

In the consolidated income statement, within the Consolidated Financial Statements for the year ended 31 December 2017:

- Provision charge includes provisions for impairment of loans and advances to customers and other customer credit losses and gain on derecognition of loans and advances to customers and changes in expected cash flows.
- Advisory, Voluntary Exit Plan and other restructuring costs of €29 million include €28 million presented within operating expenses and €1 million presented within staff costs (2016: €51 million within operating expenses and €63 million within staff costs).
- The net gain on disposal of non-core assets for the year ended 31 December 2016 represents gains of €58 million and €3 million and losses of €2 million presented within 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries', 'Other income' and 'Income tax' respectively.

	2017	2016
Net Interest Margin	**3.02%**	3.47%
Cost to income ratio	**47%**	41%
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	**44%**	39%
Operating profit return on average assets	**2.1%**	2.5%
Basic and diluted (losses)/earnings per share (€ cent)	**(6.2)**	0.7

Key Balance Sheet figures and ratios	**31 December 2017**	31 December 2016
Gross loans (€ million)	**18,755**	20,130
Accumulated provisions (€ million)	**4,204**	4,519
Customer deposits (€ million)	**17,850**	16,510
Loans to deposits ratio (net)	**82%**	95%
90+ DPD ratio	**37%**	41%
90+ DPD provisioning coverage ratio	**61%**	54%
NPE ratio	**47%**	55%
NPE provisioning coverage ratio	**48%**	41%
Quarterly average interest earning assets (€ million)	**19,826**	19,060
Leverage ratio	**10.4%**	13.2%
Capital		
Common Equity Tier 1 capital ratio (CET1) (transitional)	**12.7%**	14.5%
CET1 (fully loaded)	**12.2%**	13.9%
Total capital ratio	**14.3%**	14.6%
Risk weighted assets (€ million)	**17,260**	18,865

Balance Sheet

Capital Base
Shareholders' equity totalled €2,586 million at 31 December 2017. The CET1 ratio (transitional) stood at 12.7% at 31 December 2017, compared to 14.5% at 31 December 2016. Adjusting for deferred tax assets, the CET1 ratio on a fully-loaded basis totalled 12.2% at 31 December 2017 (2016: 13.9%). During 2017 the CET1 ratio was negatively affected by the loss for the year and the deferred tax asset phasing-in, despite the reduction in risk-weighted assets (RWAs). As at 31 December 2017 the Total Capital ratio (transitional) stood at 14.3%, above the minimum required as from 1 January 2017 of 13%, positively affected mainly by the issuance of £30 million Tier 2 Capital Loan by the UK subsidiary.

Financial results (continued)

Balance Sheet (continued)

Capital Base (continued)
The Group's minimum phased-in CET1 capital ratio requirement for 2017 was 9.50%, comprised of a 4.50% Pillar I requirement, a 3.75% Pillar II requirement and the Capital Conservation Buffer (CCB) of 1.25% applicable for 2017. Following the Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2017 and based on the confirmation received in December 2017, the Pillar II requirement applicable from 1 January 2018 has been reduced to 3.00% from 3.75%. As a result, the Group's minimum phased-in CET1 capital ratio has been reduced to 9.375% from 9.50%, comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer. The Group CET1 ratio remains comfortably above this combined Pillar II requirement and guidance.

The overall Total Capital Ratio requirement for 2017 was 13.00%, comprising of a Pillar I requirement of 8.00% (of which up to 1.50% can be in the form of Additional Tier 1 (AT1) capital and up to 2.00% in the form of Tier 2 capital), a Pillar II requirement of 3.75% (in the form of CET1), and the CCB of 1.25% applicable for 2017. Following the final 2017 SREP decision, the overall Total Capital Ratio requirement has been reduced to 12.875% from 13.00%, comprising of 8.00% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018.

The Group continues to explore opportunities, subject to market conditions, to raise up to 1.5% of AT1 in the near term to further strengthen the Group's capital base. In preparation for a potential issuance of AT1 capital instruments and following the approvals of the Cypriot courts in July 2017 and December 2017, the Company proceeded with the full reduction of its capital reduction reserve, in order to eliminate the Company's accumulated losses. The reduction of capital did not have any impact on regulatory capital or the total equity position of the Company or the Group.

The retained earnings will provide the basis for the calculation of distributable items under the Capital Requirements Regulation (EU) No. 575/2013 (CRR). The CRR provides that coupons on AT1 capital instruments may only be paid out of distributable items. Distributable items for the purposes of the CRR are determined, in part, by reference to retained earnings. At 31 December 2017, the Company had €0.7 billion in distributable items. The Company is currently under a dividend distribution prohibition which will continue in 2018 following the final 2017 SREP decision received in December 2017. However, based on the decision, such prohibition will not apply to the payment of coupons on any AT1 capital instruments issued by the Company. Both the retained earnings and distributable items of the Company will partly decrease as a result of the IFRS 9 implementation on 1 January 2018.

Financial Instruments (IFRS 9)
The Group IFRS 9 implementation has been largely completed by 1 January 2018. The new accounting standard requires the impact on the implementation date, 1 January 2018, to be recognised through equity rather than the income statement. As a result, the impact on transition, 1 January 2018, will affect the equity of the Group and not the income statement.

The Group's IFRS 9 preliminary impact on transition, which is subject to change due to final parameter calibrations, is assessed to a decrease of shareholders' equity of c.€300 million, and is primarily driven by credit impairment provisions. This estimated reduction in shareholders' equity equates to a decrease in the tangible net asset value at 31 December 2017 of €0.67 per share.

The Group will implement the transitional arrangements for regulatory capital purposes which result in only 5% of the estimated IFRS 9 impact affecting the capital ratios during 2018. Allowing for IFRS 9 transitional arrangements the impact is a decrease of c.9 bps on Group capital ratios.

On a transitional basis and on a fully phased-in basis after the period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

Financial results (continued)

Balance Sheet (continued)

Default Definition
According to the European Banking Authority (EBA) guidelines that govern the CRR default definition, issued in January 2017, the default definition will gradually evolve to align with the NPE definition by 1 January 2021. The Group, in line with regulatory discussions, intends to early adopt changes that will almost align the EBA CRR definition with the NPE definition as from 1 January 2018. This will result in an increase in RWAs, equivalent to a decrease of c.40 bps on CET1 ratio and on total capital ratio based on 31 December 2017 figures.

Funding and Liquidity
At 31 December 2017, the Company's funding from central banks totalled €930 million, which relates wholly to ECB funding, compared to funding from central banks at 31 December 2016 of €850 million, which comprised Emergency Liquidity Assistance (ELA) of €200 million and ECB funding of €650 million. The ECB funding of €930 million at the year-end comprises €830 million of funding through Targeted Longer-Term Refinancing Operations (TLTRO II) and €100 million of funding through Main Refinancing Operations (MRO).

The Company fully repaid ELA in January 2017.

Group customer deposits totalled €17,850 million at 31 December 2017, compared to €16,510 million at 31 December 2016. Cyprus deposits stood at €15,983 million at 31 December 2017, accounting for 90% of Group customer deposits. The Company's deposit market share in Cyprus reached 32.8% at 31 December 2017. Customer deposits accounted for 76% of total assets at 31 December 2017. The Loan to Deposit ratio (L/D) stood at 82% at 31 December 2017, compared to a high of 151% at 31 March 2014.

In December 2017, the Company's subsidiary in the UK issued a £30 million unsecured and subordinated Tier 2 Capital Loan.

In January 2017 the Company accessed the debt capital markets and issued a €250 million unsecured and subordinated Tier 2 Capital Note.

At 31 December 2017 the Group Liquidity Coverage Ratio (LCR) stood at 190% (compared to 49% at 31 December 2016) and was in compliance with the minimum regulatory requirement of 80% (which increased to 100% on 1 January 2018). The LCR of the Company amounted to 188%.

The Net Stable Funding Ratio (NSFR) was not introduced on 1 January 2018, as per expectations. The minimum requirement of NSFR will be 100%. At 31 December 2017 the Group's NSFR, on the basis of the Basel III standards, stood at 111% (compared to 95% at 31 December 2016).

On 1 January 2018, the local regulatory liquidity requirements were abolished, in accordance with the CRR and in December 2017 the CBC introduced a macro-prudential measure in the form of a liquidity add-on that was imposed on top of the LCR with effect on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The LCR add-on applies stricter outflow and inflow rates than those defined in the Commission Delegated Regulation (EU) 2015/61. The measure will be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones and are applicable from 1 July 2018 until 31 December 2018. Specifically there will be a reduction of 50% of the LCR add-on rates on 1 July 2018. The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macro-prudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilised. The Group and the Company are currently in compliance with the LCR including the LCR add-on.

Financial results (continued)

Balance Sheet (continued)

Loans and loan portfolio quality
Group gross loans totalled €18,755 million at 31 December 2017, compared to €20,130 million at 31 December 2016. Gross loans in Cyprus totalled €16,814 million at 31 December 2017 and accounted for 90% of Group gross loans. The Company is the single largest credit provider in Cyprus with a market share of 39.2% at 31 December 2017. Gross loans in the UK amounted to €1,621 million at 31 December 2017 and accounted for 9% of Group total gross loans. New loan originations for the Group reached €2,231 million for the 2017 (of which €1,653 million were granted in Cyprus and €578 million by the UK subsidiary), exceeding new lending in 2016 by 53%.

At 31 December 2017, the Group net loans and advances to customers totalled €14,602 million (2016: €15,649 million). At 31 December 2017, there were no net loans and advances to customers which were classified as held for sale in line with IFRS 5 (2016: nil).

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

NPEs as defined by the EBA were reduced by €2.2 billion or 20% during 2017 to €8,804 million at 31 December 2017, accounting for 46.9% of gross loans, compared to 54.8% at 31 December 2016.

The provisioning coverage ratio of NPEs stood at 48% at 31 December 2017, compared to 41% at 31 December 2016. When taking into account tangible collateral at fair value, NPEs are fully covered. The 31 December 2017 NPE provisioning coverage ratio increases from 48% to 51% upon IFRS 9 first time adoption.

	31December 2017		31 December 2016	
	€ million	**% of gross loans**	€ million	% of gross loans
NPEs as per EBA definition	**8,804**	**46.9%**	11,034	54.8%
Of which: - NPEs with forbearance measures, no arrears	**1,619**	**8.6%**	2,037	10.1%

The Group has recorded significant organic NPE reductions for eleven consecutive quarters and expects the organic reduction of NPEs to continue during the coming quarters. In parallel the Group continues to be actively exploring alternative avenues to accelerate this reduction.

Loans in arrears for more than 90 days (90+ DPD) were reduced by €1.4 billion or 17% in 2017. The decrease was the result of restructuring activity, debt for asset swaps and write offs. 90+ DPD stood at €6,905 million at 31 December 2017, accounting of 37% of gross loans (90+DPD ratio), compared to 41% at 31 December 2016. The provisioning coverage ratio of 90+ DPD stood at 61% at 31 December 2017, compared to 54% at 31 December 2016. When taking into account tangible collateral at fair value, 90+ DPD loans are fully covered.

Financial results (continued)

Balance Sheet (continued)

Loans and loan portfolio quality (continued)

	31 December 2017		31 December 2016	
	€ million	**% of gross loans**	€ million	% of gross loans
90+ DPD	**6,905**	**36.8%**	8,309	41.3%
Comprising:				
- Loans with arrears for over 90 days but not impaired	**1,385**	**7.4%**	1,408	7.0%
- Impaired loans	**5,520**	**29.4%**	6,901	34.3%
Of which:				
- Impaired with no arrears	**402**	**2.1%**	472	2.3%
- Impaired with arrears less than 90 days	**162**	**0.9%**	91	0.5%

Real Estate Management Unit
The Real Estate Management Unit (REMU) on-boarded €520 million of assets in 2017, via the execution of debt for asset swaps. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed disposals of €258 million in 2017. In addition in 2017 the Group disposed of a property with carrying value of €10 million, classified as investment property. As at 31 December 2017, assets held by REMU had a carrying value of €1.6 billion.

Assets held by REMU (Group)	**31 December 2017**	31 December 2016
	€ million	€ million
Opening balance	**1,427**	542
On-boarded assets	**520**	1,086
Sales	**(258)**	(166)
Closing balance	**1,641**	1,427

Non-core overseas exposures
The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 31 December are as follows:

€ million	**2017**	**2016**
Greece	**193**	283
Romania	**79**	149
Serbia	**9**	42
Russia	**31**	44

The Group continues its effort for further deleveraging and disposal of non-essential assets and operations in Greece, Romania and Russia.

Financial results (continued)

Balance Sheet (continued)

Non-core overseas exposures (continued)

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania are expected to be terminated, subject to the completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to other entities of the Group.

In addition to the above, at 31 December 2017 there were overseas exposures of €168 million in Greece not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

Income Statement

Net interest income (NII) for 2017 amounted to €583 million, down by 15% compared to €686 million a year earlier and the net interest margin (NIM) for 2017 stood at 3.02% (2016: 3.47%).

Average interest earning assets for 2017 amounted to €19,301 million, down by 2% a year earlier.

Non-interest income for 2017 amounted to €324 million, mainly comprising of net fee and commission income of €180 million, net insurance income of €50 million and net foreign exchange income and net gains on financial instruments and disposal/dissolution of subsidiaries of €48 million. Non-interest income for 2017 increased by 17%, largely driven by the increase in gains from REMU sales and the new and increased commission charges introduced in late 2016.

Total income for 2017 amounted to €907 million, compared to €963 million for 2016 (6% decrease since last year), with the reduction reflecting mainly the 2017 reduction in NII.

Total expenses for 2017 were €422 million, 54% of which related to staff costs (€228 million), 41% to other operating expenses (€171 million) and 5% to special levy and contribution to SRF (€23 million).

The 2017 annual SRF contribution of €6 million was reversed following the amendment of the Imposition of Special Credit Institution Tax Law to allow the offsetting of the SRF contribution with the special levy charge.

The cost to income ratio for 2017 was 47%, compared to 41% for 2016, principally reflecting lower interest income.

Operating profit for 2017 was €485 million compared to €566 million for 2016.

Provisions for 2017 totalled €779 million, up by 111% compared to 2016. The elevated provisioning levels reflect changes in the Company's provisioning assumptions as a result of the Group's reconsideration of its strategy to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking. The provisioning charge for 2017 accounted for 4.0% of gross loans. An amount of c.€500 million reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk.

At 31 December 2017, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures, totalled €4,204 million (compared to €4,519 million at 31 December 2016) and accounted for 22.4% of gross loans at 31 December 2017 and 31 December 2016.

Impairments of other financial and non-financial assets for the year 2017 totalled €65 million, compared to €47 million for 2016, primarily affected by impairment charges relating to legacy exposures and legacy stock of properties in Cyprus and Greece.

Provisions for litigation and regulatory matters for 2017 amounted to €98 million, primarily relating to redress provisions for the UK operations and a fine imposed by the Cyprus Commission for the Protection of Competition.

Financial results (continued)

Income Statement (continued)

The tax charge for 2017 totalled €77 million compared to €16 million in 2016. The elevated tax charge of 2017 reflects the reduction of deferred tax assets by €62 million, following the increase in provisions for impairment of loans and advances to customers and evaluation of the recoverability assessment of the DTA balance.

Advisory, VEP and other restructuring costs for 2017 totalled €29 million, compared to €114 million for 2016 (down by 74% compared to last year). The elevated levels in the previous year relate mainly to the Voluntary Exit Plan (VEP).

Loss after tax attributable to the owners of the Company for 2017 was €552 million, compared to a profit after tax of €64 million for 2016.

Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during 2017 and the developments up to the date of approval of these Consolidated Financial Statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4 of the Consolidated Financial Statements).

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

The Directors, taking into consideration the factors described below and the uncertainties that existed at the reporting date, are satisfied that the Group has the resources to continue in business for a period of at least 12 months from the date of approval of the consolidated financial statements and, therefore, the going concern principle is appropriate for the reasons set out below.

- The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.7% and 14.3% respectively at 31 December 2017, higher than the minimum required ratios (Note 4.2.1 of the Consolidated Financial Statements).
- The IFRS 9 impact on a transitional and on a fully phased-in basis, after the period of transition is complete, is expected to be manageable and within the Group's capital plan.
- The increasing level of Group customer deposits (increase of €1,340 million during 2017). Customer deposits stood at €17,850 million at 31 December 2017.
- The continuous improvement in the Group liquidity position and its liquidity ratios. Following the repayment of ELA in January 2017 (2016: €200 million), the Group achieved compliance with the LCR. The Group is also in compliance with the LCR add-on, which was introduced by the CBC as a macro-prudential measure and is applicable from 1 January 2018 (Notes 4.2.3 and 46 of the Consolidated Financial Statements). As at 31 December 2017, the Group was not in compliance with all liquidity regulatory requirements with respect to its operations in Cyprus, however, these ratios were abolished on 1 January 2018.
- The significant reduction of Group loans that are impaired or past due for more than 90 days (90+ DPD), which have decreased by 17% during 2017 and totalled €6,905 million at 31 December 2017 and the increase of provisions coverage to 61% compared to 54% at 31 December 2016 (Note 4.2.2 of the Consolidated Financial Statements).
- The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB from BB- with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.
- The Company regained access to the debt capital markets in January 2017 with the issuance of a €250 million unsecured subordinated Tier 2 Capital Note.

Business Overview

As the Cypriot operations account for 90% of gross loans and 90% of 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. Most recently in October 2017, Standard and Poor's assigned the Company 'B/B' long- and short-term issuer credit ratings with positive outlook. The Company currently has a long-term deposit rating from Moody's Investors Service of Caa1 with a positive outlook and a long-term issuer default rating from Fitch Ratings Limited of B- with stable outlook. The key drivers for the ratings were the improvement in the Group's financial fundamentals mainly in asset quality and its funding position.

Tackling the Group's loan portfolio quality is of utmost importance for the Group. During the year an internal reorganisation of the Restructuring and Recoveries Division (RRD) was implemented with the aim of boosting resources on both the Retail and Small and medium-sized enterprises (SME) portfolios of RRD in order to further improve pace and sustainability in these portfolios. Additionally, the Group has created an incremental servicing engine powered by Pepper Cyprus Limited, to support the Company in resolving non-performing loans from its SME and retail portfolios.

The strategic focus of the Group is to reshape its business model to grow in the core Cypriot market through prudent new lending and carefully developing the UK franchise. The Group's capital position remains adequate and the Group expects to continue to be able to support the recovery of the Cyprus economy through the provision of new lending. Growth in new lending in Cyprus is focused on selected industries that are more in line with the Company's target risk profile, such as tourism, trade, professional services, information/communication technologies, energy, education and green projects. The Company is currently looking to carefully expand its UK operations, remaining consistent with the Group's overall credit appetite and regulatory environment. With selective presence in London and Birmingham and a predominantly retail funded franchise, the UK strategy is to support its core proposition in the property market, specifically targeting the professional buy-to-let market and further expanding its mortgage business and its savings, current accounts and trade-related products for SMEs, professionals and Cypriot residents.

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

Management is also placing emphasis on diversifying income streams by boosting fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Group's income streams. The insurance income net of insurance claims for 2017 amounted to €50 million, up by 13% during 2017, compared to €44 million for 2016, contributing to 16% of non-interest income.

In order to further improve its funding structure, the Company is stepping up its efforts to manage the deposit mix to ensure continued compliance with liquidity requirements, taking advantage of the increased customer confidence towards the Group, as well as improving macroeconomic conditions in Cyprus.

Strategy and Outlook

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

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

KEY PILLARS	PLAN OF ACTION
1. Materially reduce the level of delinquent loans	• Sustain momentum in restructuring • Focus on terminated portfolios (in Recovery Unit) – "accelerated consensual foreclosures" • Real estate management via REMU • Explore alternative accelerating NPE reduction measures such as NPE sales, securitisations etc.
2. Further improve the funding structure	• Focus on shape and cost of deposit franchise • Increase loan pool for the Additional Credit Claim framework of ECB • Further diversify funding sources
3. Maintain an appropriate capital position	• Internally generate capital • Potential AT1 issuance
4. Focus on core markets	• Targeted lending in Cyprus into promising sectors to fund recovery • New loan origination, while maintaining lending yields • Revenue diversification via fee income from international business, wealth, and insurance • Careful expansion of UK franchise by leveraging the UK subsidiary
5. Achieve a lean operating model	• Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over time
6. Deliver returns	• Deliver appropriate medium term risk-adjusted returns

Capital base

Shareholders' equity totalled €2.586 million at 31 December 2017. The CET1 ratio (transitional) totalled 12.7% at 31 December 2017 (2016: 14.5%). Adjusting for Deferred Tax Assets, the CET1 ratio on a fully-loaded basis totalled 12.2% at 31 December 2017 (2016: 13.9%). The Total Capital ratio (transitional), at 31 December 2017, stood at 14.3% (2016: 14.6%).

Additional information on regulatory capital is disclosed in the Additional Risk and Capital Management Disclosures which form part of the Annual Report of Bank of Cyprus Holdings Public Limited Company for the year 2017 and in the Pillar 3 Disclosures Report which is available on the Group's website, www.bankofcyprus.com (Investor Relations).

Share capital

Information about the changes on the authorised and issued share capital during 2017 is disclosed in Note 35 of the consolidated financial statements.

Share-based payments - share options

Following the incorporation of the 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 (as approved on 24 November 2015 by the Annual General Meeting of the Company) was replaced by the Share Option Plan which operates at the level of the Bank of Cyprus Holdings Public Limited Company.

Treasury shares of the Company

Up to the restructuring of the Group and the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group, shares of the Company held by entities controlled by the Group were deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss was recognised in the consolidated income statement. Following the restructuring of the Group all the shares of the Company are held by Bank of Cyprus Holdings Public Limited Company.

Change of control

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

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

Other information

During 2017 and 2016 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 the 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 Bank of Cyprus Holdings Public Limited 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.

Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividends were declared or paid during years 2017 and 2016.

Events after the reporting date

There are no material events which occurred after the reporting date.

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, manages and mitigates these risks through various control mechanisms. Detailed information relating to Group risk management is set out in Notes 44 to 47 of the Consolidated Financial Statements and in the Additional Risk and Capital Management Disclosures which form part of the Annual Financial Report 2017 of Bank of Cyprus Holdings Public Limited Company.

The Group is also exposed to litigation risk, arising from claims, investigations and regulatory matters. Further information is disclosed in Note 39 of the Consolidated Financial Statements.

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

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

Details of the financial instruments and hedging activities of the Group are set at in Notes 22 and 44 to 46 of the Consolidated Financial Statements.

The Pillar 3 Disclosures Report (unaudited) of the Bank of Cyprus Holdings Public Limited Company 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).

Preparation of periodic reporting

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

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

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

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

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

Preparation of periodic reporting (continued)

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

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

Service termination agreements

The service contract of one of the executive directors in office as at 31 December 2017 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 by the Company based on years of service and for a four month prior written notice by the executive director in the event of a voluntary resignation.

Board of Directors

The members of the Board of Directors of the Company as at the date of this Directors' Report are listed on page 1. All Directors were members of the Board throughout the year and up to the date of this Directors' Report except as disclosed below. Ms Lyn Grobler was appointed as member of the Board of Directors following ECB approval on 7 February 2017. On 27 April 2017 the Board of Directors decided to appoint Ms Anat Bar-Gera as member of the Board of Directors and her appointment was approved by the ECB on 27 October 2017. Messrs Wilbur L. Ross Jr. and Marios Kalochoritis resigned on 1 March 2017 and on 27 June 2017 respectively. On 23 January 2018, the Board of Directors decided to appoint Ms Paula Hadjisotiriou and Ms Maria Philippou as members of the Board of Directors. Their appointment is subject to approval by the ECB.

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

Information on the remuneration of the Board of Directors is disclosed in Note 49 of the Consolidated Financial Statements.

Prof. Dr. Josef Ackermann
Chairman

John Patrick Hourican
Chief Executive Officer

26 March 2018

Consolidated Financial Statements

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Consolidated Income Statement

for the year ended 31 December 2017

	Notes	2017 €000	2016 €000
Turnover	2.9	**1,165,204**	1,234,098
Interest income	7	**811,031**	886,582
Interest expense	8	**(228,267)**	(200,400)
Net interest income		**582,764**	686,182
Fee and commission income	9	**190,577**	176,865
Fee and commission expense	9	**(10,179)**	(10,207)
Net foreign exchange gains	10	**45,409**	43,471
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries	11	**2,964**	63,373
Insurance income net of claims and commissions	12	**50,401**	44,432
Net (losses)/gains from revaluation and disposal of investment properties		**(4,061)**	4,974
Net gains on disposal of stock of property		**30,447**	1,361
Other income	13	**19,079**	14,905
		907,401	1,025,356
Staff costs	14	**(228,212)**	(287,172)
Special levy on deposits on credit institutions in Cyprus	15	**(22,846)**	(19,968)
Other operating expenses	15	**(298,037)**	(222,987)
		358,306	495,229
Gain on derecognition of loans and advances to customers and changes in expected cash flows		**173,443**	63,315
Provisions for impairment of loans and advances to customers and other customer credit losses	16	**(952,926)**	(433,609)
Impairment of other financial instruments	16	**(6,459)**	(11,293)
Impairment of non-financial instruments	16	**(58,972)**	(36,220)
(Loss)/profit before share of profit from associates and joint ventures		**(486,608)**	77,422
Share of profit from associates and joint ventures	52	**8,957**	8,194
(Loss)/profit before tax		**(477,651)**	85,616
Income tax	17	**(76,681)**	(18,385)
(Loss)/profit after tax for the year		**(554,332)**	67,231

Attributable to:			
Owners of the Company		**(551,859)**	63,656
Non-controlling interests		**(2,473)**	3,575
(Loss)/profit for the year		**(554,332)**	67,231

Basic and diluted (losses)/earnings per share (€ cent) attributable to the owners of the Company	18	**(6.2)**	0.7

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	**2017**	2016
		€000	€000
(Loss)/profit for the year		**(554,332)**	67,231
Other comprehensive income (OCI)			
OCI to be reclassified in the consolidated income statement in subsequent periods			
Foreign currency translation reserve			
Profit/(loss) on translation of net investments in foreign branches and subsidiaries		**742**	(43,763)
(Loss)/profit on hedging of net investments in foreign branches and subsidiaries	*21*	**(1,166)**	53,408
Transfer to the consolidated income statement on disposal/ dissolution of foreign operations		**(104)**	(3,958)
		(528)	5,687
Available-for-sale investments			
Net gains from fair value changes before tax		**46,506**	842
Share of net gains from fair value changes of associates		**1,709**	1,677
Transfer to the consolidated income statement on impairment		**(37)**	839
Transfer to the consolidated income statement on sale		**(606)**	(47,960)
		47,572	(44,602)
		47,044	(38,915)
OCI not to be reclassified in the consolidated income statement in subsequent periods			
Property revaluation			
Fair value gain before tax	*25*	**9,319**	-
Share of fair value gain of associates		**11**	-
Tax	*17*	**(522)**	219
		8,808	219
Actuarial gains/(losses) on the defined benefit plans			
Remeasurement gains/(losses) on defined benefit plans	*14*	**10,819**	(14,255)
		19,627	(14,036)
Other comprehensive income/(loss) after tax		**66,671**	(52,951)
Total comprehensive (loss)/income for the year		**(487,661)**	14,280

Attributable to:			
Owners of the Company		**(485,602)**	15,321
Non-controlling interests		**(2,059)**	(1,041)
Total comprehensive (loss)/income for the year		**(487,661)**	14,280

Consolidated Balance Sheet
as at 31 December 2017

Assets	*Notes*	**2017 €000**	2016 €000
Cash and balances with central banks	*19*	**3,393,934**	1,506,396
Loans and advances to banks	*19*	**1,192,633**	1,087,837
Derivative financial assets	*21*	**18,027**	20,835
Investments	*20*	**739,293**	373,879
Investments pledged as collateral	*20*	**290,129**	299,765
Loans and advances to customers	*23*	**14,602,454**	15,649,401
Life insurance business assets attributable to policyholders	*24*	**518,678**	499,533
Prepayments, accrued income and other assets	*28*	**228,321**	269,911
Stock of property	*27*	**1,641,422**	1,427,272
Investment properties	*22*	**19,646**	38,059
Property and equipment	*25*	**279,814**	280,893
Intangible assets	*26*	**165,952**	146,963
Investments in associates and joint ventures	*52*	**118,113**	109,339
Deferred tax assets	*17*	**383,498**	450,441
Non-current assets held for sale	*29*	**6,500**	11,411
Total assets		**23,598,414**	22,171,935
Liabilities			
Deposits by banks		**495,308**	434,786
Funding from central banks	*30*	**930,000**	850,014
Repurchase agreements		**257,322**	257,367
Derivative financial liabilities	*21*	**50,892**	48,625
Customer deposits	*31*	**17,850,062**	16,509,741
Insurance liabilities	*32*	**605,448**	583,997
Accruals, deferred income and other liabilities	*34*	**444,280**	335,925
Subordinated loan stock	*33*	**302,288**	-
Deferred tax liabilities	*17*	**46,113**	45,375
Total liabilities		**20,981,713**	19,065,830
Equity			
Share capital	*35*	**892,294**	892,294
Share premium	*35*	**552,618**	552,618
Capital reduction reserve	*35*	**-**	1,952,486
Revaluation and other reserves		**295,171**	218,678
Retained earnings/(accumulated losses)	*37*	**845,468**	(544,930)
Equity attributable to the owners of the Company		**2,585,551**	3,071,146
Non-controlling interests		**31,150**	34,959
Total equity		**2,616,701**	3,106,105
Total liabilities and equity		**23,598,414**	22,171,935

Prof. Dr. J. Ackermann Chairman

Mr. J. P. Hourican Chief Executive Officer

Mr. I. Zographakis Director

Mrs. E. Livadiotou Finance Director

	Attributable to the owners of the Company												
	Share capital (Note 35)	Share premium (Note 35)	Capital reduction reserve (Note 35)	Treasury shares (Note 35)	Accumulated (losses)/ retained earnings (Note 37)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	**Non-controlling interests**	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
1 January 2017	**892,294**	**552,618**	**1,952,486**	**(25,333)**	**(544,930)**	**90,936**	**7,139**	**6,059**	**103,251**	**36,626**	**3,071,146**	**34,959**	**3,106,105**
Loss for the year	-	-	-	-	(551,859)	-	-	-	-	-	**(551,859)**	(2,473)	**(554,332)**
Other comprehensive income/(loss) after tax for the year	-	-	-	-	10,819	8,620	47,346	-	-	(528)	**66,257**	414	**66,671**
Total comprehensive (loss)/income for the year	-	-	-	-	(541,040)	8,620	47,346	-	-	(528)	**(485,602)**	(2,059)	**(487,661)**
Increase in value of in-force life insurance business	-	-	-	-	(2,743)	-	-	-	2,743	-	**-**	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	-	343	-	-	-	(343)	-	**-**	-	**-**
Transfer of realised profits on disposal of properties	-	-	-	-	6,678	(6,678)	-	-	-	-	**-**	-	**-**
Cancellation of shares due to reorganisation (Note 35)	(892,294)	-	-	21,463	(21,463)	-	-	-	-	-	**(892,294)**	-	**(892,294)**
Issue of shares (Note 35)	892,294	-	-	-	-	-	-	-	-	-	**892,294**	-	**892,294**
Elimination of capital reduction reserve (Note 35)	-	-	(1,952,486)	-	1,952,486	-	-	-	-	-	**-**	-	**-**
Disposals of treasury shares	-	-	-	3,870	(3,863)	-	-	-	-	-	**7**	-	**7**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	**-**	(1,750)	**(1,750)**
31 December 2017	**892,294**	**552,618**	**-**	**-**	**845,468**	**92,878**	**54,485**	**6,059**	**105,651**	**36,098**	**2,585,551**	**31,150**	**2,616,701**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Attributable to the owners of the Company												Non-controlling interests	Total equity
	Share capital (Note 35)	Share premium (Note 35)	Capital reduction reserve (Note 35)	Treasury shares (Note 35)	Accumulated losses (Note 37)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale	**Total**		
	€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 51.4.1)	-	-	-	-	17,619	-	-	-	-	-	(17,619)	**-**	-	**-**
Acquisition of subsidiary (Note 51.3.1)	-	-	-	-	-	-	-	-	-	-	-	**-**	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**

	Notes	2017 €000	2016 €000
Net cash flow from operating activities	*40*	**1,993,266**	3,162,625
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(402,977)**	(213,032)
Proceeds on disposal/redemption of investments:			
- debt securities		**91,738**	466,640
- equity securities		**1,549**	50,143
Interest received from debt securities		**19,546**	28,084
Dividend income from equity securities		**683**	343
Dividend income from associates		**6,621**	4,939
Proceeds on disposal of subsidiaries		**1,580**	26,500
Purchases of property and equipment	25	**(10,299)**	(12,096)
Purchases of intangible assets	26	**(25,723)**	(16,363)
Proceeds on disposals of property and equipment and intangible assets		**91**	210
Proceeds on disposals of investment properties and investment properties held for sale		**14,568**	14,076
Net cash flow (used in)/from investing activities		**(302,623)**	349,444
Cash flows from financing activities			
Net proceeds/(repayments) of funding from central banks		**79,986**	(3,602,836)
Net proceeds from the issue of subordinated loan stock		**280,983**	-
Redemption of debt securities in issue		**-**	(712)
Interest on funding from central banks		**(28)**	(29,656)
Proceeds from disposal of treasury shares		**7**	741
Dividend paid by subsidiaries to non-controlling interests		**(1,750)**	(5,000)
Net cash flow from/(used in) financing activities		**359,198**	(3,637,463)
Net increase/(decrease) in cash and cash equivalents for the year		**2,049,841**	(125,394)
Cash and cash equivalents			
1 January		**2,231,028**	2,347,408
Foreign exchange adjustments		**(638)**	9,014
Net increase/(decrease) in cash and cash equivalents for the year		**2,049,841**	(125,394)
31 December	*41*	**4,280,231**	2,231,028

Details on non-cash transactions are presented in Note 40.

1. Corporate information

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

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. As at 31 December 2016 the Company had a primary listing on the Cyprus Stock Exchange (CSE) and a secondary listing on the Athens Exchange (ATHEX).

On 13 December 2016, at an Extraordinary General Meeting of the shareholders of the Company, a scheme of arrangement between Bank of Cyprus Holdings Public Limited Company (incorporated in Ireland on 11 July 2016 as a public limited company in accordance with the provisions of the Companies Act 2014 of Ireland with the intention of becoming the holding company of the Group for the purposes of the Group's listing on the London Stock Exchange (LSE)), the Company and the shareholders of the Company has been approved.

The shares of the Company were suspended from trading on the CSE and ATHEX with effect from and including 10 January 2017 and were subsequently cancelled pursuant to the 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 LSE and the CSE. The Company remains a public company for the purposes of the Cyprus Income Tax Laws.

The consolidated financial statements of the Group 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 website www.bankofcyprus.com (Investor Relations).

The Annual Report of Bank of Cyprus Holdings Public Limited Company Group is available on the 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 2017 (the Consolidated Financial Statements) were authorised for issue by a resolution of the Board of Directors on 26 March 2018.

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 comma is used to separate thousands and a dot is used to separate decimals.

The Group presents its balance sheet broadly in order of liquidity. An analysis regarding expected recovery or settlement of financial assets and liabilities within twelve months after the balance sheet date and more than twelve months after the balance sheet date is presented in Note 43.

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

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures

The Consolidated Financial Statements contain a summary of the accounting policies adopted in the preparation of the Consolidated Financial Statements in Notes 2.4 to 2.32. As described in Note 2.2, the accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 below.

2.2.1 New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments were applied for the first time in 2017, 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.

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 combined versus separate assessment. This amendment did not have an impact on the Consolidated Financial Statements.

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 balance sheet 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 has provided the information for the current year in Note 40.

Annual Improvements IFRSs 2014-2016 Cycle
The International Accounting Standards Board (IASB) has issued the Annual Improvements to IFRSs 2014-2016 Cycle which is a collection of amendments to IFRSs. These did not have an impact on the Consolidated Financial Statements. These include:

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

The Group IFRS 9 implementation has been largely completed by 1 January 2018. The IFRS 9 project had a formalised governance process whereby the Group Chief Risk Officer (GCRO) was the project owner. The main divisions involved in the project at the highest level are the Risk Management, Finance, Information Technology (IT) and Operations. A Steering Committee was set up to monitor the project, chaired by the Group Chief Executive Officer (CEO) and comprising of members of the Executive Management team, the Chief Risk Officer (CRO), the Deputy CEO & Chief Operating Officer, the Finance Director and other representatives from Risk Management and Finance, while the Group Internal Audit Director participated as an observer. The Steering Committee was monitoring the progress of the project and was reviewing the results, key assumptions policies and methodologies and reported to the Risk and Audit Committees of the Company, which had an oversight role and provided relevant approvals.

The project covered all aspects of IFRS 9. A significant part was related to the development of methodologies for the calculation of impairment of customer loans and advances based on expected credit losses (ECL), in line with the requirements of IFRS 9. This change requires significant judgement in assessing available information for the ECL.

Impact of IFRS 9
The Group's IFRS 9 preliminary impact on transition including the insurance subsidiaries of the Group, which is subject to change due to final parameter calibrations, is assessed to be a decrease of shareholders' equity of c.€300 million and is primarily driven by credit impairment provisions. The new accounting processes, internal controls, governance framework, judgements and estimation techniques will continue to be refined and undergo validation.

Transition
The classification, measurement and impairment requirements are applied retrospectively by adjusting the balance sheet at the date of initial application, and as permitted by IFRS 9 the Group will not restate comparative information for prior periods. The impact on the implementation date, 1 January 2018, is therefore recognised through equity rather than the consolidated income statement. No deferred tax asset will be recognized on IFRS 9 impact upon transition.

Regulatory transitional arrangements
The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually. From the date of initial application of IFRS 9 and for five years the amount of the difference in provisions that will result from the transition to the new IFRS 9 in relation to the provisions that have been recognised at 31 December 2017 in accordance with IAS 39 will be added to the capital ratios. The amount that will be added each year will decrease based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five-years. For the year 2018 the impact on the capital ratios will be 5% of the impact on the difference in the impairment amounts.

Classification and measurement
The classification and measurement of financial assets will depend on how these are managed as part of the Business Models the Group operates under and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)). These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). The combined effect of the application of the business model and the contractual cash flow characteristics tests resulted in some differences in the population of financial assets measured at amortised cost under IAS 39 as described below.

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)

Classification and measurement (continued)

Business models are determined on the date of initial application based on fact and circumstances that existed on 1 January 2018. The Group assesses the business model at a portfolio level. The portfolio level is determined at the aggregation level that reflects how the Group manages its financial assets. Information that is considered in determining the business model includes (i) policies and objectives for the relevant portfolio, (ii) how the performance and risks of the portfolio are managed, evaluated and reported to management and (iii) the frequency, volume and timing of sales in prior periods and sales expectation for future periods, including the reasons for such sales.

Where the business model is to hold financial assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether individual financial assets' cash flows represent solely payments of principal and interest (SPPI test). For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. Interest is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether contractual cash flows are SPPI, the Group considers the terms that could change the contractual cash flows so that it would not meet the condition for SPPI, including: (i) contingent and leverage features, (ii) interest rates which are beyond the control of the Group or variable interest rate consideration, (iii) features that could modify the time value of money, (iv) prepayment and extension options, (v) non-recourse arrangements and (vi) convertible features.

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and their contractual cash flows represent SPPI.

Financial assets are measured at fair value through other comprehensive income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent SPPI.

Financial assets managed on a fair value basis and those that are held for trading are held at fair value through profit and loss.

In addition, where the contractual terms of a financial asset introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVPL.

Equity investments are measured at fair value through profit and loss. On transition to IFRS 9 and on initial recognition thereafter, there is an option to make an irrevocable election for non traded equity investments to be measured at fair value through other comprehensive income, in which case dividends are recognised in the consolidated income statement, and subsequent fair value gains or losses are recorded in other comprehensive income and are not reclassified to profit or loss upon derecognition.

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)
Classification and measurement (continued)
Classification and measurement impact assessment
Following the Group IFRS 9 implementation project, with respect to classification and measurement of financial assets and financial liabilities on 1 January 2018, the impact is as follows:

- Placements with central banks, bank placements and customer loans and advances that were classified as loans and receivables and measured at amortised cost under IAS 39 will continue to be measured at amortised cost under IFRS 9 with the exception of certain customer loans and advances with carrying value of c. €390 million as at 31 December 2017 which failed the SPPI tests and as a result have been classified at FVPL and will be measured at fair value.
- The Group has made an irrevocable election to classify the majority equity investments that were previously classified as available-for-sale under IAS 39, in FVOCI on transition to IFRS 9.
- Debt and other non-equity securities that were classified as available for sale under IAS 39 will be measured at FVOCI under IFRS 9 with the exception of certain instruments that failed the SPPI test and will be classified as FVPL.
- Debt securities that were classified as loans and receivables under IAS 39 will be measured at amortised cost under IFRS 9.
- The equity investments that were held for trading e.g. acquired principally for the purpose of selling or repurchasing in the near term will be measured at FVPL under IFRS 9. Certain equity instruments which were classified at FVPL will be classified at FVOCI under IFRS 9 as they were not held for trading on 1 January 2018.
- Derivatives (assets and liabilities) will continue to be measured at FVPL under IFRS 9.
- All financial liabilities, other than derivatives, will be measured at amortised cost.

The Group has estimated that on adoption of IFRS 9, the impact following the changes on the classification and measurement of financial assets and financial liabilities is an increase of shareholders' equity of approximately €1 million.

Impairment
IFRS 9 moves away from the IAS 39 incurred loss model to a forward looking ECL model. This change requires more judgement, estimates and assumptions in considering information for current and future provisioning. The ECL model will also 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 impairment requirements apply to financial assets that are not measured at FVPL. Specifically it applies to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. Under IFRS 9, no impairment loss is recognised on equity investments.

At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12 month ECL), unless assets are deemed as purchased or originated credit impaired (POCI). Subsequently, in the event of a significant increase in credit risk since initial recognition, a provision is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL).

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

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

Financial assets for which there is objective evidence of impairment are considered to be in default or credit-impaired and are considered to be Stage 3.

Purchased or originated financial assets that are credit-impaired on initial recognition include loans purchased or originated financial assets at a deep discount that reflect incurred credit losses.

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)
Impairment (continued)
The reconciliation of the net carrying value on customer loans and advances measured at amortised cost under IAS 39 with those measured at amortised cost under IFRS 9 is disclosed below:

	€000
Carrying value IAS 39 at 31 December 2017	14,602,454
Transfer to FVPL–carrying amount	(388,972)
IFRS 9 ECL remeasurement	(300,266)
Carrying value under IFRS 9 at 1 January 2018	**13,913,216**

The table below discloses the breakdown of the carrying value of customer loans and advances at amortised cost under by IFRS 9 by staging as at 1 January 2018.

	Carrying Value under IFRS 9
	€000
Stage 1	5,089,673
Stage 2	4,350,173
Stage 3	3,883,705
POCI	589,665
Total	**13,913,216**

Key impairment concepts
The impairment introduces a number of key concepts as described below.

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

The assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument since initial recognition. The Group's assessment usually combines a qualitative and a quantitative assessment of the loan, with the quantitative element being the primary indicator of significant increase in credit risk. Past, current as well as forward-looking reasonable and supportable information are considered in the assessment.

The Group uses the lifetime probability of default (PDs) as the primary quantitative metric in order to assess transition from Stage 1 to Stage 2 for all portfolios by considering whether the lifetime PD at the reporting date exceeds the lifetime PD at origination by an established relative threshold.

For each portfolio there are specific qualitative criteria that indicate if an exposure has experienced a significant increase in its credit risk, independent of any changes in the PD.

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)
Impairment (continued)
Significant increase in credit risk (continued)
For retail exposures qualitative criteria indicating significant increase in credit risk, are considered on a loan-by-loan basis and consider among others the following:

- expectations of forbearance and payment holidays,
- covenant breaches,
- credit and scorecards,
- events such as death, unemployment, bankruptcy, or divorce.

For corporate exposures qualitative factors in addition to the ones incorporated in the PD calculation, are considered on a loan-by-loan basis and consider among others the following:

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

The Group also considers, as a backstop criterion, that a significant increase in the credit risk occurs when contractual payments are more than 30 days past due and loans that meet this condition are classified in Stage 2.

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

For debt securities which are below investment grade, the low credit risk exemption does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date.

Financial assets (other than POCI) can be transferred between stages depending on their relative change in credit risk since initial recognition.

Financial assets are transferred out of Stage 2, if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above.

Credit impaired and definition of default
Exposures that meet the non-performing exposure (NPE) definition as per EBA standards are considered to be in default and hence credit-impaired and are considered to be in Stage 3 and have ECL calculated on a lifetime basis. Such loans are also considered to be in default for credit risk management purposes.

According to the European Banking Authority (EBA) standards and European Central Bank (ECB) Guidance to Banks on NPE (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:

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

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)
Impairment (continued)
Credit impaired and definition of default (continued)
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.

Exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, only when all of the following conditions are met:
(i) The extension of forbearance measures does not lead to the recognition of impairment or default.
(ii) One year has passed since the forbearance measures were extended.
(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
(iv) No Unlikely-to-Pay criteria exist for the debtor.
(v) The debtor has made post-forbearance payments of a not-insignificant amount of capital (different capital thresholds exist according to the facility type).

Forward-looking inputs
IFRS 9 requires the use of reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated on the basis of weighted average of three macroeconomic scenarios, baseline, downside and upside.

Scenarios impact the collection of contractual cash flows, taking into account the time-value of money, all available information relevant to past events, and current conditions and projections of macroeconomic factors deemed relevant to the estimation of this amount (e.g. Gross Domestic Product (GDP) growth, property prices, unemployment rate, consumer inflation).

This process involves consideration of a variety of external actual and forecast information (International Monetary Fund (IMF), European Commission, Economist Intelligence Unit (EIU), Moody’s Analytics) adjusted by economic expert judgement to derive the base scenario, which represents the most-likely outcome. The other scenarios represent a more pessimistic outcome and a more optimistic outcome.

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

Inputs into measurement of ECL
The Group calculates ECL using the following three components:
- exposure at default (EAD),
- loss given default (LGD) and
- probability of default (PD).

These parameters are derived from internally developed statistical models based on historical data that are adjusted if deemed necessary, following the internal approval processes of the Group in order to reflect forward looking information.

EAD represents the expected exposure in the event of a default. EAD methodology is differentiated in the following categories: revolving and non-revolving exposures. In case of revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date.

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)
Impairment (continued)
Inputs into measurement of ECL (continued)
LGD represents the likely loss if there is a default and takes into account parameters such as historical loss and/or recovery rates as well as the collateral value at the time it is expected to be realised and the time value of money.

The structure of the LGD model considers the following:

- Curing: the probability of cure model was derived based on historical observations.
- Non-curing is further broken down into:
  - (i) Collateral realisation: the collateralised part of EAD of a defaulted account could be recovered through collateral realisation. The process was considered to be either voluntary (amicable sale, debt for asset swap) or forced sale or through foreclosure and receivership.
  - (ii) Cash recovery: calculated based on observed cash flows.

PD is calculated based on statistical rating models calculated per segment level and taking into consideration each individual's exposure rating and forward looking information based on macroeconomic inputs.

ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

Loan modifications and derecognition
The derecognition requirements of IAS 39 were carried forward into the IFRS 9. The contractual terms of a loan may be modified following various reasons, either due to commercial renegotiations or due to distressed restructurings with a view to maximise recovery.

In the event that the terms and conditions of a financial asset are renegotiated or otherwise modified, the Group considers whether the modification results in derecognition of the existing financial asset and the recognition of a new financial asset. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term.

A derecognition of a financial asset (or part of a financial asset) and a recognition of a new financial asset would occur where there has been a substantial modification on the revised terms to the original cash flows.

Judgement is required to assess whether a change in the contractual terms is substantial enough to lead to derecognition. The Group considers a series of factors of both qualitative and quantitative nature when making such judgements on a modification in the contractual cash flows. When a substantial modification in the original financial asset is deemed to exist, then the original financial asset is derecognised and a new financial asset is recognised.

In the case of a new loan an assessment is performed on whether it should be classified as Stage 1 or POCI.

Write off
The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such case, financial assets are written off either partially or in full.

Write off refers to both contractual and non-contractual write offs.

Interest revenue recognition
For loans considered to be Stage 1 and 2 and are not POCI, interest revenue is calculated on the gross carrying amount using the Original Effective Interest Rate (OEIR).

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount.

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

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

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. The Group will apply IFRS 15 on 1 January 2018. The Group has performed an assessment and does not expect this standard to have a material impact on its results and financial position.

IFRS 15 Revenue from contracts with customers (clarifications)
The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from contracts with customers, particularly the accounting of identifying performance obligations amending the wording of the separately identifiable principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Group will apply these clarifications on 1 January 2018. The Group has performed an assessment and does not expect these clarifications to have a material impact on its results and financial position.

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 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 any 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.

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

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 will apply IFRS 16 on 1 January 2019. 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 42.

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

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 IFRS 3). 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.

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 does not expect these amendments to have a material impact 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.

Amendment to IFRS 9: Prepayment features with negative compensation
The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be negative compensation), to be measured at amortised cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Group is in the process of assessing the impact of this amendment 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 28: Long-term interests in associates and joint ventures
The amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the net investment in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity applies IFRS 9 before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Group is in the process of assessing the impact of these amendments 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.

IFRIC Interpretation 23: Uncertainty over income tax treatments
The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Group is in the process of assessing the impact of this amendment on its results and financial position.

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

- IFRS 3 Business combinations: The amendments clarify that a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 Joint arrangements: The amendments clarify that a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12 Income taxes: The amendments clarify that a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23 Borrowing costs: The amendments clarify that a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

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

IAS 19: Plan amendment, curtailment or settlement (amendments)
The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Group is in the process of assessing the impact of this amendment on its results and financial position.

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 2017. 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 other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interests represent the portion of profit or loss and net assets not held by the Group, directly or indirectly. The non-controlling interests are presented separately in the consolidated income statement and within equity from the Company owners' equity.

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

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as a transaction between the owners, which affects equity. As a result, no goodwill arises nor any gain/loss is recognised in the 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. Summary of significant accounting policies (continued)

2.5 Business combinations

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

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

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

2.6 Investments in associates and joint ventures

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

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

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

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

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

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

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. Summary of significant accounting policies (continued)

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.

2.10 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 and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale investments or at fair value through profit or loss, interest income or expense is recognised using the effective interest 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 Group holds loans and advances to banks and central banks with negative interest rates. The Group discloses interest paid on these assets as interest expense. Negative interest is disclosed in Note 8.

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 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 'Net (losses)/gains 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. Summary of significant accounting policies (continued)

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.

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.

2. Summary of significant accounting policies (continued)

2.12 Tax (continued)

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

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

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

2.13 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 and disposal/dissolution of subsidiaries' in the case of all other derivatives. Interest income and expense are included in the corresponding captions in the consolidated income statement.

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

2.13.4 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 and disposal/dissolution of subsidiaries' 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 and disposal/dissolution of subsidiaries' 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 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 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)

2.13.8 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 and disposal/dissolution of subsidiaries'.

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

2.13.9 Subordinated loan stock

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

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

2.13.10 Other financial liabilities at amortised cost

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

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of deposits by customers, funding from central banks and deposits by banks is at amortised cost, using the effective interest 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 (i) transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2.14.2 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 IFRSs, which requires recognition of impairment losses that arose from past events and prohibits recognition of impairment losses that could arise from future events, no matter how likely those events are.

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

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

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

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 and disposal/dissolution of subsidiaries'. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries'.

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 and disposal/dissolution of subsidiaries' 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 method. Repos outstanding at the reporting date relate to agreements with financial institutions. The investments pledged as security for the repurchase agreements can be sold or repledged by the counterparty. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated balance sheet to 'Investments pledged as collateral'.

Securities purchased under agreements to resell (reverse repos) at a specific future date, are recorded as reverse repo transactions. The difference between the purchase and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method. 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 comprise land and buildings that are not occupied for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in 'Net (losses)/gains 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. Summary of significant accounting policies (continued)

2.25 Stock of property

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

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

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

2.26 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.

2. Summary of significant accounting policies (continued)

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.
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

Reclassifications to comparative information were made to conform to current year presentation. Specifically special levy on deposits on credit institutions in Cyprus amounting to €19,968 thousand was reclassified from 'Other operating expenses' to being presented separately on the face of the consolidated income statement. Additionally, negative interest income on loans and advances to banks and central banks amounting to €3,716 thousand was reclassified from 'Interest income' (Note 7) to 'Interest expense' (Note 8). Such reclassification did not have an impact on the results for the year or equity of the Group.

3. Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during 2017 and the developments up to the date of approval of these Consolidated Financial Statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4).

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

The Directors taking into consideration the factors described below and the uncertainties that existed at the reporting date, are satisfied that the Group has the resources to continue in business for a period of at least 12 months from the date of approval of the Consolidated Financial Statements and, therefore, the going concern principle is appropriate for the reasons set out below.

- The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.7% and 14.3% respectively at 31 December 2017, higher than the minimum required ratios (Note 4.2.1).
- The IFRS 9 impact on a transitional and on a fully phased-in basis, after the period of transition is complete, is expected to be manageable and within the Group's capital plan.
- The increasing level of Group customer deposits (increase of €1,340 million during 2017). Customer deposits stood at €17,850 million at 31 December 2017.
- The continuous improvement in the Group liquidity position and its liquidity ratios. Following the repayment of Emergency Liquidity Assistance (ELA) in January 2017 (2016: €200 million), the Group achieved compliance with the Liquidity Coverage Ratio (LCR). The Group is also in compliance with the LCR add-on, which was introduced by the CBC as a macro-prudential measure and is applicable from 1 January 2018 (Notes 4.2.3 and 46). As at 31 December 2017, the Group was not in compliance with all liquidity regulatory requirements with respect to its operations in Cyprus, however, these ratios were abolished on 1 January 2018.
- The significant reduction of Group loans that are impaired or past due for more than 90 days (90+ DPD), which have decreased by 17% during 2017 and totalled €6,905 million at 31 December 2017 and the increase of provisions coverage to 61% compared to 54% at 31 December 2016 (Note 4.2.2).
- The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB from BB- with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.
- The Company regained access to the debt capital markets in January 2017 with the issuance of a €250 million unsecured subordinated Tier 2 Capital Note.

4. Operating environment

4.1 Cyprus

Economic recovery in Cyprus accelerated in 2017 and the medium term outlook is favourable driven by an improving labour market, broadening investments and increasing resilience. Cyprus continues to face challenges primarily in relation to public and private indebtedness and NPEs, but while more remains to be done, considerable progress has been achieved.

Real GDP in Cyprus increased by 3.9% in 2017 according to the Cyprus Statistical Service, compared with a 3.4% increase the previous year. In the labour market, the unemployment rate dropped to 11% on average in the year from 13% the year before according to the Cyprus Statistical Service. Average consumer inflation was marginally positive at 0.5% after four years of deflation. In the public sector the budget surplus increased significantly and the trend in the public debt to GDP ratio appears to be reversing downwards. In the banking sector funding conditions continued to improve against a backdrop of favourable developments regarding NPEs.

4. Operating environment (continued)

4.1 Cyprus (continued)

The growth momentum is expected to be maintained in the medium term. Real GDP is expected to grow by 3.6% in 2018 and by 2.9% in 2019, slowing towards 2.5% by 2022 according to the International Monetary Fund (IMF) (Cyprus country report, December 2017). Growth will be supported by private consumption and investment expenditures and by an improving and robust labour market. On the supply side, growth is expected to be driven by favourable developments in the tourism sector and robust performance in business services.

Tourism remains robust and continues to benefit from geopolitical uncertainties in competing destinations. Tourist arrivals in 2017 reached 3.7 million persons, an all-time high, and revenues reached an estimated €2.6 billion or c.13.7% of GDP.

The budget surplus increased to 1.9% of GDP in 2017 according to estimates by the IMF (Cyprus country report, December 2017), from 0.5% the previous year. The budget is expected to generate sizeable surpluses in the medium term (IMF, Cyprus country report, December 2017). The debt to GDP ratio is estimated at 97.5% in 2017, according to the Cyprus Statistical Service, and it is expected to decline to 75% by 2022 also according to the IMF (Cyprus country report, December 2017). Debt remains affordable with interest charges at 2.6% of GDP in 2016-2017 compared with 3.3% of GDP in 2013 (IMF, Cyprus country report, December 2017). The government took advantage of favourable conditions in debt markets to issue a new €850 million 7-year bond in June 2017 yielding 2.8% to pre-finance borrowing needs through to end 2018, and to smooth its repayment schedule beyond 2018.

In the banking sector there have been significant improvements in funding conditions and asset quality. Total deposits increased marginally by 0.8% in the year, with resident deposits increasing by 3.3%. Loan deleveraging continued in the year with total loans outstanding dropping by 7.1% and loans to residents dropping by 4.8% (according to CBC data).

Cyprus' consistent fiscal outperformance and favourable outlook indicate a more rapid reversal in the public debt ratio and the ratio of NPEs, than previously expected. The outlook over the medium term is generally positive according to the IMF and the European Commission, while the economy continues to face challenges. Upside factors relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and stronger investment spending as property prices are stabilising and as projects in tourism, energy and public works are being implemented. Downside risks to this outlook are associated with the still high levels of NPEs and public debt ratio, and with a possible deterioration of the external environment.

The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB from BB- with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.

4.2 The Group

4.2.1 Regulatory capital ratios

The CET1 ratio of the Group at 31 December 2017 stands at 12.7% and the total capital at 14.3% on a transitional basis.

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

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

4. Operating environment (continued)

4.2 The Group (continued)

4.2.1 Regulatory capital ratios (continued)

The Group's minimum phased-in CET1 capital ratio requirement for 2017 was 9.50%, comprised of a 4.50% Pillar I requirement, a 3.75% Pillar II requirement and the Capital Conservation Buffer (CCB) of 1.25% applicable for 2017. Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2017 and based on the confirmation received in December 2017, the Pillar II requirement applicable from 1 January 2018, has been reduced to 3.00% from 3.75%. As a result, the Group's minimum phased-in CET1 capital ratio has been reduced to 9.375% from 9.50%, comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Ratio Requirement for 2017 was 13.00%, comprising of a Pillar I requirement of 8.00% (of which up to 1.50% can be in the form of Additional Tier 1 capital and up to 2.00% in the form of Tier 2 capital), a Pillar II requirement of 3.75% (in the form of CET1), and the CCB of 1.25% applicable for 2017. Following the 2017 SREP, the overall Total Capital Ratio Requirement has been reduced to 12.875% from 13.00%, comprising of 8.00% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018.

The minimum CET1 requirement including Pillar II, applicable for the year 2016 was determined by the ECB at 11.75% in November 2015 and included CCB on a fully loaded basis.

The above minimum ratios apply for both, the Company and the Group.

In January 2017 the Company issued a €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 33). In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of the Company issued a £30 million unsecured and subordinated Tier 2 Capital Loan priced at par with a coupon of 8.00% (Note 33).

The capital position of the Group and the Company at 31 December 2017 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

4.2.2 Asset quality

The Group's loans that are impaired or past due for more than 90 days (90+ DPD) have decreased by 17% during 2017 and totalled €6,905 million at 31 December 2017, representing 37% of gross loans before fair value adjustment on initial recognition (Note 44). The provisioning coverage ratio improved to 61% at 31 December 2017 compared to 54% at 31 December 2016. The Group NPEs, as defined by EBA, totalled €8,804 million at 31 December 2017 and accounted for 47% of gross loans before fair value adjustment on initial recognition. The provisioning coverage ratio of NPEs totalled 48% at 31 December 2017 compared to 41% at 31 December 2016.

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 47% since their peak of €13,003 million at 31 December 2013. NPEs have decreased by 42% since their peak of €15,175 million at 31 March 2015.

4.2.3 Liquidity

Group customer deposits totalled €17,850 million at 31 December 2017 compared to €16,510 million at 31 December 2016. Customer deposits in Cyprus reached €15,983 million at 31 December 2017 and €15,043 million at 31 December 2016. Customer deposits accounted for 76% of total assets as at 31 December 2017 (compared to 74% at 31 December 2016 and a low of 48% at 31 March 2014).

4. Operating environment (continued)

4.2 The Group (continued)

4.2.3 Liquidity (continued)

After repayment of the ELA in January 2017, the Group is focusing on measures to improve its liquidity position and continue to exceed the minimum requirement with respect to the LCR, which was increased to 100% from 1 January 2018 onwards. As at 31 December 2017 the LCR stood at 190% for the Group (compared to 49% at 31 December 2016) and was in compliance with the minimum regulatory requirement of 80% applicable for 2017. The Net Stable Funding Ratio (NSFR) was not introduced on 1 January 2018 as per expectations. As at 31 December 2017 the Group's NSFR, on the basis of the Basel III standards, was 111% (compared to 95% at 31 December 2016).

As at 31 December 2017, the Company was not in compliance with all the local regulatory liquidity requirements set by the CBC with respect to its operations in Cyprus. On 1 January 2018, the local regulatory liquidity requirements were abolished, in accordance with the CRR and in December 2017 the CBC introduced a macro-prudential measure in the form of a liquidity add-on that was imposed on top of the LCR with effect on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The LCR add-on applies stricter outflow and inflow rates than those defined in the Commission Delegated Regulation (EU) 2015/61. The measure will be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones and are applicable from 1 July 2018 until 31 December 2018. Specifically there will be a reduction of 50% of the LCR add-on rates on 1 July 2018.

The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macro-prudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilised.

The Company is currently in compliance with the LCR including the LCR add-on.

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.

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. Additional information on pending litigation claims and regulatory matters is provided in Note 39.

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.

5. Significant judgements, estimates and assumptions (continued)

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

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

At 31 December 2017 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is c.34% (2016: average of 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 timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average 6 years (2016: average of 3 years except for customers in Debt Recovery, average of 6 years).

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

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

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

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

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

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

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

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

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

Further details on impairment allowances and related credit information are set out in Note 44.

5. Significant judgements, estimates and assumptions (continued)

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.

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. Significant judgements, estimates and assumptions (continued)

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.

5.6 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 2017, 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.

5. Significant judgements, estimates and assumptions (continued)

5.6 Life insurance business (continued)

5.6.2 Insurance liabilities (continued)

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

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

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

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

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

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

Further details on insurance liabilities are disclosed in Note 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. Significant judgements, estimates and assumptions (continued)

5.8 Exercise of significant influence

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

5.9 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.

5.10 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 through valuation techniques, requiring significant judgement, which take into account all available reference points such as, expert valuation reports, current market conditions, the holding period of the asset applying an appropriate illiquidity discount and any other relevant parameters. Selling expenses are always considered and deducted from the realisable value. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of 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. 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 39.

6. Segmental analysis

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

The remaining Group's activities in Greece, 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, the United Kingdom and other countries include mainly the provision of banking, financial and insurance services, as well as the 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)

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Net interest income/(expense)	547,094	39,219	(3,549)	**582,764**
Net fee and commission income	172,486	6,857	1,055	**180,398**
Net foreign exchange gains/(losses)	45,931	358	(880)	**45,409**
Net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries	3,020	(44)	(12)	**2,964**
Insurance income net of claims and commissions	48,760	-	1,641	**50,401**
Net losses from revaluation and disposal of investment properties	(2,487)	-	(1,574)	**(4,061)**
Net gains/(losses) on disposal of stock of property	31,512	-	(1,065)	**30,447**
Other income	17,380	10	1,689	**19,079**
	863,696	46,400	(2,695)	**907,401**
Staff costs (excluding voluntary exit plan and other termination benefits) (Note 14)	(203,121)	(22,893)	(1,654)	**(227,668)**
Staff costs – voluntary exit plan and other termination benefits (Note 14)	(544)	-	-	**(544)**
Special levy on deposits on credit institutions	(22,846)	-	-	**(22,846)**
Other operating expenses (excluding advisory and other restructuring costs) (Note 15)	(199,133)	(58,836)	(11,268)	**(269,237)**
Other operating expenses - advisory and other restructuring costs (Note 15)	(28,267)	-	(533)	**(28,800)**
	409,785	**(35,329)**	**(16,150)**	**358,306**
Gain on derecognition of loans and advances to customers and changes in expected cash flows	173,413	30	-	**173,443**
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(934,668)	3,222	(21,480)	**(952,926)**
(Impairment)/reversal of impairment of other financial instruments	(11,956)	-	5,497	**(6,459)**
Impairment of non-financial instruments	(22,267)	-	(36,705)	**(58,972)**
Share of profit from associates and joint ventures	8,957	-	-	**8,957**
Loss before tax	**(376,736)**	**(32,077)**	**(68,838)**	**(477,651)**
Income tax	(72,516)	(1,108)	(3,057)	**(76,681)**
Loss after tax	**(449,252)**	**(33,185)**	**(71,895)**	**(554,332)**
Non-controlling interests-loss	2,473	-	-	**2,473**
Loss after tax attributable to the owners of the Company	**(446,779)**	**(33,185)**	**(71,895)**	**(551,859)**

6. Segmental analysis (continued)

2016	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Net interest income	643,259	31,307	11,616	**686,182**
Net fee and commission income	159,181	6,083	1,394	**166,658**
Net foreign exchange gains	28,013	389	15,069	**43,471**
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries	63,204	105	64	**63,373**
Insurance income net of claims and commissions	43,713	-	719	**44,432**
Net gains/(losses) from revaluation and disposal of investment properties	5,315	-	(341)	**4,974**
Net gains/(losses) on disposal of stock of property	2,050	-	(689)	**1,361**
Other income	12,530	4	2,371	**14,905**
	957,265	37,888	30,203	**1,025,356**
Staff costs (excluding voluntary exit plan and other termination benefits) (Note 14)	(207,045)	(15,339)	(2,041)	**(224,425)**
Staff costs – voluntary exit plan and other termination benefits (Note 14)	(62,521)	(226)	-	**(62,747)**
Special levy on deposits on credit institutions	(19,968)	-	-	**(19,968)**
Other operating expenses (excluding advisory and other restructuring costs) (Note 15)	(130,106)	(33,791)	(7,548)	**(171,445)**
Other operating expenses - advisory and other restructuring costs (Note 15)	(48,579)	(516)	(2,447)	**(51,542)**
	489,046	**(11,984)**	**18,167**	495,229
Gain on derecognition of loans and advances to customers and changes in expected cash flows	63,258	57	-	**63,315**
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(379,984)	3,281	(56,906)	**(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**	**(8,646)**	**(50,849)**	85,616
Income tax	(18,230)	(1,126)	971	**(18,385)**
Profit/(loss) after tax	**126,881**	**(9,772)**	**(49,878)**	67,231
Non-controlling interests-profit	(3,575)	-	-	**(3,575)**
Profit/(loss) after tax attributable to the owners of the Company	**123,306**	**(9,772)**	**(49,878)**	63,656

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 and disposal/dissolution of subsidiaries, insurance income net of claims and commissions, net (losses)/gains from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income.

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Total revenue from third parties	854,254	47,550	5,597	**907,401**
Inter-segment revenue/(expense)	9,442	(1,150)	(8,292)	**-**
Total revenue	**863,696**	**46,400**	**(2,695)**	**907,401**

2016				
Total revenue from third parties	941,929	39,877	43,550	**1,025,356**
Inter-segment revenue/(expense)	15,336	(1,989)	(13,347)	**-**
Total revenue	**957,265**	**37,888**	**30,203**	**1,025,356**

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 2017 and 2016.

Analysis of assets

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Assets	21,712,295	2,153,672	399,847	**24,265,814**
Inter-segment assets				**(667,400)**
Total assets				**23,598,414**
Non-current assets	1,613,297	19,601	102,418	**1,735,316**

2016				
Assets	20,851,999	1,658,337	754,645	**23,264,981**
Inter-segment assets				**(1,093,046)**
Total assets				**22,171,935**
Non-current assets	1,348,867	13,310	147,009	**1,509,186**

Non-current assets for this purpose consist of property and equipment, intangible assets, stock of property and non-financial other assets with expected maturity of over one year.

6. Segmental analysis (continued)

Analysis of liabilities

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
Liabilities	18,934,987	2,060,484	656,183	**21,651,654**
Inter-segment liabilities				**(669,941)**
Total liabilities				**20,981,713**

2016				
Liabilities	17,577,993	1,595,805	988,457	**20,162,255**
Inter-segment liabilities				**(1,096,425)**
Total liabilities				**19,065,830**

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 31 and 44, 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 and disposal/dissolution of subsidiaries, insurance income net of claims and commissions, net (losses)/gains from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income. Total other operating income, staff costs and other operating expenses incurred directly by the business lines are allocated to the business lines as incurred. Indirect other operating income and indirect other operating expenses are allocated to the head office function. Management monitors the profit/(loss) before tax of each business line. Additionally, for the purposes of the Cyprus analysis by business line, notional tax at the 12.5% Cyprus tax rate is charged/credited on profit or loss before tax of each business line and therefore any taxable and non-taxable items are excluded from this notional charge/credit.

The Corporate, Small and medium-sized enterprises and Retail business lines are managing loans and advances to customers as detailed in 'Credit risk concentration of loans and advances to customers' (Note 44).

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

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

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

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

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

6. Segmental analysis (continued)

Analysis by business line (continued)

The business line Other includes 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.

6. **Segmental analysis** (continued)

Analysis by business line (continued)

2017	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)	100,471	50,175	213,909	130,780	66,174	9,728	(17,944)	428	(6,627)	**547,094**
Net fee and commission income/(expense)	13,740	9,875	49,589	13,085	66,746	2,526	-	(4,929)	21,854	**172,486**
Total other operating income	713	629	4,954	360	7,412	3,334	33,369	49,235	44,110	**144,116**
	114,924	60,679	268,452	144,225	140,332	15,588	15,425	44,734	59,337	**863,696**
Staff costs and other operating expenses	(11,643)	(11,089)	(111,604)	(34,371)	(25,351)	(4,321)	(7,695)	(17,866)	(201,160)	**(425,100)**
Restructuring costs–voluntary exit plan and other termination benefits	-	-	-	-	-	-	-	(206)	(338)	**(544)**
Restructuring costs–other operating expenses	-	-	-	(16,903)	-	(2)	(6,294)	-	(5,068)	**(28,267)**
	103,281	49,590	156,848	92,951	114,981	11,265	1,436	26,662	(147,229)	**409,785**
Gain on derecognition of loans and advances to customers and changes in expected cash flows	15,825	4,428	13,323	136,268	935	39	-	-	2,595	**173,413**
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(20,940)	(13,512)	(48,032)	(841,480)	(10,666)	(486)	-	-	448	**(934,668)**
Impairment of other financial instruments	-	-	-	-	-	-	-	-	(11,956)	**(11,956)**
Impairment of non-financial instruments	-	-	-	-	-	-	(21,588)	(62)	(617)	**(22,267)**
Share of profit from associates and joint ventures	-	-	-	-	-	-	-	-	8,957	**8,957**
Profit/(loss) before tax	98,166	40,506	122,139	(612,261)	105,250	10,818	(20,152)	26,600	(147,802)	**(376,736)**
Income tax	(12,271)	(5,063)	(15,267)	76,533	(13,156)	(1,352)	2,519	(1,400)	(103,059)	**(72,516)**
Profit/(loss) after tax	85,895	35,443	106,872	(535,728)	92,094	9,466	(17,633)	25,200	(250,861)	**(449,252)**
Non-controlling interests-loss	-	-	-	-	-	-	-	-	2,473	**2,473**
Profit/(loss) after tax attributable to the owners of the Company	**85,895**	**35,443**	**106,872**	**(535,728)**	**92,094**	**9,466**	**(17,633)**	**25,200**	**(248,388)**	**(446,779)**

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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**

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 44 and 31 respectively.

7. Interest income

	2017	2016
	€000	€000
Loans and advances to customers	**744,822**	853,906
Loans and advances to banks and central banks	**11,742**	9,072
Debt securities available-for-sale	**19,883**	10,905
Investments classified as loans and receivables	**2,706**	11,209
	779,153	885,092
Trading investments	**14**	12
Derivative financial instruments	**31,798**	4,557
Other investments at fair value through profit or loss	**66**	637
	811,031	890,298

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances as defined in Note 44 amounting to €137,565 thousand (2016: €201,604 thousand).

8. Interest expense

	2017	2016
	€000	€000
Customer deposits	**140,701**	137,973
Funding from central banks and deposits by banks	**3,955**	39,588
Subordinated loan stock	**22,258**	-
Repurchase agreements	**10,207**	6,476
Negative interest on loans and advances to banks and central banks	**7,132**	3,716
	184,253	187,753
Derivative financial instruments	**44,014**	16,363
	228,267	204,116

9. Fee and commission income and expense

Fee and commission income

	2017	2016
	€000	€000
Credit-related fees and commissions	**72,484**	80,755
Other banking commissions	**96,710**	75,300
Mutual funds and asset management fees	**2,777**	2,524
Brokerage commissions	**951**	819
Other commissions	**17,655**	17,467
	190,577	176,865

Mutual funds and asset management fees include income of €2,777 thousand (2016: €2,342 thousand) relating to fiduciary and other similar activities.

9. Fee and commission income and expense (continued)

Fee and commission expense

	2017	2016
	€000	€000
Banking commissions	**9,860**	9,825
Mutual funds and asset management fees	**244**	128
Brokerage commissions	**75**	254
	10,179	10,207

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 and disposal/dissolution of subsidiaries

	2017	2016
	€000	€000
Trading portfolio:		
- equity securities	**229**	(273)
- debt securities	**62**	14
- derivative financial instruments	**416**	998
Other investments at fair value through profit or loss:		
- debt securities	**(57)**	(400)
- equity securities	**660**	283
Net gains on disposal of available-for-sale investments:		
- equity securities	**1,520**	58,368
- debt securities	**2,104**	22
Net gains on disposal/repayment of loans and receivables:		
- debt securities	**-**	8,419
Realised (losses)/gains on disposal of loans	**(12)**	64
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	**13,219**	3,889
- hedged items	**(12,990)**	(3,910)
Loss on disposal/dissolution of subsidiaries	**(2,187)**	(4,101)
	2,964	63,373

The loss on disposal/dissolution of subsidiaries for 2017, primarily relates to loss on disposal of Hotel New Montana SRL. In the comparative period the loss on disposal/dissolution of subsidiaries primarily related to the closure of the operations of Bank of Cyprus (Channel Islands) Ltd.

11. Net gains on financial instrument transactions and disposal/dissolution of subsidiaries

(continued)

In the comparative period, the gains on disposal of available-for-sale equity securities, primarily relate to the gain on sale of shares held in Visa Europe Limited following the approved purchase of Visa Europe Limited by Visa Inc and the gains on disposal of debt securities classified as loans and receivables, related to the Company's participation in the Cyprus Government buyback process of Cyprus government bonds.

12. Insurance income net of claims and commissions

	2017			2016		
	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	**102,259**	**(74,110)**	**28,149**	104,261	(80,257)	24,004
General insurance business	**44,789**	**(22,537)**	**22,252**	39,341	(18,913)	20,428
	147,048	**(96,647)**	**50,401**	143,602	(99,170)	44,432

	2017		2016	
	Life insurance	**General insurance**	Life insurance	General insurance
Income	**€000**	**€000**	€000	€000
Gross premiums	**86,277**	**65,701**	83,951	60,215
Reinsurance premiums	**(14,842)**	**(29,246)**	(14,671)	(27,544)
Net premiums	**71,435**	**36,455**	69,280	32,671
Change in the provision for unearned premiums	**-**	**(1,187)**	-	(1,589)
Total net earned premiums	**71,435**	**35,268**	69,280	31,082
Investment income and other income	**22,157**	**10**	25,324	8
Commissions from reinsurers and other income	**5,924**	**9,511**	4,977	8,251
	99,516	**44,789**	99,581	39,341
Change in value of in-force business before tax (Note 26)	**2,743**	**-**	4,680	-
	102,259	**44,789**	104,261	39,341

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

	2017		2016	
	Life insurance	**General insurance**	Life insurance	General insurance
Claims and commissions	**€000**	**€000**	€000	€000
Gross payments to policyholders	**(54,515)**	**(27,017)**	(59,168)	(25,864)
Reinsurers' share of payments to policyholders	**7,837**	**13,643**	8,858	12,004
Gross change in insurance contract liabilities	**(16,812)**	**(3,177)**	(19,346)	931
Reinsurers' share of gross change in insurance contract liabilities	**(771)**	**(1,476)**	(2,017)	(1,845)
Commissions paid to agents and other direct selling costs	**(9,849)**	**(4,509)**	(8,584)	(4,143)
Changes in equalisation reserve	**-**	**(1)**	-	4
	(74,110)	**(22,537)**	(80,257)	(18,913)

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

	2017		2016	
	Life insurance	**General insurance**	Life insurance	General insurance
	€000	**€000**	€000	€000
Net (expense)/income from non-linked insurance business assets	**(66)**	**79**	(78)	342
Net (losses)/gains on financial instrument transactions and other non-linked insurance business income	**(192)**	**96**	16	(31)
Staff costs	**(5,162)**	**(4,127)**	(4,560)	(4,170)
Staff costs – restructuring costs	**(206)**	**-**	(1,874)	(1,395)
Other operating expenses	**(6,021)**	**(2,683)**	(4,186)	(2,049)

13. Other income

	2017	2016
	€000	€000
Profit on disposal of disposal group held for sale (Note 51.4.1)	**-**	2,545
Dividend income	**683**	343
Loss on sale and write-off of property and equipment and intangible assets	**(208)**	(67)
Rental income from investment properties	**2,219**	1,626
Rental income from stock of property	**7,981**	1,460
Profit from hotel and golf activities	**3,581**	2,051
Other income	**4,823**	6,947
	19,079	14,905

14. Staff costs

	2017	2016
	€000	€000
Salaries	184,933	181,175
Employer's contributions to state social insurance	24,913	27,154
Retirement benefit plan costs	17,822	16,096
	227,668	224,425
Restructuring costs – voluntary exit plans and other termination benefits	544	62,747
	228,212	287,172

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 2016. Additionally, restructuring costs in 2016 include staff termination benefits amounting to €226 thousand related to the closure of the operations of Bank of Cyprus (Channel Islands) Ltd. During 2017 a small number of employees left the Group, under the same terms of the 2016 voluntary exit plan. The cost of this exit amounts to €544 thousand.

The number of persons employed by the Group as at 31 December 2017 was 4,355 (2016: 4,284).

The following table shows the average number of employees (full-time equivalents) based on their geographical location:

	2017	2016
Cyprus	4,034	4,125
United Kingdom	249	216
Other countries	31	48
	4,314	4,389

The following table shows the business line analysis of average employees in Cyprus for 2017 and 2016 and the Group's other geographical locations as follows:

	2017	2016
Corporate	143	128
Small and medium-sized enterprises	108	111
Retail	1,407	1,475
Restructuring and recoveries	442	485
International banking services	329	332
Wealth management	54	65
REMU	28	18
Insurance	192	188
Other (primarily head office functions (Note 6))	1,331	1,323
Total Cyprus	4,034	4,125
UK	249	216
Other countries	31	48
	4,314	4,389

14. Staff costs (continued)

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:

	2017	2016
	€000	€000
Defined benefit plans	**1,897**	406
Defined contribution plans	**15,925**	15,690
	17,822	16,096

Cyprus
The main retirement plan for the Group's permanent employees in Cyprus (84% of total Group employees) is a defined contribution plan. This plan provides for employer contributions of 9% (2016: 9%) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

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

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

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

United Kingdom
The Group's employees in the United Kingdom (6% 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	**2017**	2016
	€000	€000
Liabilities (Note 34)	**10,037**	22,776
Assets (Note 28)	**-**	(668)
	10,037	22,108

One of the plans has a funded status surplus of €13,814 thousand (2016: €13,999 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 2017	102,955	(94,846)	8,109	13,999	**22,108**
Current service cost	408	-	408	-	**408**
Losses on curtailment and settlement	1,150	-	1,150	-	**1,150**
Net interest expense/(income)	2,458	(2,119)	339	-	**339**
Total amount recognised in the consolidated income statement	4,016	(2,119)	1,897	-	**1,897**
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	(5,209)	(5,209)	-	**(5,209)**
- Actuarial loss from changes in financial assumptions	566	-	566	-	**566**
- Demographic assumptions	(2,041)	-	(2,041)	-	**(2,041)**
- Experience adjustments	(3,950)	-	(3,950)	-	**(3,950)**
- Change in asset ceiling	-	-	-	(185)	**(185)**
Total amount recognised in the consolidated OCI	(5,425)	(5,209)	(10,634)	(185)	**(10,819)**
Exchange differences	(2,551)	1,849	(702)	-	**(702)**
Contributions:					
- Employer	-	(2,447)	(2,447)	-	**(2,447)**
- Plan participants	176	(176)	-	-	**-**
Benefits paid from the plans	(16,271)	16,271	-	-	**-**
31 December 2017	**82,900**	**(86,677)**	**(3,777)**	**13,814**	**10,037**

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)
The actual return on plan assets for year 2017 was a gain of €7,328 thousand (2016: gain of €9,267 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:

	2017	2016
Equity securities	**48%**	46%
Debt securities	**42%**	44%
Loans and advances to banks	**10%**	10%
	100%	100%

The assets held by the funded plans include equity securities issued by Bank of Cyprus Holdings Public Limited Company, the fair value of which is as at 31 December 2017 €2,137 thousand (2016: equity securities issued by the Company of fair value €2,433 thousand).

The Group expects to make additional contributions to defined benefit plans of €3,055 thousand during 2018.

At the end of the reporting period, the average duration of the defined benefit obligation was 19.3 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 2017 and 2016 are set out below:

2017	**Cyprus**	**Greece**	**UK**
Discount rate	1.58%-1.68%	1.30%-1.90%	2.55%
Inflation rate	1.75%	1.75%	3.20%
Future salary increases	2.25%	2.00%	n/a
Rate of pension increase	2.00%	n/a	3.00%
Life expectancy for pensioners at age 60	23.5 years M 29.6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23.0 years M 24.5 years F

2016			
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

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 17% 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 83% 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 2017 and 2016 is presented below.

14. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

Variable	**2017**		2016	
	Change +0.5%	**Change -0.5%**	Change +0.5%	Change -0.5%
Discount rate	**-11.4%**	**12.3%**	-10.0%	10.9%
Inflation growth rate	**9.6%**	**-8.9%**	8.7%	-8.0%
Salary growth rate	**1.1%**	**-1.0%**	0.8%	-0.7%
Pension growth rate	**0.1%**	**-0.1%**	0.8%	-0.7%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**-1.5%**	**1.9%**	-1.3%	1.7%

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

	2017	2016
	€000	€000
Repairs and maintenance of property and equipment and stock of property	**23,850**	21,705
Other property-related costs	**17,590**	14,728
Operating lease rentals for property and equipment	**10,408**	10,512
Consultancy and other professional services fees	**19,688**	13,972
Insurance	**8,203**	10,697
Advertising and marketing	**18,518**	17,502
Depreciation of property and equipment (Note 25)	**11,930**	11,558
Amortisation of intangible assets (Note 26)	**9,404**	7,263
Communication expenses	**8,739**	8,118
Provisions for pending litigation, claims and regulatory matters (Note 34)	**97,537**	17,840
Printing and stationery	**2,964**	3,485
Local cash transfer expenses	**3,056**	2,848
Contribution to depositor protection scheme	**245**	329
Other operating expenses	**37,105**	30,888
	269,237	171,445
Advisory and other restructuring costs	**28,800**	51,542
	298,037	222,987

15. 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.

The special tax levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter, at the rate of 0.0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge.

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

	2017	2016
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**2,416**	2,615
Other audit-related services	**407**	423
Tax services	**462**	598
Services related to the listing on the London Stock Exchange	**114**	4,879
Other services	**499**	1,032
	3,898	9,547

16. Provisions for impairment of financial and non-financial instruments

	2017	2016
	€000	€000
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 44)	**937,939**	439,761
Financial guarantees and commitments (Note 34)	**14,987**	(6,152)
	952,926	433,609

Impairment/(reversal of impairment) of other financial instruments		
Available-for-sale equity securities	**63**	839
Available-for-sale mutual funds	**-**	56
Loans and advances to banks	**7,775**	13,820
Other receivables	**(1,379)**	(3,869)
Deposits by banks	**-**	447
	6,459	11,293

16. Provisions for impairment of financial and non-financial instruments (continued)

	2017	2016
	€000	€000
Impairment of non-financial instruments		
Property held for own use (Note 25)	**8,470**	-
Stock of property (Note 27)	**50,502**	36,220
	58,972	36,220

17. Income tax

	2017	2016
	€000	€000
Current tax:		
- Cyprus	**3,174**	4,776
- overseas	**1,827**	1,986
Cyprus special defence contribution	**175**	212
Deferred tax	**67,158**	6,657
Prior years' tax adjustments	**2,917**	2,668
Other tax charges	**1,430**	2,086
	76,681	18,385

The Group's share of income tax charge from associates for 2017 amounts to €1,129 thousand (2016: €1,244 thousand).

The increase in the deferred tax charge is primarily due to the reduction of the level of deferred tax asset by €62 million following increase in provision for impairment of loans and advances to customers and evaluation of the recoverability assessment of the deferred tax asset balance.

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

	2017	2016
	€000	€000
(Loss)/profit before tax	**(477,651)**	85,616
Income tax at the normal tax rates in Cyprus	**(59,529)**	10,916
Income tax effect of:		
- expenses not deductible for income tax purposes	**22,054**	14,255
- income not subject to income tax	**(10,825)**	(21,566)
- differences between overseas income tax rates and Cyprus income tax rates	**10,213**	6,428
- reversal of previously recognised deferred tax asset	**66,858**	3,598
- losses on which deferred tax was not recognised	**43,563**	-
	72,334	13,631
Prior years' tax adjustments	**2,917**	2,668
Other tax charges	**1,430**	2,086
	76,681	18,385

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2016: 12.5%).

17. Income tax (continued)

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% (2016: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2016: 30%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2017 were: Greece 29% (2016: 29%), Romania 16% (2016: 16%), Russia 20% (2016: 20%), UK 20% until 31 March 2017 and 19% thereafter (2016: 20%).

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:

2017	**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 5 years	**2,761,640**	**-**	**2,761,640**
Expiring by the end of 2028	**7,378,801**	**3,067,936**	**4,310,865**
	10,140,441	**3,067,936**	**7,072,505**

2016			
Expiring within 5 years	4,675,399	266,800	4,408,599
Expiring between 6 and 10 years	16,306	-	16,306
Expiring by the end of 2028	7,378,801	3,336,000	4,042,801
	12,070,506	3,602,800	8,467,706

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 tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the Company's acquisition of certain operations of Laiki Bank, these tax losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of 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.

17. Income tax (continued)

The Group performed its assessment for the recoverability of its deferred tax asset as at 31 December 2017 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 detailed financial projections up to the end of 2020 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 NPEs (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
- Further improve the funding structure
- Focus on the core Cyprus market and the UK operations
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital
- Deliver value to shareholders and other stakeholders

Based on the above, management has concluded that the deferred tax asset of €383,498 thousand for the Group as at 31 December 2017 is recoverable.

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

Deferred tax

The net deferred tax assets arise from:

	2017	2016
	€000	€000
Difference between capital allowances and depreciation	**(7,938)**	(7,794)
Property revaluation	**(17,545)**	(17,038)
Investment revaluation and stock of property	**(3,807)**	(3,807)
Unutilised income tax losses carried forward	**383,492**	450,350
Value of in-force life insurance business	**(15,093)**	(14,750)
Other temporary differences	**(1,724)**	(1,895)
Net deferred tax assets	**337,385**	405,066

	2017	2016
	€000	€000
Deferred tax assets	**383,498**	450,441
Deferred tax liabilities	**(46,113)**	(45,375)
Net deferred tax assets	**337,385**	405,066

17. **Income tax** (continued)

Deferred tax (continued)

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

	2017	2016
	€000	€000
Cyprus	**383,498**	450,356
United Kingdom	**-**	85
Deferred tax assets	**383,498**	450,441
Deferred tax liabilities	**(46,113)**	(45,375)
Net deferred tax assets	**337,385**	405,066

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

	2017	2016
	€000	€000
1 January	**405,066**	415,724
Deferred tax recognised in the consolidated income statement	**(67,158)**	(6,657)
Acquisition of subsidiary (Note 51.3.1)	**-**	(3,807)
Deferred tax recognised in the consolidated statement of comprehensive income	**(522)**	219
Foreign exchange adjustments	**(1)**	(413)
31 December	**337,385**	405,066

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

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

	2017	2016
	€000	€000
Difference between capital allowances and depreciation	**150**	207
Investment revaluation	**-**	(90)
Reversal of previously recognised deferred tax assets	**66,858**	3,598
Value of in-force life insurance business	**343**	479
Other temporary differences	**(193)**	2,463
	67,158	6,657

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

	2017	2016
	€000	€000
Timing differences on property revaluation – (expense)/income	**(522)**	219

18. Earnings per share

	2017	2016
Basic and diluted (losses)/ earnings per share attributable to the owners of the Company		
(Loss)/profit for the year attributable to the owners of the Company (€ thousand)	**(551,859)**	63,656
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8,922,945**	8,921,069
Basic and diluted (losses)/earnings per share (€ cent)	**(6.2)**	0.7

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

	2017	2016
	€000	€000
Cash	**143,905**	132,594
Balances with central banks	**3,250,029**	1,373,802
Cash and balances with central banks	**3,393,934**	1,506,396
Loans and advances to banks	**1,192,633**	1,087,837

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2017 which amount to €153,733 thousand (2016: €142,697 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 44.

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

20. Investments

Investments	2017	2016
	€000	€000
Investments at fair value through profit or loss	**51,467**	43,016
Investments available-for-sale	**639,168**	262,789
Investments classified as loans and receivables	**48,658**	68,074
	739,293	373,879

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

Investments pledged as collateral	2017	2016
	€000	€000
Investments available-for-sale	**290,129**	299,765

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 44 and the debt securities' price risk sensitivity analysis is disclosed in Note 45.

20. Investments (continued)

Investments at fair value through profit or loss

	Trading investments		**Other investments at fair value through profit or loss**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**536**	476	**-**	10,426	**536**	10,902
Equity securities	**2,644**	2,601	**4,541**	4,030	**7,185**	6,631
Mutual funds	**8,795**	9,396	**34,951**	16,087	**43,746**	25,483
	11,975	12,473	**39,492**	30,543	**51,467**	43,016

Debt securities						
Cyprus government	**536**	476	**-**	10,426	**536**	10,902
Listed on the Cyprus Stock Exchange	**-**	1	**-**	10,426	**-**	10,427
Listed on other stock exchanges	**536**	475	**-**	-	**536**	475
	536	476	**-**	10,426	**536**	10,902

Equity securities						
Listed on the Cyprus Stock Exchange	**1,965**	2,159	**3,945**	3,102	**5,910**	5,261
Listed on other stock exchanges	**679**	442	**-**	-	**679**	442
Unlisted	**-**	-	**596**	928	**596**	928
	2,644	2,601	**4,541**	4,030	**7,185**	6,631

Mutual funds						
Listed on other stock exchanges	**8,795**	8,800	**-**	-	**8,795**	8,800
Unlisted	**-**	596	**34,951**	16,087	**34,951**	16,683
	8,795	9,396	**34,951**	16,087	**43,746**	25,483

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.

The unlisted mutual funds classified as other investments at fair value through profit or loss relate to investments whose underlying assets are listed on stock exchanges and are therefore presented in Level 1 hierarchy in Note 22.

20. **Investments** (continued)

Investments available-for-sale

	2017	2016
	€000	€000
Debt securities	**901,734**	540,592
Equity securities (including preference shares)	**27,176**	21,683
Mutual funds	**387**	279
	929,297	562,554

Debt securities		
Cyprus government	**451,071**	178,520
French government	**281,979**	287,324
Other governments	**22,462**	41,887
Banks and other corporations	**146,222**	32,861
	901,734	540,592
Listed on the Cyprus Stock Exchange	**451,071**	178,520
Listed on other stock exchanges	**450,163**	362,072
Unlisted	**500**	-
	901,734	540,592
Geographic dispersion by country of issuer		
Cyprus	**451,571**	178,520
France	**281,979**	287,324
Other European Union countries	**75,573**	22,980
European Financial Stability Facility and European Investment Fund	**11,443**	11,823
Supranational organisations	**9,058**	9,365
Other countries	**72,110**	30,580
	901,734	540,592

Equity securities		
Listed on the Cyprus Stock Exchange	**5,750**	4,883
Listed on other stock exchanges	**546**	430
Unlisted	**20,880**	16,370
	27,176	21,683

At 31 December 2017 and 2016 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

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

20. **Investments** (continued)

Investments classified as loans and receivables

	2017	2016
	€000	€000
Debt securities	**48,658**	68,074
Cyprus government	**48,658**	68,074
Listed on the Cyprus Stock Exchange	**48,658**	68,074
Geographic dispersion by country of issuer		
Cyprus	**48,658**	68,074

At 31 December 2017 the total loans and receivables have been determined to be individually impaired (2016: €49,185 thousand).

Reclassification of investments

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.

20. Investments (continued)

Reclassification of investments (continued)

The tables below present the debt securities reclassified by the Group, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2017		31 December 2016		Year 2017		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	48,658	55,104	49,185	50,329	-	6,446	4.6%-4.7%

20. **Investments** (continued)

Reclassification of investments (continued)

	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%

21. Derivative financial instruments

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

	2017			2016		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**33,259**	**99**	**114**	43,820	794	589
Currency swaps	**1,419,915**	**1,103**	**14,082**	1,774,916	15,875	8,215
Interest rate swaps	**69,022**	**216**	**873**	230,874	480	1,901
Currency options	**396**	**18**	**402**	7,986	85	198
	1,522,592	**1,436**	**15,471**	2,057,596	17,234	10,903
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**1,171,424**	**16,315**	**35,420**	418,293	87	37,463
Net investments – forward exchange rate contracts	**61,012**	**276**	**1**	178,605	3,514	259
	1,232,436	**16,591**	**35,421**	596,898	3,601	37,722
Total	**2,755,028**	**18,027**	**50,892**	2,654,494	20,835	48,625

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 2017, deposits and forward exchange rate contracts amounting to €142,273 thousand and €61,012 thousand respectively (2016: €100,756 thousand and €178,605 thousand respectively) have been designated as hedging instruments and have given rise to a loss of €1,166 thousand (2016: gain of €53,408 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.

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**€000**	**€000**	€000	€000
Cash and balances with central banks	**3,393,934**	**3,393,934**	1,506,396	1,506,396
Loans and advances to banks	**1,192,633**	**1,191,617**	1,087,837	1,092,964
Investments at fair value through profit or loss	**51,467**	**51,467**	43,016	43,016
Investments available-for-sale	**929,297**	**929,297**	562,554	562,554
Investments classified as loans and receivables	**48,658**	**55,104**	68,074	69,451
Derivative financial assets	**18,027**	**18,027**	20,835	20,835
Loans and advances to customers	**14,602,454**	**15,385,385**	15,649,401	16,791,164
Life insurance business assets attributable to policyholders	**504,848**	**504,848**	485,633	485,633
Other assets	**107,875**	**107,875**	131,811	131,811
	20,849,193	**21,637,554**	19,555,557	20,703,824
Financial liabilities				
Funding from central banks and deposits by banks	**1,425,308**	**1,425,308**	1,284,800	1,284,800
Repurchase agreements	**257,322**	**281,951**	257,367	292,752
Derivative financial liabilities	**50,892**	**50,892**	48,625	48,625
Customer deposits	**17,850,062**	**17,875,382**	16,509,741	16,492,715
Subordinated loan stock	**302,288**	**334,783**	-	-
Other liabilities	**176,257**	**176,257**	168,422	168,422
	20,062,129	**20,144,573**	18,268,955	18,287,314

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

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

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

Investments 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. The rest of the investments are valued using quoted prices in active markets.

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

Customer deposits
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of 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.

Subordinated loan stock
The current issue of the Company is liquid with quoted prices in an active market. The fair value of the capital loan stock issued by Bank of Cyprus UK Ltd is determined using market observable models (Level 2).

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:

2017	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Assets measured at fair value				
Investment properties				
Residential	-	-	338	**338**
Offices and other commercial properties	-	-	2,752	**2,752**
Manufacturing and industrial properties	-	-	477	**477**
Hotels	-	-	2,124	**2,124**
Land (fields and plots)	-	-	13,955	**13,955**
	-	-	19,646	**19,646**
Investment properties held for sale				
Offices and other commercial properties	-	-	6,500	**6,500**
Freehold property				
Offices and other commercial properties	-	16,332	239,559	**255,891**
Trading derivatives				
Forward exchange rate contracts	-	99	-	**99**
Currency swaps	-	1,103	-	**1,103**
Interest rate swaps	-	216	-	**216**
Currency options	-	18	-	**18**
	-	1,436	-	**1,436**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	16,315	-	**16,315**
Net investments-forward exchange rate contracts	-	276	-	**276**
	-	16,591	-	**16,591**
Investments at fair value through profit or loss				
Trading investments	11,345	-	630	**11,975**
Other investments at fair value through profit or loss	38,896	500	96	**39,492**
	50,241	500	726	**51,467**
Investments available-for-sale	907,360	42	21,895	**929,297**
	957,601	34,901	288,326	**1,280,828**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1,191,617	-	**1,191,617**
Loans and receivables-investments	-	55,104	-	**55,104**
Loans and advances to customers	-	-	15,385,385	**15,385,385**
	-	1,246,721	15,385,385	**16,632,106**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €11,228 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €1,123 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 45.

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

Model inputs for valuation (continued)

2017	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	114	-	**114**
Currency swaps	-	14,082	-	**14,082**
Interest rate swaps	-	873	-	**873**
Currency options	-	402	-	**402**
	-	15,471	-	**15,471**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	35,420		**35,420**
Net investments-forward exchange rate contracts	-	1	-	**1**
	-	35,421	-	**35,421**
	-	50,892	-	**50,892**
Other financial liabilities not measured at fair value				
Deposits by banks	-	495,308	-	**495,308**
Repurchase agreements	-	281,951	-	**281,951**
Customer deposits	-	-	17,875,382	**17,875,382**
Subordinated loan stock	300,980	33,803	-	**334,783**
	300,980	811,062	17,875,382	**18,987,424**

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

Model inputs for valuation (continued)

2016	Level 1 €000	Level 2 €000	Level 3 €000	**Total €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.

For additional disclosures on sensitivity analysis of equity securities refer to Note 45.

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**

The cash and balances with central banks and the funding from central banks are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently. 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 2017 and 2016 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:

	2017				2016				
	Investment properties	**Investment properties held for sale**	**Own use properties**	**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
1 January	**38,059**	**11,065**	**246,215**	**17,479**	34,628	15,018	227,945	25,400	55,253
Additions	**4,273**	**-**	**1,280**	**724**	2,114	-	2,107	10	13,867
Acquisition of subsidiary (Note 51.3.1)	**-**	**-**	**-**	**-**	-	-	19,952	-	-
Disposals	**(12,248)**	**(10,864)**	**-**	**(689)**	(612)	(3,480)	-	(25,410)	(51,937)
Transfers from investment properties to own use properties	**(395)**	**-**	**395**	**-**	-	-	-	-	-
Transfers from/(to) stock of property (Note 27)	**-**	**-**	**129**	**-**	-	-	(1,371)	-	-
Transfers (to)/from non-current assets held for sale	**(6,500)**	**6,500**	**-**	**-**	-	-	-	-	-
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	**-**	**-**	**2,740**	**5,738**	-	-	-	-	485
Depreciation charge for the year	**-**	**-**	**(2,652)**	**-**	-	-	(2,404)	-	-
Impairment charge for the year (Note 16)	**-**	**-**	**(8,470)**	**-**	-	-	-	-	-
Revaluation (losses)/gains	**(3,309)**	**-**	**-**	**-**	1,482	(442)	-	-	-
Foreign exchange adjustments	**(234)**	**(201)**	**(78)**	**(631)**	447	(31)	(14)	-	(189)
31 December	**19,646**	**6,500**	**239,559**	**22,621**	38,059	11,065	246,215	-	17,479

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	2017	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Residential	**€000**							**m^2**	**m^2**	**Years**
Russia	338	n/a	n/a	€225-€2,326	n/a	€51-€2,326	€9-€11	570-1,573	102-384	7
Offices and other commercial properties										
Cyprus	8,830	€54-€353	n/a	n/a	4%-6%	€1,339-€7,059	€1,053	1,591	68-4,788	14-34
Russia	422	n/a	n/a	€210-€410	n/a	€88-€124	€9-€73	2,588-2,773	649-1,644	8
	9,252									
Manufacturing and industrial										
Russia	477	n/a	n/a	€20-€176	n/a	€7-€176	€5-€24	5,220-29,538	304-8,874	8-29
Hotels										
Russia	2,124	n/a	n/a	€361	n/a	€361	n/a	n/a	5,946	12
Land (fields and plots)										
Cyprus	13,955	n/a	n/a	€1,000-€1,200	n/a	n/a	€279-€1,028	2,316-21,053	n/a	n/a
Total	**26,146**									

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and country	2017	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m^2**	**m^2**	**Years**
Cyprus	236,268	€26-€277	n/a	€821-€1,895	5%-6%	€19-€6,557	€70-€3,381	390-598,767	122-11,109	11-77
Romania	3,291	n/a	n/a	n/a	9%	n/a	n/a	660	2,284	10
UK	16,332	€214-€777	0%-6%	n/a	5%-7%	€3,260-€16,959	n/a	173-1,740	173-1,689	Refurnished in 2009
Total	**255,891**									

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)

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

	2017	2016
	€000	€000
Gross loans and advances to customers	**18,086,230**	19,201,642
Provisions for impairment of loans and advances to customers (Note 44)	**(3,483,776)**	(3,552,241)
	14,602,454	15,649,401

Loans and advances to customers pledged as collateral are disclosed in Note 46.

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 44.

24. Life insurance business assets attributable to policyholders

	2017	2016
	€000	€000
Equity securities	**1,171**	8,298
Debt securities	**60,847**	56,389
Mutual funds	**402,240**	367,096
Mortgages and other loans	**1,139**	1,489
Bank deposits	**39,451**	52,361
	504,848	485,633
Property	**13,830**	13,900
	518,678	499,533

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 2017 of €350 thousand (2016: €404 thousand). Such shares are presented in the Consolidated Financial Statements as treasury shares (Note 35).

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:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Equity securities	**1,171**	**-**	**-**	**1,171**
Debt securities	**34,282**	**26,565**	**-**	**60,847**
Mutual funds	**401,384**	**-**	**856**	**402,240**
Mortgages and other loans	**1,139**	**-**	**-**	**1,139**
	437,976	**26,565**	**856**	**465,397**

2016				
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

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:

	2017	2016
	€000	€000
1 January	**1,208**	1,436
Unrealised losses recognised in the consolidated income statement	**(352)**	(228)
31 December	**856**	1,208

During years 2017 and 2016 there were no significant transfers between Level 1 and Level 2.

25. Property and equipment

2017	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	258,552	22,341	**280,893**
Additions	1,843	8,456	**10,299**
Revaluation	9,319	-	**9,319**
Transfers from stock of property (Note 27)	129	-	**129**
Transfers from investment property (Note 22)	395	-	**395**
Disposals and write-offs	(35)	(242)	**(277)**
Depreciation charge for the year	(3,983)	(7,947)	**(11,930)**
Impairment charge for the year	(8,470)	-	**(8,470)**
Foreign exchange adjustments	(390)	(154)	**(544)**
Net book value at 31 December	**257,360**	**22,454**	**279,814**

1 January 2017			
Cost or valuation	298,743	152,838	**451,581**
Accumulated depreciation	(40,191)	(130,497)	**(170,688)**
Net book value	**258,552**	**22,341**	**280,893**

31 December 2017			
Cost or valuation	293,664	149,263	**442,927**
Accumulated depreciation	(36,304)	(126,809)	**(163,113)**
Net book value	**257,360**	**22,454**	**279,814**

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

2016	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	242,941	21,392	**264,333**
Acquisition of subsidiary (Note 51.3.1)	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 51.4.1)	-	(952)	**(952)**
Depreciation charge for the year	(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**

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

	2017	2016
	€000	€000
Freehold property	**255,891**	256,555
Improvements on leasehold property	**1,469**	1,997
	257,360	258,552

Freehold property includes land amounting to €92,471 thousand (2016: €92,818 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. The Group performed revaluations as at 31 December 2017. As a result, a net gain on revaluation of €9,319 thousand (2016: nil) was recognised in the consolidated statement of comprehensive income and an impairment loss of €8,470 thousand (2016: nil) was recognised in the consolidated income statement for the year ended 31 December 2017. The valuations at year end were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 22.

As at 31 December 2017 and 2016 there are charges against freehold property of the Group with carrying value €20,850 thousand (2016: €21,134 thousand).

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2017 would have amounted to €194,446 thousand (2016: €190,241 thousand).

26. Intangible assets

2017	Computer software	In-force life insurance business	**Total**
	€000	€000	**€000**
Net book value at 1 January	28,959	118,004	**146,963**
Additions	25,723	-	**25,723**
Increase in value of in-force life insurance business (Note 12)	-	2,743	**2,743**
Disposals and write-offs	(22)	-	**(22)**
Amortisation charge for the year	(9,404)	-	**(9,404)**
Foreign exchange adjustments	(51)	-	**(51)**
Net book value at 31 December	**45,205**	**120,747**	**165,952**
1 January 2017			
Cost	144,898	118,004	**262,902**
Accumulated amortisation and impairment	(115,939)	-	**(115,939)**
Net book value	**28,959**	**118,004**	**146,963**
31 December 2017			
Cost	169,612	120,747	**290,359**
Accumulated amortisation and impairment	(124,407)	-	**(124,407)**
Net book value	**45,205**	**120,747**	**165,952**

26. Intangible assets (continued)

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	(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**

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:

	2017	2016
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 cost. During 2017 an impairment loss of €50,502 thousand (2016: €36,220 thousand) was recognised in 'Impairment of non-financial instruments' in the consolidated income statement. At 31 December 2017, stock of €418,559 thousand (2016: €608,985 thousand) is carried at net realisable value which is the fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA (2016: €22,055 thousand).

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

	2017	2016
	€000	€000
Net book value at 1 January	**1,427,272**	515,858
Acquisition of subsidiaries (Note 51.3)	**-**	75,632
Additions	**523,061**	1,010,059
Disposals	**(257,662)**	(139,316)
Transfers (to)/ from own use properties (Note 25)	**(129)**	1,371
Impairment (Note 16)	**(50,502)**	(36,220)
Foreign exchange adjustments	**(618)**	(112)
Net book value at 31 December	**1,641,422**	1,427,272

Additions during 2017 include cost of construction of €3,404 thousand (2016: nil).

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2017	**€000**	**€000**	**€000**	**€000**
Residential properties	146,214	29,057	189	**175,460**
Offices and other commercial properties	288,282	38,882	9,138	**336,302**
Manufacturing and industrial properties	112,890	33,427	498	**146,815**
Hotels	77,820	493	-	**78,313**
Land (fields and plots)	836,543	6,402	4,595	**847,540**
Properties under construction	56,992	-	-	**56,992**
Total	**1,518,741**	**108,261**	**14,420**	**1,641,422**

2016				
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**

28. Prepayments, accrued income and other assets

	2017	2016
	€000	€000
Receivables relating to disposal of operations	**36,282**	57,056
Reinsurers' share of insurance contract liabilities (Note 32)	**48,000**	49,973
Taxes refundable	**25,647**	33,582
Debtors	**24,121**	24,571
Prepaid expenses	**1,391**	1,765
Retirement benefit plan assets (Note 14)	**-**	668
Other assets	**92,880**	102,296
	228,321	269,911

As at 31 December 2017 and 2016, the receivables relating to disposal of operations related to the disposal of the Ukrainian operations during 2014. In 2017 the settlement terms of the deferred consideration, the related interest rate and the collaterals were amended. The deferred consideration is due to be paid to the Group under a repayment programme which has been extended from June 2019 to December 2022. The receivable is fully secured.

During 2017, a reversal of impairment of €1,379 thousand was recognised in relation to other assets (2016: reversal of impairment loss of €3,869 thousand) (Note 16).

29. Non-current assets held for sale

	2017	2016
	€000	€000
Non-current assets held for sale:		
- investment properties	**6,500**	11,411

Investment properties
The investment properties classified as held for sale are properties which management is committed to sell and has proceeded with an active programme to complete this plan. The disposals are expected to take place within 12 months from the date of classification. Investment properties classified as held for sale are measured at fair value. The results of the fair value changes are presented within 'Net (losses)/gains 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.

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:

	2017	2016
	€000	€000
Emergency Liquidity Assistance (ELA)	**-**	200,014
Main Refinancing Operations (MRO)	**100,000**	-
Longer-Term Refinancing Operations (LTRO)	**-**	50,000
Targeted Longer-Term Refinancing Operations (TLTRO)	**830,000**	600,000
	930,000	850,014

30. Funding from central banks (continued)

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 and an amount of €50 million through the LTRO. In March 2017, the €50 million borrowed through the LTRO matured and €40 million was re-borrowed, which matured in June 2017 and was re-borrowed through a new LTRO. This was repaid in September 2017. In March 2017, the Company raised an additional €230 million funding from ECB, through TLTRO II. In April 2017, an additional €40 million was borrowed through the MRO of which €10 million was repaid in May 2017 and the remaining €30 million was repaid in August 2017. In December 2017 an amount of €100 million was borrowed through the MRO.

As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

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.

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 46.

31. Customer deposits

	2017	2016
	€000	€000
By type of deposit		
Demand	**6,313,387**	6,182,096
Savings	**1,536,576**	1,061,786
Time or notice	**10,000,099**	9,265,859
	17,850,062	16,509,741
By geographical area		
Cyprus	**15,983,048**	15,043,362
United Kingdom	**1,867,014**	1,464,651
Romania	**-**	1,728
	17,850,062	16,509,741
By currency		
Euro	**13,830,134**	12,397,828
US Dollar	**1,743,513**	2,201,980
British Pound	**2,110,265**	1,690,118
Russian Rouble	**49,788**	92,472
Romanian Lei	**42**	1,669
Swiss Franc	**14,943**	18,087
Other currencies	**101,377**	107,587
	17,850,062	16,509,741

31. Customer deposits (continued)

By customer sector	Cyprus	United Kingdom	Romania	**Total**
2017	€000	€000	€000	**€000**
Corporate	1,529,664	29,742	-	**1,559,406**
SMEs	665,940	201,536	-	**867,476**
Retail	8,670,625	1,635,736	-	**10,306,361**
Restructuring				
– Corporate	145,084	-	-	**145,084**
– SMEs	40,743	-	-	**40,743**
Recoveries	6,615	-	-	**6,615**
International banking services	4,163,384	-	-	**4,163,384**
Wealth management	760,993	-	-	**760,993**
	15,983,048	**1,867,014**	**-**	**17,850,062**
2016				
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	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**

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

Customer deposits at 31 December 2017 include balances between the Company and its parent undertaking Bank of Cyprus Holdings Public Limited Company of €143 thousand. Further information is disclosed in Note 49.

32. Insurance liabilities

	2017			2016		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Life insurance	**€000**	**€000**	**€000**	€000	€000	€000
Life insurance contract liabilities	**546,887**	**(27,608)**	**519,279**	530,075	(28,379)	501,696
General insurance						
Provision for unearned premiums	**24,151**	**(8,879)**	**15,272**	22,690	(8,605)	14,085
Other liabilities						
Claims outstanding	**34,076**	**(11,513)**	**22,563**	31,009	(12,989)	18,020
Unexpired risks reserve	**314**	**-**	**314**	204	-	204
Equalisation reserve	**20**	**-**	**20**	19	-	19
General insurance contract liabilities	**58,561**	**(20,392)**	**38,169**	53,922	(21,594)	32,328
	605,448	**(48,000)**	**557,448**	583,997	(49,973)	534,024

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

32. Insurance liabilities (continued)

Life insurance contract liabilities

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

	2017			2016		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	€000	**€000**	**€000**	€000	€000	€000
1 January	**530,075**	**(28,379)**	**501,696**	510,729	(30,396)	480,333
New business	**9,367**	**(1,173)**	**8,194**	8,389	(1,150)	7,239
Change in existing business	**7,445**	**1,944**	**9,389**	10,957	3,167	14,124
31 December	**546,887**	**(27,608)**	**519,279**	530,075	(28,379)	501,696

General insurance contract liabilities

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

	2017			2016		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Liabilities for unearned premiums	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**22,690**	**(8,605)**	**14,085**	24,029	(11,533)	12,496
Premium income	**65,701**	**(29,246)**	**36,455**	60,215	(27,544)	32,671
Earned premiums	**(64,240)**	**28,972**	**(35,268)**	(61,554)	30,472	(31,082)
31 December	**24,151**	**(8,879)**	**15,272**	22,690	(8,605)	14,085

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.

	2017			2016		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Claims outstanding	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**31,009**	**(12,989)**	**18,020**	32,083	(14,834)	17,249
Amount paid for claims settled in the period	**(27,017)**	**13,643**	**(13,374)**	(25,864)	12,004	(13,860)
Increase in liabilities arising from claims	**30,084**	**(12,167)**	**17,917**	24,790	(10,159)	14,631
31 December	**34,076**	**(11,513)**	**22,563**	31,009	(12,989)	18,020
Reported claims	**32,202**	**(10,704)**	**21,498**	29,188	(12,178)	17,010
Incurred but not reported	**1,874**	**(809)**	**1,065**	1,821	(811)	1,010
	34,076	**(11,513)**	**22,563**	31,009	(12,989)	18,020

33. Subordinated loan stock

	Contractual interest rate	2017	2016
		€000	€000
Subordinated Tier 2 Capital Note	9.25% up to 19 January 2022	268,485	-
Subordinated Tier 2 Capital Loan	8.00% up to 21 December 2022	33,803	-
		302,288	-

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

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% per annum payable annually up to 19 January 2022 and then a rate at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents.

The Note is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of the Company issued a £30 million unsecured and subordinated Tier 2 Capital Loan (Loan), priced at par. The Loan has a coupon of 8.00% up to 21 December 2022 and then a rate at the then prevailing 5-year swap rate plus a margin of 6.99% per annum, up to 21 December 2027, payable semi-annually, in June and December. The Loan matures on 21 December 2027. Bank of Cyprus UK Ltd has the option to redeem the Loan early on 21 December 2022, subject to meeting the notice conditions.

34. Accruals, deferred income and other liabilities

	2017	2016
	€000	€000
Income tax payable and related provisions	25,467	25,599
Special defence contribution payable	5,891	5,719
Retirement benefit plans liabilities (Note 14)	10,037	22,776
Provisions for pending litigation, claims and regulatory matters (Note 39)	133,318	48,882
Provisions for financial guarantees and commitments (Notes 16 and 39)	51,987	38,196
Liabilities for investment-linked contracts under administration	7,873	5,458
Accrued expenses and other provisions	60,048	58,761
Deferred income	9,439	7,379
Items in the course of settlement	72,241	49,522
Other liabilities	67,979	73,633
	444,280	335,925

34. 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:

	2017	2016
	€000	€000
1 January	**48,882**	34,749
Increase of provisions (Note 15)	**98,757**	30,890
Utilisation of provisions	**(12,640)**	(7,931)
Release of provisions (Note 15)	**(1,220)**	(7,924)
Foreign exchange adjustments	**(461)**	(902)
31 December	**133,318**	48,882

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

	2017	2016
	€000	€000
Pending litigation or claims	**62,646**	25,234
Regulatory matters	**70,672**	23,648
31 December	**133,318**	48,882

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 39.

35. Share capital

	2017		2016	
	Number of Shares (thousand)	€000	Number of 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**	8,922,945	892,294
Cancellation of shares due to reorganisation	**(8,922,945)**	**(892,294)**	-	-
Issue of shares	**8,922,945**	**892,294**	-	-
31 December	**8,922,945**	**892,294**	8,922,945	892,294

35. Share capital (continued)

Authorised and issued share capital

2017
The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved a scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and the shareholders of the Company. The scheme of arrangement introduced 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 scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016.

Following the submission of the Court Order to the Registrar of Companies and the registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result on the same date, the authorised share capital of the Company which amounted to €4,767,759,272.00 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each was reduced to €3,875,464,818.70 divided into 38,754,648,453.30 ordinary shares with a nominal value of €0.10 each and its issued share capital which amounted to €892,294,453.30 divided into 8,922,944,533 ordinary shares with a nominal value of €0.10 each was reduced to nil by cancelling all the shares comprising the issued share capital of 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 Cyprus Companies Law, Cap. 113 (the Reduction of Capital).

Following the reduction of the share capital of the Company, the authorised share capital was increased to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 ordinary shares with a nominal value of €0.10 each, each of which have the same rights and rank pari passu with the existing ordinary shares of the Company. Also, the reserve arising in the books of account of the Company as a result of the cancellation of the Existing Shares was applied in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of the Company, which were issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement.

As mentioned above, all of the shares comprising the issued share capital of 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.

2016
There were no changes to the issued share capital during the year 2016.

All issued ordinary shares carry the same rights.

Share premium reserve

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

The share premium as at 31 December 2017 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.

35. Share capital (continued)

Capital reduction reserve

The capital reduction reserve was maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and was 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.

The Company continues to explore opportunities, subject to market conditions, to raise up to 1.5% of Additional Tier 1 (AT1) in the near term to further strengthen the Company's capital base. In preparation for a potential issuance of AT1 capital instruments and following the approval of the Cypriot courts in July 2017 and December 2017, the Company proceeded with the full reduction of its capital reduction reserve, in order to eliminate the Company's accumulated losses.

Treasury shares of the Company

Up to the restructuring of the Group and the introduction of Bank of Cyprus Holdings Public Limited Company as the new holding company of the Group, shares of the Company held by entities controlled by the Group were deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss was recognised in the consolidated income statement. Following the restructuring of the Group all the shares of the Company are held by Bank of Cyprus Holdings Public Limited Company.

As at 31 December 2016, the life insurance subsidiary of the Group, held a total of 2,889 thousand ordinary shares of the Company of a nominal value of €0.10 each, as part of its financial assets which are invested for the benefit of insurance policyholders. The cost of acquisition of these shares was €25,333 thousand.

Share-based payments-share options

Following the incorporation of the 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 (as approved on 24 November 2015 by the Annual General Meeting of the Company) was replaced by the Share Option Plan which operates at the level of the Bank of Cyprus Holdings Public Limited Company.

36. Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividends were declared or paid during years 2017 and 2016.

37. Retained earnings

For the purpose of dividend distribution, retained earnings determined at the Company level are the only distributable reserve.

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

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

This special defence contribution is paid by the company on account of the shareholders. During 2017 and 2016 no deemed dividend distribution was paid by the Company.

38. 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 2017 amounted to €1,120,817 thousand (2016: €1,054,210 thousand).

39. 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 44).

39.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2017 amount to €38,306 thousand (2016: €14,830 thousand).

39.2 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 2017 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group. Further information is disclosed in Note 34.

39.2.1 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).

39. Contingent liabilities and commitments (continued)

39.2 Pending litigation, claims and regulatory matters (continued)

39.2.1 Pending litigation and claims (continued)

Investigations and litigation relating to securities issued by the Company (continued)
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 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. Also a small number of cases are being heard in Cyprus. No judgement has yet been issued. Provision has been made based on management's best estimate of probable outflows and based on advice of legal counsel.

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 were 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. A number of actions for damages have been filed and are still being filed with the District Courts of Cyprus.

Claims based on set-off
Certain claims have been filed by customers against 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.

39. Contingent liabilities and commitments (continued)

39.2 Pending litigation, claims and regulatory matters (continued)

39.2.1 Pending litigation and claims (continued)

Provident fund case
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 subsequently filed a civil action in the District Court on the same grounds as the previous case which was filed in the Labour Disputes Court. The Group does not consider that these cases will have a material impact 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.

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 had filed a criminal case against the Company and five former members of the Board of Directors for alleged market manipulation offences referring to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. On 14 December 2017, the Court found the Company and its former Chief Executive Officer guilty only in relation to the one charge regarding market manipulation and acquitted all accused of all remaining charges. On 5 January 2018 the Court imposed a fine of €120,000 on the Company and a prison sentence of two and a half years on Mr. Andreas Eliades. The Company has filed an appeal against both the decision and the fine imposed on it.

39. Contingent liabilities and commitments (continued)

39.2 Pending litigation, claims and regulatory matters (continued)

39.2.1 Pending litigation and claims (continued)

General criminal investigations and proceedings (continued)
The Attorney General had also filed a separate criminal case against the Company and six former members of the Board of Directors of the Company for alleged market manipulation offences referring to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. On 18 December 2017, the Criminal Court dismissed the proceedings against the accused following a ruling by the Supreme Court (first instance jurisdiction) which rendered the charges void ab initio. The Attorney General has filed an appeal against the first instance ruling of the Supreme Court.

In 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. The hearing of this case has not yet commenced.

39.2.2 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
The only pending CySEC investigation against the Company concerns possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania. This is now pending for decision by the CySEC's Board. It is not expected that any resulting liability or fine will have a material impact on the financial position of the Group.

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 being communicated to the Company.

On 1 December 2017 CySEC imposed a series of fines totaling €595 thousand upon the Company and ten of its former directors for failing to adequately provide for doubtful debts in 2011. The fine imposed upon the Company amounts to €15 thousand and the Company has filed a recourse against the decision and fine before the Administrative Court.

39. Contingent liabilities and commitments (continued)

39.2 Pending litigation, claims and regulatory matters (continued)

39.2.2 Provisions for regulatory matters (continued)

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. In May 2017 the CPC imposed a fine of €18 million upon the Company and the Company filed a recourse against the decision and the fine. The payment of the fine has been stayed pending the final outcome of the recourse.

UK regulatory matters
During 2016 and 2017 the Group recognised losses of €57,540 thousand on a conduct principle issue. The provision outstanding as at 31 December 2017 is €46,962 thousand (2016: €17,368 thousand). The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. Management continues to reassess the adequacy of the provision, as well as the assumptions underlying the calculations based upon experience and other relevant factors prevailing at the time.

39.3 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.

40. Net cash flow from operating activities

	2017	2016
	€000	€000
(Loss)/profit before tax	**(477,651)**	85,616
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	**779,483**	370,294
Depreciation of property and equipment	**11,930**	11,558
Amortisation of intangible assets	**9,404**	7,263
Impairment of property held for own use	**8,470**	-
Impairment of other financial instruments	**6,459**	11,293
Profit upon disposal of disposal groups held for sale and discontinued operations	**-**	(2,545)
Amortisation of discounts/premiums, catch-up adjustment on debt securities and interest on debt securities	**(22,669)**	(22,764)
Loss on sale and write-offs of property and equipment and intangible assets	**208**	67
Net losses/(gains) on disposal of investment properties and investment properties held for sale	**752**	(3,934)
Net losses/(gains) from revaluation of investment properties and investment properties held for sale	**3,309**	(1,040)
Dividend income	**(683)**	(343)
Net gains on disposal of available-for-sale investments in equity securities	**(1,520)**	(58,368)
Net gains on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	**(2,104)**	(8,441)
Share of profit from associates and joint ventures	**(8,957)**	(8,194)
Loss from revaluation of debt securities designated as fair value hedges	**14,150**	16,466
Loss on disposal/dissolution of subsidiaries	**2,187**	4,101
Net gains on disposal of stock of property	**(30,447)**	(1,361)
Impairment of stock of property	**50,502**	36,220
Interest on funding from central banks	**28**	29,656
Interest on subordinated loan stock	**22,258**	-
Change in value of in-force life insurance business	**(2,743)**	(4,680)
	362,366	460,864
Change in:		
Loans and advances to banks	**60,130**	53,890
Deposits by banks	**60,522**	193,096
Obligatory balances with central banks	**(11,036)**	(19,890)
Customer deposits	**1,340,321**	2,329,060
Value of in-force life insurance policies and liabilities	**2,306**	(7,058)
Loans and advances to customers	**(227,629)**	57,958
Other assets	**28,610**	20,039
Accrued income and prepaid expenses	**374**	(354)
Other liabilities	**91,382**	52,698
Accrued expenses and deferred income	**3,346**	(1,530)
Derivative financial instruments	**5,075**	(12,586)
Investments at fair value through profit or loss	**(8,451)**	7,769
Repurchase agreements	**(45)**	(110,784)
Proceeds on disposals of stock of property	**280,365**	140,677
	1,987,636	3,163,849
Tax received/(paid)	**5,630**	(1,224)
Net cash flow from operating activities	**1,993,266**	3,162,625

40. Net cash flow from operating activities (continued)

Non-cash transactions

2017

Acquisition of Nicosia Mall Holdings (NMH) Limited
During the year ended 31 December 2017 the Group acquired a 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 51.1.1.

Closure of the operations of Bank of Cyprus branch in Romania
In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania are expected to be terminated, subject to the completion of deregistration formalities with respective authorities during 2018. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to others entities of the Group.

Repossession of collaterals
During the year ended 31 December 2017, the Group acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €519,657 thousand (2016: €1,010,059 thousand) (Note 27).

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 51.3.1.

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.

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.

Net cash flow from operating activities – interest and dividends

	2017	2016
	€000	€000
Interest paid	**(194,666)**	(200,266)
Interest received	**782,476**	1,018,010
Dividends received	**683**	343
	588,493	818,087

40. Net cash flow from operating activities (continued)

Changes in liabilities arising from financing activities

	Funding from central banks	Subordinated loan stock	**Total**
	€000	€000	**€000**
1 January 2017	850,014	-	**850,014**
Cash flows	79,986	280,983	**360,969**
Foreign exchange adjustments	-	(680)	**(680)**
Other non-cash movements	-	21,985	**21,985**
31 December 2017	930,000	302,288	**1,232,288**

41. Cash and cash equivalents

Cash and cash equivalents comprise:

	2017	2016
	€000	€000
Cash and non-obligatory balances with central banks	**3,240,201**	1,363,699
Loans and advances to banks with original maturity less than three months	**1,040,030**	867,329
	4,280,231	2,231,028

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

	2017	2016
	€000	€000
Cash and non-obligatory balances with central banks	**3,240,201**	1,363,699
Obligatory balances with central banks	**153,733**	142,697
Total cash and balances with central banks (Note 19)	**3,393,934**	1,506,396

Loans and advances to banks with original maturity less than three months	**1,040,030**	867,329
Other restricted loans and advances to banks	**117,273**	136,398
Other loans and advances to banks	**35,330**	84,110
Total loans and advances to banks (Note 19)	**1,192,633**	1,087,837

Restricted loans and advances to banks include collaterals under derivative transactions of €59,997 thousand (2016: €55,017 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

42. Operating leases – The Group as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2017 and 2016 are presented below:

	2017	2016
	€000	€000
Within one year	**1,850**	1,452
Between one and five years	**2,663**	3,296
After five years	**62**	282
	4,575	5,030

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

43. Analysis of assets and liabilities by expected maturity

	2017			2016		
	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	**3,241,396**	**152,538**	**3,393,934**	1,364,949	141,447	1,506,396
Loans and advances to banks	**1,094,918**	**97,715**	**1,192,633**	953,160	134,677	1,087,837
Derivative financial assets	**1,495**	**16,532**	**18,027**	20,590	245	20,835
Investments	**39,050**	**990,372**	**1,029,422**	76,415	597,229	673,644
Loans and advances to customers	**3,642,968**	**10,959,486**	**14,602,454**	5,546,601	10,102,800	15,649,401
Life insurance business assets attributable to policyholders	**20,317**	**498,361**	**518,678**	19,510	480,023	499,533
Prepayments, accrued income and other assets	**98,010**	**130,311**	**228,321**	110,968	158,943	269,911
Stock of property	**441,800**	**1,199,622**	**1,641,422**	457,104	970,168	1,427,272
Property, equipment and intangible assets	**13**	**445,753**	**445,766**	21	427,835	427,856
Investment properties	**-**	**19,646**	**19,646**	-	38,059	38,059
Investments in associates and joint ventures	**-**	**118,113**	**118,113**	-	109,339	109,339
Deferred tax assets	**26,000**	**357,498**	**383,498**	2,970	447,471	450,441
Non-current assets held for sale	**6,500**	**-**	**6,500**	11,411	-	11,411
	8,612,467	**14,985,947**	**23,598,414**	8,563,699	13,608,236	22,171,935
Liabilities						
Deposits by banks	**360,277**	**135,031**	**495,308**	354,778	80,008	434,786
Funding from central banks	**100,000**	**830,000**	**930,000**	250,014	600,000	850,014
Repurchase agreements	**-**	**257,322**	**257,322**	-	257,367	257,367
Derivative financial liabilities	**15,205**	**35,687**	**50,892**	9,434	39,191	48,625
Customer deposits	**4,787,050**	**13,063,012**	**17,850,062**	5,367,559	11,142,182	16,509,741
Insurance liabilities	**89,689**	**515,759**	**605,448**	86,002	497,995	583,997
Accruals, deferred income and other liabilities	**283,432**	**160,848**	**444,280**	273,332	62,593	335,925
Subordinated loan stock	**-**	**302,288**	**302,288**	-	-	-
Deferred tax liabilities	**-**	**46,113**	**46,113**	17	45,358	45,375
	5,635,653	**15,346,060**	**20,981,713**	6,341,136	12,724,694	19,065,830

43. 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 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.

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

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The impaired loans as defined in Note 44, 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.

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.

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.

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.

44. 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 meet their obligations towards the Group.

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

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

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

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

The credit risk exposure of the Group is diversified both geographically and across the various sectors of the economy. The Credit Risk Management Department determines the prohibited/high risk/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their level 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.

44. Risk management – Credit risk (continued)

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

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:

	2017	2016
On-balance sheet	**€000**	€000
Cyprus	**17,974,887**	17,067,617
Greece	**46,754**	57,314
Russia	**27,819**	40,974
United Kingdom	**2,056,334**	1,602,229
Romania	**64,152**	165,093
	20,169,946	18,933,227

Off-balance sheet		
Cyprus	**2,934,269**	2,738,382
Greece	**72,752**	112,596
United Kingdom	**31,471**	16,327
Romania	**848**	397
	3,039,340	2,867,702

Total on and off-balance sheet		
Cyprus	**20,909,156**	19,805,999
Greece	**119,506**	169,910
Russia	**27,819**	40,974
United Kingdom	**2,087,805**	1,618,556
Romania	**65,000**	165,490
	23,209,286	21,800,929

44. 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 Management 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.

44. Risk management – Credit risk (continued)

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

2017	**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)	**3,250,029**	-	-	-	-	-	-	-	**3,250,029**
Loans and advances to banks (Note 19)	**1,192,633**	-	-	-	-	-	-	-	**1,192,633**
Trading investments - debt securities (Note 20)	**536**	-	-	-	-	-	-	-	**536**
Debt securities classified as available-for-sale and loans and receivables (Note 20)	**950,392**	-	-	-	-	-	-	-	**950,392**
Derivative financial instruments (Note 21)	**18,027**	-	-	-	-	-	-	-	**18,027**
Loans and advances to customers (Note 23)	**14,602,454**	339,050	275,111	258,848	21,803,417	747,362	(10,369,288)	13,054,500	**1,547,954**
Debtors (Note 28)	**24,121**	-	-	-	-	-	-	-	**24,121**
Reinsurers' share of insurance contract liabilities (Note 28)	**48,000**	-	-	-	-	-	-	-	**48,000**
Other assets	**83,754**	**-**	**-**	37,798	-	-	(1,516)	36,282	**47,472**
On-balance sheet total	**20,169,946**	**339,050**	**275,111**	**296,646**	**21,803,417**	**747,362**	**(10,370,804)**	**13,090,782**	**7,079,164**
Contingent liabilities									
Acceptances and endorsements	**8,367**	813	-	-	9,817	79	(4,056)	6,653	**1,714**
Guarantees	**768,165**	85,099	464	3,736	153,756	11,405	-	254,460	**513,705**
Commitments									
Documentary credits	**29,630**	1,139	7	190	7,550	486	-	9,372	**20,258**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,233,178**	38,132	5,563	1,543	402,309	36,266	(19,699)	464,114	**1,769,064**
Off-balance sheet total	**3,039,340**	**125,183**	**6,034**	**5,469**	**573,432**	**48,236**	**(23,755)**	**734,599**	**2,304,741**
Total credit risk exposure	**23,209,286**	**464,233**	**281,145**	**302,115**	**22,376,849**	**795,598**	**(10,394,559)**	**13,825,381**	**9,383,905**

44. 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**	-	-	59,656	-	-	(967)	58,689	**48,551**
On-balance sheet total	**18,933,227**	**345,827**	**335,599**	**364,858**	**22,250,801**	**501,500**	**(9,950,890)**	**13,847,695**	**5,085,532**
Contingent liabilities									
Acceptances and endorsements	**7,606**	375	-	-	9,524	13	(4,090)	5,822	**1,784**
Guarantees	**797,269**	69,720	1,326	5,529	164,880	6,222	(210)	247,467	**549,802**
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**	**7,852**	**511,796**	**22,690**	**(24,005)**	**633,105**	**2,234,597**
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**

44. 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, 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 the 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.

The Company categorises its loans using the following customer sectors:

- Retail – all personal customers and small businesses with facilities from the Company of up to €260 thousand, excluding professional property loans;
- SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Company in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million; and
- Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with the Company in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.

In addition, Bank of Cyprus UK Ltd defines corporate loans as loans over €1 million. SME loans are loans less than €1 million and retail loans relate to individuals.

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.

44. 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:

2017	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	1,969,360	-	13,859	8,925	49,322	**2,041,466**	**(71,636)**	**1,969,830**
Manufacturing	630,101	-	6,468	7,416	20,567	**664,552**	**(19,968)**	**644,584**
Hotels and catering	1,283,512	-	103,808	6,208	-	**1,393,528**	**(47,257)**	**1,346,271**
Construction	2,310,057	-	3,398	12,236	11,764	**2,337,455**	**(144,899)**	**2,192,556**
Real estate	1,760,498	15,003	1,339,680	80,930	1	**3,196,112**	**(89,647)**	**3,106,465**
Private individuals	6,677,670	214	97,992	87	-	**6,775,963**	**(195,686)**	**6,580,277**
Professional and other services	1,181,920	-	54,616	9,223	62,325	**1,308,084**	**(61,954)**	**1,246,130**
Other sectors	1,000,434	338	1,231	35,552	-	**1,037,555**	**(37,438)**	**1,000,117**
	16,813,552	**15,555**	**1,621,052**	**160,577**	**143,979**	**18,754,715**	**(668,485)**	**18,086,230**
By customer sector								
Corporate	7,100,987	15,341	1,295,710	153,694	133,701	**8,699,433**	**(333,740)**	**8,365,693**
SMEs	3,254,742	-	238,509	6,801	10,278	**3,510,330**	**(121,514)**	**3,388,816**
Retail								
- housing	4,097,800	-	72,856	-	-	**4,170,656**	**(88,799)**	**4,081,857**
- consumer, credit cards and other	2,049,335	214	13,977	82	-	**2,063,608**	**(116,752)**	**1,946,856**
International banking services	256,554	-	-	-	-	**256,554**	**(3,005)**	**253,549**
Wealth management	54,134	-	-	-	-	**54,134**	**(4,675)**	**49,459**
	16,813,552	**15,555**	**1,621,052**	**160,577**	**143,979**	**18,754,715**	**(668,485)**	**18,086,230**

44. Risk management – Credit risk (continued)

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

2017	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	3,321,730	15,341	1,293,304	96,498	133,701	**4,860,574**	**(83,251)**	**4,777,323**
SMEs	1,219,350	-	238,509	6,801	10,278	**1,474,938**	**(14,566)**	**1,460,372**
Retail								
- housing	3,007,487	-	72,856	-	-	**3,080,343**	**(30,274)**	**3,050,069**
- consumer, credit cards and other	1,085,146	214	13,977	82	-	**1,099,419**	**(14,348)**	**1,085,071**
Restructuring								
- major corporate	1,292,607	-	-	33,860	-	**1,326,467**	**(55,850)**	**1,270,617**
- corporate	777,460	-	-	-	-	**777,460**	**(15,303)**	**762,157**
- SMEs	1,085,221	-	-	-	-	**1,085,221**	**(37,096)**	**1,048,125**
- retail housing	437,892	-	-	-	-	**437,892**	**(6,319)**	**431,573**
- retail other	226,623	-	-	-	-	**226,623**	**(8,037)**	**218,586**
Recoveries								
- corporate	1,709,190	-	2,406	23,336	-	**1,734,932**	**(179,336)**	**1,555,596**
- SMEs	950,171	-	-	-	-	**950,171**	**(69,852)**	**880,319**
- retail housing	652,421	-	-	-	-	**652,421**	**(52,206)**	**600,215**
- retail other	737,566	-	-	-	-	**737,566**	**(94,367)**	**643,199**
International banking services	256,554	-	-	-	-	**256,554**	**(3,005)**	**253,549**
Wealth management	54,134	-	-	-	-	**54,134**	**(4,675)**	**49,459**
	16,813,552	**15,555**	**1,621,052**	**160,577**	**143,979**	**18,754,715**	**(668,485)**	**18,086,230**

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.

44. 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 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**

44. 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**

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 €69,616 thousand (2016: €82,154 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €98,660 thousand (2016: €106,968 thousand). Additionally as at 31 December 2017, the loans and advances to customers in Cyprus include lending exposures to Serbian entities or with collaterals in Serbia with a carrying value of €15,000 thousand (2016: €9,700 thousand).

44. Risk management – Credit risk (continued)

Currency concentration of loans and advances to customers

2017	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	16,000,016	15,555	16,050	159,518	16,053	**16,207,192**	**(649,671)**	**15,557,521**
US Dollar	228,660	-	424	-	42,550	**271,634**	**(525)**	**271,109**
British Pound	74,707	-	1,599,844	92	-	**1,674,643**	**(423)**	**1,674,220**
Russian Rouble	229	-	-	-	85,376	**85,605**	**(1)**	**85,604**
Romanian Lei	-	-	-	967	-	**967**	**-**	**967**
Swiss Franc	451,883	-	2,128	-	-	**454,011**	**(14,525)**	**439,486**
Other currencies	58,057	-	2,606	-	-	**60,663**	**(3,340)**	**57,323**
	16,813,552	**15,555**	**1,621,052**	**160,577**	**143,979**	**18,754,715**	**(668,485)**	**18,086,230**
2016								
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**

44. 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:

	2017			2016		
	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	**11,149,969**	**(140,405)**	**11,009,564**	10,990,773	(166,185)	10,824,588
Past due but not impaired	**2,084,694**	**(29,554)**	**2,055,140**	2,238,127	(38,743)	2,199,384
Impaired	**5,520,052**	**(498,526)**	**5,021,526**	6,901,195	(723,525)	6,177,670
	18,754,715	**(668,485)**	**18,086,230**	20,130,095	(928,453)	19,201,642

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those 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 2017 the total gross amount of non-contractual write-offs recorded by the Group amounted to €466,248 thousand (2016: €517,694 thousand). The remaining gross loan balance of these customers as at 31 December 2017 was €326,636 thousand (2016: €305,591 thousand), of which €23,090 thousand (2016: €19,651 thousand) were past due for more than 90 days but not impaired and €230,832 thousand (2016: €130,964 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.

2017	**Grade 1**	**Grade 2**	**Grade 3**	**Total**
	€000	**€000**	**€000**	**€000**
Cyprus	7,031,123	1,384,121	1,158,512	**9,573,756**
United Kingdom	1,503,234	48,975	22,812	**1,575,021**
Romania	978	-	214	**1,192**
	8,535,335	**1,433,096**	**1,181,538**	**11,149,969**

2016				
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**

44. 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

	2017	2016
Past due analysis:	**€000**	€000
- up to 30 days	**438,538**	455,394
- 31 to 90 days	**261,453**	375,161
- 91 to 180 days	**124,484**	128,675
- 181 to 365 days	**252,034**	140,714
- over one year	**1,008,185**	1,138,183
	2,084,694	2,238,127

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 2017 is €1,688,623 thousand (2016: €1,762,528 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

	2017		2016	
	Gross loans and advances	**Fair value of collateral**	Gross loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**5,213,278**	**3,297,980**	6,384,503	3,953,086
Greece	**15,555**	**7,041**	19,936	17,962
Russia	**143,979**	**34,847**	196,144	87,381
United Kingdom	**6,447**	**19,932**	12,041	7,213
Romania	**140,793**	**20,385**	288,571	54,436
	5,520,052	**3,380,185**	6,901,195	4,120,078

44. 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.

	2017	2016
Impaired:	**€000**	€000
- no arrears	**401,933**	471,855
- up to 30 days	**141,329**	62,119
- 31 to 90 days	**20,880**	29,201
- 91 to 180 days	**26,340**	49,572
- 181 to 365 days	**73,073**	51,438
- over one year	**4,856,497**	6,237,010
	5,520,052	6,901,195

Provision for impairment of loans and advances to customers

The movement in provisions for impairment of loans and advances, is as follows:

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
1 January	3,170,161	10,782	371,298	**3,552,241**
Transfer between geographical areas	23	(23)	-	**-**
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	**(12,792)**
Foreign exchange and other adjustments	77,234	(183)	(7,059)	**69,992**
Applied in writing off impaired loans and advances	(831,708)	(117)	(138,684)	**(970,509)**
Interest accrued on impaired loans and advances	(97,951)	(2)	(1,406)	**(99,359)**
Collection of loans and advances previously written off	5,975	287	2	**6,264**
Charge for the year (Note 16)	925,161	(3,222)	16,000	**937,939**
31 December	**3,236,103**	**7,522**	**240,151**	**3,483,776**
Individual impairment	**2,367,205**	**4,751**	**227,739**	**2,599,695**
Collective impairment	**868,898**	**2,771**	**12,412**	**884,081**

44. Risk management – Credit risk (continued)

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

2016	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
1 January	3,731,750	39,394	422,289	**4,193,433**
Dissolution of subsidiaries	-	(6,154)	-	**(6,154)**
Acquisition of subsidiary	(8,577)	-	-	**(8,577)**
Foreign exchange and other adjustments	113,109	(2,232)	16,725	**127,602**
Applied in writing off impaired loans and advances	(923,723)	(16,945)	(114,597)	**(1,055,265)**
Interest accrued on impaired loans and advances	(138,603)	-	(1,909)	**(140,512)**
Collection of loans and advances previously written off	1,872	-	81	**1,953**
Charge for the year (Note 16)	394,333	(3,281)	48,709	**439,761**
31 December	**3,170,161**	**10,782**	**371,298**	**3,552,241**
Individual impairment	**2,779,379**	**7,788**	**370,623**	**3,157,790**
Collective impairment	**390,782**	**2,994**	**675**	**394,451**

The above table does not include the fair value adjustments on initial recognition of loans acquired from Laiki Bank and provisions for impairment on financial guarantees and commitments which are part of 'Accruals, deferred income and other liabilities' (Note 34).

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

At 31 December 2017 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is c.34% (2016: average of 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 timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average 6 years (2016: average of 3 years except for customers in Debt Recovery, average of 6 years).

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

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

The above assumptions are also influenced by the ongoing regulatory dialogue 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.

44. 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 2017. The impact on the provisions for impairment of loans and advances is presented below:

	Increase/(decrease) on provisions for impairment of loans and advances
Change in provisions assumptions:	**€000**
Increase the timing of recovery from collaterals by 1 year for all customers	120,700
Decrease the timing of recovery from collaterals by 1 year for all customers	(121,875)
Increase haircuts by 5% on all customers	179,447
Decrease haircuts by 5% on all customers	(169,291)
Increase the average expected recovery period by 1 year and decrease of haircuts by 5% on all customers	(47,199)
Decrease the average expected recovery period by 1 year and increase haircuts by 5% on all customers	59,748

Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2017 and 2016 by taking possession of collateral held as security, was as follows:

	2017	2016
	€000	€000
Residential property	**77,932**	85,171
Commercial and other property	**444,536**	1,000,533
	522,468	1,085,704

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 2017 amounted to €1,611,091 thousand (2016: €1,395,127 thousand including an amount of €3,072 thousand relating to commercial and other property which were classified as held for sale).

The disposals of repossessed assets during 2017 amounted to €247,030 thousand (2016: €129,002 thousand).

44. Risk management – Credit risk (continued)

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 restructuring solutions, which are suitable for the borrower and acceptable for the Group.

Short-term restructuring solutions are defined as restructured repayment solutions of duration of less than two years. In the case of loans for the construction of commercial property and project finance, a short-term solution may not exceed one year.

Short-term restructuring solutions can include the following:

- Interest only: during a defined short-term period, only interest is paid on credit facilities and no principal repayment is made.
- Reduced payments: decrease of the amount of repayment instalments over a defined short-term period in order to accommodate the borrower's new cash flow position.
- Arrears and/or interest capitalisation: the capitalisation of arrears and/or of accrued interest arrears to the principal; that is forbearance of the arrears and addition of any unpaid interest to the outstanding principal balance for repayment under a rescheduled program.
- Grace period: an agreement allowing the borrower a defined delay in fulfilling the repayment obligations usually with regard to the principal.

44. Risk management – Credit risk (continued)

Forbearance (continued)

Long-term restructuring solutions can include the following:

- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Discounted Sale (Sale by agreement/assisted sale): when the Company and the borrower agree to voluntarily dispose of the secured asset(s) to partially or fully repay the debt.
- 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.
- Conversion of currency: the aim should be to align the currency of the debt to the currency of the cash flows.
- Alteration of contract conditions/covenants: when the Company discharges the borrower of covenants or conditions included in a loan agreement.
- 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/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.
- Partial or total debt forgiveness: this corresponds to the Company forfeiting the right to legally recover 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.
- Debt forgiveness (write-off) and restructuring: this corresponds to the Company forfeiting the right to legally recover part of the amount of debt outstanding by the borrower.
- Rollover: consists of modifying the maturity date, providing for the same interest for the extended period of time granted for repayment.
- 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.
- 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.

In addition, the following solutions can be used:

a) 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.
b) Capture surplus cash: aims at securing cash flows, which may currently not be unencumbered and/or not pledged by the Bank. Surplus cash may be obtained, for example, from higher cash flows from operations, as well as from disposal of collaterals, or unencumbered assets.

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.

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

2017	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	€000	**€000**
1 January	7,401,870	337	83,893	90,323	78,881	**7,655,304**
New loans and advances rescheduled in the year	402,521	-	-	89	3,424	**406,034**
Assets no longer classified as rescheduled (including repayments)	(1,326,918)	-	(7,998)	(79,147)	(52,034)	**(1,466,097)**
Applied in writing off rescheduled loans and advances	(461,468)	-	-	(2)	(13,076)	**(474,546)**
Interest accrued on rescheduled loans and advances	278,858	1	-	16	1,381	**280,256**
Foreign exchange adjustments	(21,917)	-	(5,300)	(1,393)	(327)	**(28,937)**
31 December	**6,272,946**	**338**	**70,595**	**9,886**	**18,249**	**6,372,014**
2016						
1 January	8,391,624	24,865	138,376	116,232	119,185	**8,790,282**
New loans and advances rescheduled in the year	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**

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 ECB Guidance to Banks on Non-Performing Loans.

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

2017	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	€000	**€000**
Neither past due nor impaired	3,158,894	-	-	5,383	79	**3,164,356**
Past due but not impaired	1,218,160	-	-	2,354	-	**1,220,514**
Impaired	1,895,892	338	70,595	2,149	18,170	**1,987,144**
	6,272,946	**338**	**70,595**	**9,886**	**18,249**	**6,372,014**
2016						
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**

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Fair value of collateral

2017	Cyprus	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
Neither past due nor impaired	2,818,937	-	5,345	93	**2,824,375**
Past due but not impaired	1,020,063	-	2,353	-	**1,022,416**
Impaired	1,437,734	14,500	1,131	9,948	**1,463,313**
	5,276,734	**14,500**	**8,829**	**10,041**	**5,310,104**
2016					
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**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

2017	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
By economic activity	€000	€000	€000	€000	€000	**€000**
Trade	607,700	-	31,237	445	713	**640,095**
Manufacturing	201,377	-	12,314	44	122	**213,857**
Hotels and catering	429,520	-	-	2,242	-	**431,762**
Construction	1,222,591	-	8,212	-	11,933	**1,242,736**
Real estate	862,508	-	-	4,837	5,401	**872,746**
Private individuals	2,221,465	-	-	1,593	-	**2,223,058**
Professional and other services	359,970	-	18,832	725	80	**379,607**
Other sectors	367,815	338	-	-	-	**368,153**
	6,272,946	**338**	**70,595**	**9,886**	**18,249**	**6,372,014**
By customer sector						
Corporate	2,923,699	338	65,925	3,867	18,249	**3,012,078**
SMEs	1,310,652	-	4,670	4,549	-	**1,319,871**
Retail						
- housing	1,430,760	-	-	-	-	**1,430,760**
- consumer, credit cards and other	552,908	-	-	1,470	-	**554,378**
International banking services	53,103	-	-	-	-	**53,103**
Wealth management	1,824	-	-	-	-	**1,824**
	6,272,946	**338**	**70,595**	**9,886**	**18,249**	**6,372,014**

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2017	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
By business line	€000	€000	€000	€000	€000	**€000**
Corporate	795,714	338	65,925	3,867	14,637	**880,481**
SMEs	344,957	-	4,670	4,549	-	**354,176**
Retail						
- housing	958,415	-	-	-	-	**958,415**
- consumer, credit cards and other	290,308	-	-	1,470	-	**291,778**
Restructuring						
- major corporate	934,096	-	-	-	79	**934,175**
- corporate	624,602	-	-	-	-	**624,602**
- SMEs	739,537	-	-	-	-	**739,537**
- retail housing	301,111	-	-	-	-	**301,111**
- retail other	122,749	-	-	-	-	**122,749**
Recoveries						
- corporate	569,287	-	-	-	3,533	**572,820**
- SMEs	226,158	-	-	-	-	**226,158**
- retail housing	171,234	-	-	-	-	**171,234**
- retail other	139,851	-	-	-	-	**139,851**
International banking services	53,103	-	-	-	-	**53,103**
Wealth management	1,824	-	-	-	-	**1,824**
	6,272,946	**338**	**70,595**	**9,886**	**18,249**	**6,372,014**

44. 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 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**

44. 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**

44. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

2017	Cyprus	Greece	Russia	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	€000	**€000**
Individual impairment	797,975	338	56,094	1,054	10,078	**865,539**
Collective impairment	594,075	-	-	242	-	**594,317**
	1,392,050	**338**	**56,094**	**1,296**	**10,078**	**1,459,856**
2016						
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**

44. 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 Investors Service rating as follows:

	2017	2016
	€000	€000
Aaa – Aa3	**745,330**	785,002
A1 – A3	**560,059**	249,693
Baa1 – Baa3	**132,610**	41,860
Ba1 – Ba3	**2,870,600**	37,067
B1 – B3	**655**	1,137,717
Caa - C	**18,399**	14,410
Unrated	**58,406**	154,805
Other receivables from banks	**56,603**	41,085
	4,442,662	2,461,639

Band Ba1-Ba3 above includes an amount of €152,538 thousand which mainly relates to obligatory deposits for liquidity purposes with the CBC. As at 31 December 2017, bank balances with carrying value of €33,004 thousand are impaired (2016: €78,725 thousand), with cumulative impairment loss of €24,998 thousand (2016: €55,655 thousand).

44. 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 Investors Service rating, their issuer and classification, as follows:

	2017	2016
	€000	€000
Aaa – Aa3	**437,857**	349,565
Baa1 – Baa3	**12,306**	12,507
Ba1– Ba3	**500,265**	-
B1 – B3	**-**	257,495
Caa – C	**-**	1
Unrated	**500**	-
	950,928	619,568
Issued by:		
- Cyprus government	**500,265**	257,496
- other governments	**304,441**	329,211
- banks and other corporations	**146,222**	32,861
	950,928	619,568
Classified as:		
- trading investments	**536**	476
- investments at fair value through profit or loss	**-**	10,426
- available-for-sale investments	**901,734**	540,592
- investments classified as loans and receivables	**48,658**	68,074
	950,928	619,568

45. 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 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.

Interest rate risk is managed through a Year 1 Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Group capital and as a percentage of the net interest income (when positive) and are allocated to the various banking units of the Group. In the case of Cyprus, there are different limits for Euro and foreign currencies.

Sensitivity analysis
The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible parallel changes in the interest rates of the main currencies:

	Euro	**US Dollar**	**British Pound**	**Other currencies**	**Total**
Parallel change in interest rates ((increase)/decrease in net interest income)	**€000**	**€000**	**€000**	**€000**	**€000**
2017					
+1.6% for Russian Rouble +0.6% for Euro, US Dollar and British Pound +0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	**24,280**	**190**	**13,720**	**605**	**38,795**
-1.7% for Russian Rouble -0.6% for Euro, US Dollar and British Pound -0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other currencies	**(28,459)**	**(1,428)**	**(2,749)**	**(1,333)**	**(33,969)**
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)

45. 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**
2017		
+0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	**364**	**(3,155)**
-0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other currencies	**(364)**	**3,155**
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

45. Risk management – Market risk (continued)

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.

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.

2017	Change in foreign exchange rate	Impact on profit/loss after tax	Impact on equity
	%	€000	€000
US Dollar	+10	1,110	-
Russian Rouble	+25	2,714	22,323
Romanian Lei	+10	(419)	(407)
Swiss Franc	+20	3,803	-
British Pound	+20	868	(34,079)
Japanese Yen	+10	195	-
Other currencies	+10	(18)	-
US Dollar	-10	(908)	-
Russian Rouble	-25	(1,628)	(13,394)
Romanian Lei	-10	343	333
Swiss Franc	-20	(2,535)	-
British Pound	-20	(578)	22,719
Japanese Yen	-10	(160)	-
Other currencies	-10	14	-

45. Risk management – Market risk (continued)

Currency risk (continued)

2016	Change in foreign exchange rate	Impact on profit/loss 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)	-

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.

45. Risk management – Market risk (continued)

Price risk (continued)

Equity securities price risk (continued)

2017	**Change in index**	**Impact on profit/loss before tax**	**Impact on equity**
	%	**€000**	**€000**
Cyprus stock exchange	**+25**	**1,477**	**1,288**
Athens exchange	**+25**	**-**	**99**
Other stock exchanges and non listed	**+20**	**1,144**	**4,206**
Cyprus stock exchange	**-25**	**(1,483)**	**(1,282)**
Athens exchange	**-25**	**(5)**	**(93)**
Other stock exchanges and non listed	**-20**	**(1,390)**	**(3,960)**
2016			
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)

Debt securities price risk
Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 31 December 2017 was Baa1 (2016: Baa1). The average rating excluding the Cyprus Government bonds for 31 December 2017 was Aa1 (2016: Aa2).

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.

45. 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**
2017		
+3% for A3 and above rated bonds	**1,385**	**13,038**
+10% for below A3 rated bonds	**607**	**45,667**
-3% for A3 and above rated bonds	**(1,385)**	**(13,038)**
-10% for below A3 rated bonds	**(607)**	**(45,667)**
2016		
+6.5%	2,861	34,776
-6.5%	(2,861)	(34,776)

46. 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.

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. Bank of Cyprus UK Ltd ALCO is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies and regulatory requirements.

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. Every unit is responsible for managing its liquidity and targets to finance its own needs. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

46. Risk management – Liquidity risk and funding (continued)

Management and structure (continued)

Liquidity is also monitored daily by Market Risk, which is an independent department responsible to monitor compliance at the level of individual units, as well as at Group level, with both internal policies and limits, and with the limits set by the regulatory authorities in the countries where the Group operates. Market Risk reports to ALCO the regulatory liquidity position of the various units of the Group, at least monthly. It also provides the results of various stress tests to ALCO at least quarterly.

Liquidity is monitored and managed on an ongoing basis through:

(i) Risk appetite: established Group Risk Appetite together with the appropriate limits for the management of all risks including liquidity risk.
(ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework, limits and stress test assumptions.
(iii) Liquidity limits: a number of internal and regulatory limits are monitored on a daily, monthly and quarterly basis. Where applicable, a traffic light system (RAG) has been introduced for the ratios, in order to raise flags when the ratios deteriorate.
(iv) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Group. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions.
(v) Liquidity Contingency Plan: maintenance of a Liquidity Contingency Plan (LCP) which is designed to provide a framework where a liquidity stress could be effectively managed. The LCP provides a communication plan and includes management actions to respond to liquidity stresses.
(vi) Recovery Plan: the Group has developed a Recovery Plan (RP). The key objectives of the RP are to set the key Recovery and Early Warning indicators so as to monitor these consistently and to set in advance a range or recovery options to enable the Group to be adequately prepared to respond to stressed conditions and restore the Group's position.

Monitoring process

Daily

The daily monitoring of 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: 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 eligible unencumbered/available bonds. Most of these are High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible bonds and excludes domestic issues of Cyprus Government 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 also discloses the level of liquidity ratios which is submitted to the CBC.

46. Risk management – Liquidity risk and funding (continued)

Monitoring process (continued)

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.

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 and the Group, data on monthly customer flows, as well as other important developments related to liquidity.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and the Board Risk Committee quarterly. Moreover, Market Risk reports the NSFR, Leverage Ratio to the CBC/ECB quarterly and various other liquidity reports, included in the short-term exercise of the SSM per the SREP guidelines.

Annually
The Group prepares on an annual basis its report on ILAAP.

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group LCP for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this Committee and a series of the possible actions that can be taken. This LCP, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated Liquidity Policy with its recommendations to the Board through the Board Risk Committee for approval. The approved Liquidity Policy is notified to the SSM.

Liquidity ratios

The Group LCR presented in the table below, is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. During 2017 the minimum requirement was 80% and increased to 100% on 1 January 2018.

The Group LCR is calculated monthly by Market Risk and sent to CBC/ECB 15 days after the month end. Following ELA repayment in January 2017, the Company has been concentrating its efforts in increasing liquid assets and thus improving its LCR.

The Group's LCR ratio was as follows:

	2017	2016
	%	%
End of reporting period	**190**	49
Average monthly ratio	**120**	5
Highest monthly ratio	**190**	49
Lowest monthly ratio	**58**	0

46. Risk management – Liquidity risk and funding (continued)

Liquidity ratios (continued)

As at 31 December 2017, the Group is in compliance with its regulatory liquidity requirement with respect to the LCR.

As at 31 December 2017, the Company was not in compliance with all of the local regulatory liquidity requirements (which were abolished on 1 January 2018 as per Article 412(5) of EU Regulation No 575/2013) with respect to its operations in Cyprus. More specifically, the Company was in compliance with the CBC EUR stock ratio and the CBC EUR 0-30 days mismatch ratio, but was not in compliance with the rest of the local regulatory liquidity requirements.

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR and which became effective on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applies stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR than the ones defined in the Commission Delegated Regulation (EU) 2015/61 as well as additional liquidity requirements in the form of outflow rates on other items that are not subject to any outflow rates as per the Regulation. The measure will be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones, and are applicable from 1 July 2018 until 31 December 2018. Specifically, there will be a reduction of 50% of the LCR add-on rates on 1 July 2018. The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macroprudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilised. As at 31 December 2017, the Group and the Company were in compliance with the LCR add-on implemented on 1 January 2018.

As at 31 December 2017 and 2016 Bank of Cyprus UK Ltd was in compliance with its regulatory liquidity requirements.

Main sources of funding

During the year 2017, the Group's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

ELA was fully repaid on 5 January 2017 (31 December 2016: €200 million).

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

The funding via Eurosystem monetary policy operations ranges from short term to long term.

As at 31 December 2017, ECB funding was at €930 million of which, €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note under the Company's EMTN Programme. Further information is disclosed in Note 33.

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. 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.

46. Risk management – Liquidity risk and funding (continued)

Collateral requirements

The carrying values of the Group's encumbered assets as at 31 December 2017 and 2016 are summarised below:

	2017	2016
	€000	€000
Cash and other liquid assets	**120,525**	139,975
Investments	**317,167**	359,813
Loans and advances	**3,137,586**	2,853,511
Property	**-**	93,574
	3,575,278	3,446,873

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 2017 and 2016 are mainly used as collateral for funding from the Central Banks (ECB, CBC and Bank of England), the covered bond and government deposits.

As at 31 December 2017 no loans and advances to customers or property were pledged as collateral for ELA (2016: €787 million). Loans and advances to customers include mortgage loans of a nominal amount €1,001 million (2016: €1,002 million) in Cyprus, pledged as collateral for the covered bond issued by the Company in 2011 under the Covered Bond Programme. Furthermore housing loans of a nominal amount €1,273 million (2016: €765 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 30). At 31 December 2017, loans of a nominal amount of €715 million in Cyprus are pledged as collateral for deposits of the Republic of Cyprus (2016: nil).

At 31 December 2017 the Company's subsidiary Bank of Cyprus UK Ltd has pledged €161 million (2016: €244 million) of loans and advances to customers with the Funding for Lending Scheme (FLS) of the Bank of England. As at 31 December 2017 the subsidiary had drawn down Treasury bills of €82 million (2016: €29 million) under the FLS. These Treasury bills are not recorded on the consolidated balance sheet as ownership remains with the Bank of England.

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 Covered Bond Programme, the Company has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. The covered bonds have a maturity date of 12 December 2018, bear interest of 3 months Euribor plus 3.25% on a quarterly basis and are traded on the Luxemburg Bourse. The covered bonds have a Conditional Pass-Through structure. All the bonds are held by the Company. The credit rating of the covered bonds was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB does not include Cyprus Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations.

46. Risk management – Liquidity risk and funding (continued)

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.

Subordinated loan stock is classified in the relevant time band according to the remaining contractual maturity, ignoring the call date.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

Derivative financial instruments
Derivative financial instruments were classified according to whether the settlement of cash flows occurs on a net or gross basis.

For net settled derivatives, after offset of receivable and payable amounts, the fair value of the derivatives is included in financial assets or in financial liabilities in the time band corresponding to the remaining maturity of the derivative.

Gross settled derivatives or net settled derivatives that are hedging instruments in cash flow hedges are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

Commitments and contingent liabilities
The limits of loans and advances are commitments to provide credit to customers. The limits are granted for predetermined periods and can be cancelled by the Group after giving relevant notice to the customers. Usually the customers do not fully utilise the limits granted to them.

2017	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	3,321,403	29,667	34,371	8,493	-	**3,393,934**
Loans and advances to banks	1,053,565	4,775	3,573	110,476	20,244	**1,192,633**
Investments at fair value through profit or loss	46,389	4,541	-	47	490	**51,467**
Loans and advances to customers	4,273,947	269,251	852,799	3,933,785	5,272,672	**14,602,454**
Fair value of net settled derivative assets	1,414	69	11	16,369	164	**18,027**
Non-trading investments	20,464	-	10,480	609,319	337,692	**977,955**
Other assets	26,618	13,420	7,821	53,864	6,152	**107,875**
Total financial assets	**8,743,800**	**321,723**	**909,055**	**4,732,353**	**5,637,414**	**20,344,345**
Financial liabilities						
Deposits by banks	196,211	140,361	26,145	460	141,554	**504,731**
Funding from central banks	100,000	-	-	830,000	-	**930,000**
Repurchase agreements	-	-	-	267,524	10,908	**278,432**
Customer deposits	9,595,352	3,173,297	4,530,788	641,855	5,320	**17,946,612**
Subordinated loan stock	23,125	-	-	126,303	362,125	**511,553**
Fair value of net settled derivative liabilities	14,039	992	252	23,789	11,898	**50,970**
Other liabilities	87,659	16,666	29,929	4,820	2,410	**141,484**
Total undiscounted financial liabilities	**10,016,386**	**3,331,316**	**4,587,114**	**1,894,751**	**534,215**	**20,363,782**

46. 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**
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**

46. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2017	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	403,689	6,552	1,966	-	-	**412,207**
Contractual amounts payable	(402,221)	(6,465)	(1,956)	-	-	**(410,642)**
	1,468	**87**	**10**	**-**	**-**	**1,565**
Financial liabilities						
Contractual amounts receivable	919,721	181,629	1,106	-	-	**1,102,456**
Contractual amounts payable	(933,009)	(182,582)	(1,107)	-	-	**(1,116,698)**
	(13,288)	**(953)**	**(1)**	**-**	**-**	**(14,242)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2,849	4,155	1,363	-	-	**8,367**
Guarantees	132,897	134,166	242,944	167,153	91,005	**768,165**
Commitments						
Documentary credits	3,382	5,447	17,931	505	2,365	**29,630**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,215,856	17,322	-	-	-	**2,233,178**
	2,354,984	**161,090**	**262,238**	**167,658**	**93,370**	**3,039,340**

46. 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**

47. 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 of the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

The most significant risks relating to accident and health insurance contracts result from lifestyle changes and from climate and environmental changes. The risks are mitigated by the careful use of strategic selection and risk-taking at the underwriting stage and by thorough investigation for possible fraudulent claims.

The Group uses an analysis based on its embedded value which provides a comprehensive framework for the evaluation and management of risks faced, the understanding of earnings volatility and operational planning. The table below shows the sensitivity of the embedded value to assumption changes that substantially affect the results.

	2017	2016
Change in embedded value	**€000**	€000
Change in interest rates +0.25%	**271**	84
Change in expenses +10%	**(2,014)**	(2,482)
Change in lapsation rates +10%	**(1,069)**	(690)
Change in mortality rates +10%	**(6,272)**	(6,519)

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.

47. 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
General insurance business is concentrated in Cyprus and the main claims during 2017 and 2016 related to fire and natural forces and other damage to property, motor vehicle liability and general liability.

Risks under these policies are usually covered for a period of 12 months, with the exception of the goods in transit class that covers shorter periods and the contractors all risks class that covers longer periods.

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

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

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

The risk of a general insurance contract occurs from the uncertainty of the amount and time of presentation of the claim. Therefore the level of risk is determined by the frequency of such claims, the severity and the evolution of claims from one period to the next.

The main risks for the general insurance business arise from major catastrophic events like natural disasters. These risks vary depending on location, type and nature. The variability of risks is mitigated by the diversification of risk of loss to a large portfolio of insurance contracts, as a more diversified portfolio is less likely to be affected by changes in any subset of the portfolio. The Group's exposure to insurance risks from general insurance contracts is also mitigated by the following measures: adherence to strict underwriting policies, strict review of all claims occurring, immediate review and processing of claims to minimise the possibility of negative developments in the future, and use of effective reinsurance arrangements in order to minimise the impact of risks, especially for catastrophic events.

48. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

The Group follows the EU Regulations, primarily the CRR and CRD IV and any other decisions or circulars issued by the regulators, ECB and CBC with respect to the capital adequacy calculations.

The Group and the Company have complied with the minimum capital requirements (Pillar I and Pillar II).

The overseas banking subsidiary, Bank of Cyprus UK Ltd, complies with the minimum regulatory capital requirements including those set by the local regulator in the UK. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratios. 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 Bank of Cyprus Holdings Public Limited Company 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).

49. Related party transactions

	2017	2016	**2017**	2016
	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**	10	**265**	314
	10	10	**265**	314
Loans and advances to other key management personnel and connected persons			**2,885**	2,955
Total loans and advances as at 31 December			**3,150**	3,269
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**2,736**	2,811
- connected persons			**414**	458
			3,150	3,269
Interest income for the year			**85**	112
Insurance premium income for the year			**112**	107
Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**2,737**	2,981
- connected persons			**3,088**	3,559
			5,825	6,540
Interest expense on deposits for the year			**64**	69
Accruals and other liabilities as at 31 December:				
- balances with entity providing key management personnel services			**6,217**	3,101
Staff costs, consultancy and restructuring expenses			**17,627**	11,992

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 €76 thousand (2016: €61 thousand). As at 31 December 2017 and 2016, 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 €431 thousand (2016: €385 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 their connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2017 amounted to €663 thousand (2016: €635 thousand).

49. Related party transactions (continued)

At 31 December 2017 the Group has a deposit of €5,419 thousand (2016: €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.

At 31 December 2016 the Group had 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 amounted to €4,047 thousand. Mr Ross resigned from the Board of Directors of the Company on 1 March 2017.

During the year ended 31 December 2017 premiums of €32 thousand and claims of €17 thousand were paid between the members of the Board of Directors of the Company and their connected persons and the insurance subsidiaries of the Group and commissions amounting to €10 thousand were received by the Group for the provision of investment services.

Additionally, during the year ended 31 December 2017, the Company has signed an agreement to rent property owned by connected persons to the director Mr Michalis Spanos covering the period from 1 June 2017 to 31 May 2027. The monthly rental expense amounts to €4 thousand commencing from June 2018.

There were no other transactions during the years ended 31 December 2017 and 2016 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 on the same terms as those applicable to the rest of the Group's employees and their connected persons on the same terms as those of customers.

Fees and emoluments of members of the Board of Directors and other key management personnel

	2017	2016
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**2,300**	1,848
Employer's contributions	**91**	110
Retirement benefit plan costs	**202**	168
	2,593	2,126
Non-executives		
Fees	**-**	861
Total directors' emoluments	**2,593**	2,987
Other key management personnel emoluments		
Salaries and other short term benefits	**3,150**	3,144
Termination benefits	**-**	397
Employer's contributions	**202**	190
Retirement benefit plan costs	**189**	158
Total other key management personnel emoluments	**3,541**	3,889
Total	**6,134**	6,876

Fees and benefits are included for the period that they serve as members of the Board of Directors.

49. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

The retirement benefit plan costs relate to contributions paid for defined contribution plan.

The termination benefits relate to compensation paid to members of the Executive Committee who left the Group under the voluntary exit plan.

Executive Directors
The salaries and other short term benefits of the Executive Directors are analysed as follows:

	2017	2016
	€000	€000
John Patrick Hourican (Chief Executive Officer)	**2,104**	1,652
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	**196**	196
	2,300	1,848

The retirement benefit plan costs for 2017 amounting to €202 thousand (2016: €168 thousand) relate to: Mr John Patrick Hourican €184 thousand (2016: €150 thousand) and Dr Christodoulos Patsalides €18 thousand (2016: €18 thousand).

Non-executive Directors

	2017	2016
	€000	€000
Josef Ackermann	**-**	150
Wilbur L. Ross Jr.	**-**	120
Arne Berggren	**-**	115
Maksim Goldman	**-**	120
Michalis Spanos	**-**	100
Ioannis Zographakis	**-**	115
Marios Kalochoritis	**-**	90
Michael Heger	**-**	51
Lyn Grobler	**-**	-
Anat Bar-Gera	**-**	-
	-	861

Following the introduction of Bank of Cyprus Holdings Public Limited Company as the holding company of the Group, director fees are reflected as an expense of the holding company and as a result no director fees are disclosed in the table above. However, these are recharged by the holding company back to the Company and the recharge cost is included within 'Other operating expenses'.

For the year 2016, 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. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel (continued)

Year end balances

As at 31 December 2017 an amount of €143 thousand is payable by the Company to its parent company Bank of Cyprus Holdings Public Limited Company and is disclosed within customer deposits. This was granted on normal business terms.

50. 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 2017 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	100
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
LCP Holdings and Investments Public 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
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
Bank of Cyprus Financial Services Ltd (formerly BOC Financial Services Ltd)	United Kingdom	Financial advisory services	100
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	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

50. Group companies (continued)

In addition to the above companies, at 31 December 2017 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, 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, 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, Kernland Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Melsolia 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, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Citlali Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Camela Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozy Properties Ltd, Palmco Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lasmane Properties Ltd, Lorman 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, Artozaco Properties Ltd, Elizano Properties Ltd, Letimo Properties Ltd (previously K. Athienitis Kalamon Ltd), Allodica Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Carnota Properties Ltd, Desogus Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Nelipo Properties Ltd, Paradexia Properties Ltd, Paramina Properties Ltd, Prosilia Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Barway Properties Ltd, Cimonia Properties Ltd, Coeval Properties Ltd, Comenal Properties Ltd, Demoro Properties Ltd, Elosis Properties Ltd, Fastflow Properties Ltd, Finacap Properties Ltd, Finevo Properties Ltd, Ganina Properties Ltd, Nicosia Mall Property (NMP) Ltd (previously Gileco Properties Ltd), Intelamon Properties Ltd, Jomento Properties Ltd, Kenelyne Properties Ltd, Lancast Properties Ltd, Mazima Properties Ltd, Nesia Properties Ltd, Nigora Properties Ltd, Nivoco Properties Ltd, Pariza Properties Ltd, Primaco Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Unoplan Properties Ltd, Venetolio Properties Ltd and Zandexo Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Romaland Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2017 the Company had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd, 51% shareholding in Nicosia Mall Management (NMM) Limited (previously Devoco Properties Limited), Nicosia Mall Finance (NMF) Limited (previously Harimo Properties Limited) and Nicosia Mall Holdings (NMH) Limited (previously NCMH Nicosia City Mall Holdings Limited) whose main activities are the holding of shares and other investments and the provision of services.

50. Group companies (continued)

At 31 December 2017 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Belvesi Properties Ltd, Tavoni Properties Ltd, Amary Properties Ltd, Hamura Properties Ltd, Meriaco Properties Ltd, Flymoon Properties Ltd, Holstone Properties Ltd, Alepar Properties Ltd, Calandomo Properties Ltd, Cramonco Properties Ltd, Bigwaive Properties Ltd, Monata Properties Ltd, Valecast Properties Ltd, Legamon Properties Ltd, Teresan Properties Ltd, Aktilo Properties Ltd, Alezia Properties Ltd, Aparno Properties Ltd, Arleta Properties Ltd, Asendo Properties Ltd, Azemo Properties Ltd, Domilas Properties Ltd, Dorfilo Properties Ltd, Enelo Properties Ltd, Gylito Properties Ltd, Kuvena Properties Ltd, Lamezoco Properties Ltd, Mikosa Properties Ltd, Noleta Properties Ltd, Nuca Properties Ltd, Odolo Properties Ltd, Orleania Properties Ltd, Prodino Properties Ltd, Racotino Properties Ltd, Ravenica Properties Ltd, Rondemio Properties Ltd, Rouena Properties Ltd, Rylico Properties Ltd, Sailoma Properties Ltd, Stormino Properties Ltd, Tolmeco Properties Ltd, Vatino Properties Ltd, Virero Properties Ltd, Volparo Properties Ltd, Wiceco Properties Ltd and Zedoma Properties Ltd.

Romania: 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, 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, Landanafield Properties Ltd and Hydrobius Properties Ltd.

The Company 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, Renalandia Properties Ltd, Sylvesta Properties Ltd, Crolandia Properties Ltd, Iperi Properties Ltd, Finerose Properties Ltd and Fantasio Properties Ltd.

Greece: Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

Romania: Frozenport Properties SRL, Loneland Properties SRL and Melgred Properties SRL.

All Group companies are accounted for as subsidiaries using the full consolidation method.

Control over CLR Investment Fund Public Ltd (CLR) and its subsidiaries without substantial shareholding

The Group considers that it exercises control over CLR and its subsidiaries (Europrofit Capital Investors Public Limited, Axxel Ventures Limited and CLR Private Equity Limited) through control of the members of the Board of Directors and is exposed to variable returns through its holding.

50. Group companies (continued)

Dissolution and disposal of subsidiaries

As at 31 December 2017, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, BOC Ventures Ltd, Salecom Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC, Unknownplan Properties SRL, Bank of Cyprus (Channel Islands) Ltd, Buchuland Properties SRL, Janoland Properties SRL, Mirodi Properties SRL, Nallora Properties SRL, Pittsburg Properties SRL and Blindingqueen Properties SRL.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania are expected to be terminated, subject to the completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to other entities of the Group.

Longtail Properties Ltd, Kyprou Securities SA and Tefkros Investments Ltd were dissolved during the year ended 31 December 2017. Moonland Properties Ltd, Lepidoland Properties Ltd, Danoma Properties Ltd, Metin Properties Ltd, Jemina Properties Ltd, Flitous Properties Ltd, Belzeco Properties Ltd, Landeed Properties Ltd, Nabela Properties Ltd, Singleserve Properties Ltd, Consento Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd, Balisimo Properties Ltd, Tezia Properties Ltd, Fireford Properties Ltd, Conemia Properties Ltd, Endar Properties Ltd, Valiro Properties Ltd, Nimoland Properties Ltd, Pekiro Properties Ltd, Nerofarm Properties Ltd, Orasmo Properties Ltd, Unduma Properties Ltd, Silen Properties Ltd, Cavadino Properties Ltd, Avolo Properties Ltd, Vidalaco Properties Ltd, Warmbaths Properties Ltd, Bothwick Properties Ltd, Caruzoco Properties Ltd, Threerich Properties Ltd, Hotel New Montana SRL, Commonland Properties SRL and Fledgego Properties SRL were disposed of during the year ended 31 December 2017 as part of the Group's strategy to dispose of repossessed properties.

51. Acquisitions and disposals

51.1 Acquisitions during 2017

51.1.1 Acquisition of Nicosia Mall Holdings (NMH) Limited

In the context of the loan restructuring activities, the Group acquired on 28 September 2017 a 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Nicosia Mall Holdings (NMH) Limited is involved in the construction of the Nicosia Mall. The consideration for the acquisition of 51% share in Nicosia Mall Holdings (NMH) Limited amounts to €7,500 thousand which was used to reduce part of the outstanding facilities and therefore the acquisition did not include any cash consideration. The transaction was considered as an acquisition of an asset and was not treated as a business combination since the Group obtained control of an input without any process, therefore no goodwill or gain on bargain was recognised. The Company has control over Nicosia Mall Holdings (NMH) Limited.

The non-controlling interest is measured at the proportionate share of the identifiable net assets acquired.

The fair value of assets and liabilities of Nicosia Mall Holdings (NMH) Limited at the date of acquisition are presented below:

Assets	**€000**
Loans and advances to banks	**4,011**
Stock of property	**52,758**
	56,769
Liabilities	
Deposits by banks	**56,769**
Net identifiable assets acquired	**-**

No cash and cash equivalents were acquired.

51. Acquisitions and disposals (continued)

51.2 Disposals during 2017

There were no material disposals during the year ended 31 December 2017.

51.3 Acquisitions during 2016

51.3.1 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.

51.3.2 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. 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 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.

51. Acquisitions and disposals (continued)

51.4 Disposal during 2016

51.4.1 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.

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).

52. Investments in associates and joint ventures

Carrying value of the investments in associates and joint ventures

	Percentage holdings (%)	**2017**	2016
		€000	€000
CNP Cyprus Insurance Holdings Ltd	**49.9**	**115,770**	107,172
Interfund Investments Plc	**23.1**	**2,343**	2,167
Aris Capital Management LLC	**30.0**	**-**	-
Rosequeens Properties Limited	**33.3**	**-**	-
Rosequeens Properties SRL	**33.3**	**-**	-
Tsiros (Agios Tychon) Ltd	**50.0**	**-**	-
M.S. (Skyra) Vassas Ltd	**15.0**	**-**	-
D.J. Karapatakis & Sons Limited	**7.5**	**-**	-
Rodhagate Entertainment Ltd	**7.5**	**-**	-
Fairways Automotive Holdings Ltd	**45.0**	**-**	-
		118,113	109,339

52. Investments in associates and joint ventures (continued)

Share of pre-tax profit/(loss) from associates and joint ventures

	2017	2016
	€000	€000
CNP Cyprus Insurance Holdings Ltd	8,781	8,228
Interfund Investments Plc	176	(34)
	8,957	8,194

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:

	2017	2016
	€000	€000
Total assets	707,796	696,005
Total liabilities	(475,794)	(481,234)
Net assets, including value of in-force business	232,002	214,771

CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €19,547 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	2017	2016
	€000	€000
Dividend income	774	6,621
Interest expense paid by the Group	139	197
Other expenses paid by the Group	92	92

52. Investments in associates and joint ventures (continued)

Investments in associates (continued)

Interfund Investments Plc
The Group has a 23.1% 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 €1,804 thousand (2016: €1,399 thousand).

During the years 2017 and 2016 there were no material transactions between the Group and the associate.

Rosequeens Properties Limited and Rosequeens Properties SRL
The Group effectively owns 33.3% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after 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 2017 and 2016 had nil accounting value as the net assets of the associate had a negative balance.

Aris Capital Management LLC
The Group's holding in Aris Capital Management LLC of 30.0% was transferred to the Group following the acquisition of certain operations of Laiki Bank. During previous years, the Group has recognised an impairment loss of €2,078 thousand. During the years 2017 and 2016, there were no material balances or transactions between the Group and the associate.

M.S. (Skyra) Vassas Ltd
During the year ended 31 December 2016, in the context of its loan restructuring activities, the Group acquired a 15.0% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Group considers that it exercises significant influence over the Skyra Vassas group as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd
During the year ended 31 December 2016, in the context of its loan restructuring activities, the Group acquired a 7.5% interest in the share capital of D.J. Karapatakis & Sons 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 ended 31 December 2016, in the context of its loan restructuring activities, the Group acquired a 45.0% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Group considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

Investment in joint venture

Tsiros (Agios Tychon) Ltd
The Group holds a 50.0% shareholding in Tsiros (Agios Tychon) Ltd. The shareholder agreement with the other shareholder of Tsiros (Agios Tychon) Ltd stipulates a number of matters which require consent by both shareholders, therefore the Group considers that it jointly controls the company. The carrying value of Tsiros (Ayios Tychon) Ltd is restricted to zero.

The percentage holdings are in ordinary shares or membership interests.

53. 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 2017:

Country	Total operating income/(expense)	Average number of employees	(Loss)/profit before tax	Accounting tax expense on (loss)/profit	Corporation tax paid/(refunded)	Public subsidies received
	€000		€000	€000	€000	€000
Cyprus	854,714	4,034	(434,162)	5,196	2,376	-
Russia	459	5	(4,796)	1,593	1,593	-
United Kingdom	48,286	249	4,162	1,058	1,022	-
Romania	1,421	20	(11,169)	243	225	-
Greece	2,478	6	(31,542)	1,330	(10,924)	-
Netherlands	(8)	-	(137)	103	78	-
Total	**907,350**	**4,314**	**(477,644)**	**9,523**	**(5,630)**	**-**

The activities of Group companies by geographical area are disclosed in Note 50.

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

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 2017.

(Loss)/profit before tax: (Loss)/profit before tax represents (losses)/profits after the deduction of inter-segment revenues/(expenses).

Accounting tax expense on (loss)/profit: includes corporation tax and Cyprus special defence contribution. Deferred tax charge for the year is excluded from the above.
Corporation tax paid/(refunded): includes actual payments made during 2017 for corporation tax (including insurance premium taxes) and Cyprus special defence contribution.

Independent Auditor's Report

To the Members of Bank of Cyprus Public Company Ltd

Report on the Audit of 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 17 to 187, which comprise the consolidated balance sheet as at 31 December 2017, 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 accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for 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 remained independent of the Group throughout the period of our appointment 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 consolidated 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. 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 below, 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 consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment provision on loans and advances to customers including IFRS 9 transition	
As at 31 December 2017, gross loans and advances amounted to €18,086m and the related impairment provision amounted to €3,484m. The basis of the impairment provision policy is presented in the accounting policies and further analysed in Note 5.1 to the consolidated financial statements. Impairment provisions are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that meet the internal definition of significant. Management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the impairment provision for loans and advances. As loans and advances comprise a large portion of the Group's assets, and due to the significance of judgement used in estimating both the individual and collective provisions, this is considered to be a key audit matter. Refer to Note 44 to the consolidated financial statements. The Group is required under IAS 8 to disclose the impact of IFRS 9 adoption for accounting periods beginning on or after 1 January 2018. We consider this transition and disclosure to be a key audit	Impairment provisions recognised in respect of retail and commercial lending are determined by management using discounted cash flow assessments and modelling techniques that utilise customer data, historical loan performance, expected future performance and a variety of market assumptions. We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias: • The completeness and timing of recognition of loss events. • The measurement of individually assessed provisions, which is dependent on the valuation of collateral, the timing of cash flows and realisations. • The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default and recovery rates and the discounted cash flow assessments. In obtaining sufficient audit evidence we: • Reviewed design and operating effectiveness of key controls around the end-to-end process from classification and performance monitoring and calculation of impairment provisions to the final stages of approval governance and model validation, with consideration given to susceptibility of controls to management override. • Reviewed impairment methodology to establish model parameters and performed data integrity validation checks to ensure that the inputs

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matter because new models have been developed to calculate IFRS 9 impairment losses (see Note 2.3.1 to the consolidated financial statements) and judgement is required in a number of significant areas, in particular around the calculation of Expected Credit Loss.	employed by the Group's modelling tools in the calculation of provisions are correct. • Involved our credit risk specialists within the engagement team to test the assumptions and calculations of modelled collective provisions. 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. • For non-performing loans, we tested a sample of loan reviews and assessed the measurement of the provisions, involving our valuation specialists to value the collateral. We examined other cash flow assumptions where the level of provision is not dependent on collateral values. We also assessed the timing of estimated cash flows. • Evaluated and tested the key assumptions adopted by management. In respect of the disclosure of the impact of IFRS 9, we obtained an understanding of and evaluated management's process for the calculation of the transition adjustment including governance over the determination of key judgements. These included probability weighted macroeconomic scenarios, staging criteria and forward looking information. We also performed the following procedures: • Reviewed key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation. • Tested the key controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement. • Assessed the output of management's Classification & Measurement workstream for consistency with our understanding of the Group's business models.

	• With the assistance of our internal specialists, tested key IFRS 9 models developed by management where these were relevant to the calculation of the transition adjustment. We assessed the key assumptions and judgements made by management. • Reviewed management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018. • We assessed the disclosures made against the relevant accounting standards.
Legal and conduct provisions As at 31 December 2017, provision for litigation and conduct matters amounted to €133m. The accounting policy for provisions is described in Note 2.30 and further analysed in Note 5.11 to the consolidated financial statements. The Group, in the ordinary course of business, is subject to various legal claims, investigations and other proceedings. It also operates in a heavily regulated environment and needs to remain constantly alert to ensure compliance with relevant rules and regulations. Management reviews all existing and potential legal and conduct cases based on the assessment of the probability of economic outflow from the Group in conjunction with the internal compliance and legal departments. The recognition and measurement of provisions in respect of litigation, regulatory actions and customer remediation require a high level of judgement. Due to the risk that the provision for impending litigations and pending regulatory matters may be incomplete or	In relation to provision for pending litigation, audit focus was placed on the completeness of the exposures and the litigation provision identified by the Group and the probability of occurrence assigned to each case. In relation to the provision for conduct matters, audit focus was placed on the reliability and completeness of underlying customer data, assumptions incorporated within the provision valuations, and the completeness of the provisions recorded. In obtaining sufficient audit evidence we: • Obtained detailed assessment from the Group's internal legal department of potential outcomes for each individual case in excess of €200k. We ensured that this assessment was endorsed by the Group's external legal advisors in Cyprus and Greece. • Reviewed with the head of the internal legal department the list of existing and potential claims, the current progression of existing cases with a range of related outcome possibilities and the consequential exposure for the Group. • Reviewed lists of legal cases from each location and tested that sufficient provision has been recorded in the Group's records where the exposure is assessed as probable.

inappropriately provided for, and the difficulty in assessing and measuring the quantum from any resulting obligations, this is considered a key audit matter. Refer to Notes 34 and 39 to the consolidated financial statements.	• Reviewed the board of directors and other committee meeting minutes for evidence of any unidentified legal cases or developments in current cases which may impact the outcome. • Reviewed regulatory correspondence for the duration of the audit period and further inquired with the compliance department about known existing circumstances or possible non-compliance with any regulatory requirements. • Reviewed working files and results reports for the assessment of customer redress provisions, prepared by the Group's external advisors. We involved our internal specialists to assess the assumptions around response rates and consequential losses. • Assessed the disclosures made against the relevant accounting standards.
Going Concern As required by IFRSs, Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. The Directors have determined that the going concern principle is appropriate and that the Group is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. The Group at 31 December 2017 was not in compliance with all liquidity regulatory requirements with respect to its operations in Cyprus. This is no longer the case. However, important considerations affecting the going concern assumption remain relevant and as such this is considered to be a key audit matter.	Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient audit evidence we: • Read regulator correspondence for evidence of changes in the Group's capital and liquidity requirements. • Evaluated the progress made in relation to the funding position and compliance with minimum liquidity requirements. • Reviewed the Group's 3 year plan approved by the Board of Directors in December 2017. • Involved our internal valuation specialists to review and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating

Refer to Management Report and Note 3 to the consolidated financial statements.	environment in Cyprus and of the Group, the future strategy and the past performance. • Assessed whether the Group's disclosures in relation to going concern adequately reflected the risks and uncertainties inherent to the going concern assessment.
Recoverability of Deferred Tax Assets The Group has recognised deferred tax assets of €383m in respect of tax losses available to be carried forward to future years. The basis of the recognition is presented in the accounting policies and further analysed in Note 5.7 to the consolidated financial statements. The recoverability and carrying amount of the deferred tax assets require management judgement and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward. In light of the inherent uncertainty and significant amount of judgement and estimation required by management, we have considered future forecasts supporting the recognition of	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the profit projections such as macro-economic assumptions, business growth rates, cost reduction and restructuring initiatives. In obtaining sufficient audit evidence we: • Reviewed and tested the supporting calculations of the Group's initial 3 year plan which formed the basis of the extended projections until 2028. • Involved our internal valuation specialists to review and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Group, the future strategy and the past performance. • Compared the actual results with management profit projections and obtained explanations about significant variances to assess the accuracy of the forecasting process. • Assessed the disclosures made against the relevant accounting standards.

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deferred tax assets to be a key audit matter. Refer to Note 17 to the consolidated financial statements.	
Valuation of stock of property The Group has acquired a significant number of properties as a result of restructuring agreements with customers. As at 31 December 2017, the stock of properties amounted to €1,641m. The basis of the property valuation policy is presented in the accounting policies and further analysed in Note 5.10 to the consolidated financial statements. These properties are valued by the Group as stock of property in accordance with IAS 2. In light of the large volume of properties held and the uncertainty around market conditions when estimating the recoverable amount, we have considered the judgement based valuation inputs involved to be a key audit matter. Refer to Note 27 of the consolidated financial statements.	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the valuation of the properties held in accordance to IAS2. In obtaining sufficient audit evidence we: • Reviewed design and operating effectiveness of key controls around the end-to-end valuation process of stock of property. • Obtained management's assessment of the net realisable value ('NRV') and tested whether the lower of the cost and NRV is considered as the value of the inventory as at the reporting date, in accordance with IAS 2. • Obtained the valuation reports received by the Group from independent external valuers for a sample of properties and tested that the fair value used in the calculation of the NRV was in accordance with these valuations. • For a sample of external valuation reports reviewed we assessed the methodology and assumptions by involving our internal valuation specialists. • Compared disposal cost assumptions incorporated in the Group's calculation of the NRV to disposals that have occurred during the year. • Performed substantive analytical review procedures, categorising the properties by type and district and comparing the change in the value of each type of property and each district over the year to the changes in Royal Institute of Chartered Surveyors ('RICS') indices. • Assessed the disclosures made against the relevant accounting standards.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report.

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 and those charged with governance 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 judgement 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.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and period of engagement

We were first appointed as auditors of the Company on 18 December 1939 by the Company's Board of Directors. Our appointment has been renewed annually by shareholder resolution since then representing a total period of uninterrupted engagement appointment of 79 years.

Consistency of the additional report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 21 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Group and which have not been disclosed in the consolidated financial statements.

Other legal requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, 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 light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 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.

The engagement partner on the audit resulting in this independent auditor's report is Savvas Pentaris.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
26 March 2018

FINANCIAL STATEMENTS

Income Statement

for the year ended 31 December 2017

	Notes	**2017**	2016
		€000	€000
Turnover		**977,632**	1,181,934
Interest income	6	**767,239**	855,132
Interest expense	7	**(213,931)**	(192,781)
Net interest income		**553,308**	662,351
Fee and commission income	8	**171,201**	157,841
Fee and commission expense	8	**(9,991)**	(9,793)
Net foreign exchange gains	9	**43,342**	81,177
Dividend income from subsidiaries and associates	22	**29,884**	107,856
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries	10	**3,716**	34,802
Net (losses)/gains from revaluation and disposal of investment properties		**(1,596)**	3,987
Net gains on disposal of stock of property		**7,590**	399
Other income	11	**10,149**	7,097
		807,603	1,045,717
Staff costs	12	**(186,133)**	(250,411)
Special levy on deposits on credit institutions in Cyprus	13	**(22,846)**	(19,968)
Other operating expenses	13	**(253,742)**	(164,362)
		344,882	610,976
Gain on derecognition of loans and advances to customers and changes in expected cash flows		**173,443**	63,315
Provisions for impairment of loans and advances to customers and other customer credit losses	14	**(950,308)**	(423,626)
Impairment of other financial instruments	14	**(6,574)**	(45,965)
Impairment of non-financial instruments	14	**(94,125)**	(36,543)
(Loss)/profit before tax		**(532,682)**	168,157
Income tax	15	**(69,895)**	(9,899)
(Loss)/profit after tax for the year		**(602,577)**	158,258

Basic and diluted (losses)/earnings per share (€ cent)	16	**(6.8)**	1.8

Statement of Comprehensive Income

for the year ended 31 December 2017

	Notes	**2017**	2016
		€000	€000
(Loss)/profit for the year		**(602,577)**	158,258
Other comprehensive income (OCI)			
OCI to be reclassified in the income statement in subsequent periods			
Foreign currency translation reserve			
Profit/(loss) on translation of net investments in foreign branches		**171**	(1,412)
Available-for-sale investments			
Net gains from fair value changes before tax		**43,002**	1,033
Transfer to the income statement on impairment		**(27)**	336
Transfer to the income statement on sale		**(595)**	(28,467)
		42,380	(27,098)
		42,551	(28,510)
OCI not to be reclassified in the income statement in subsequent periods			
Property revaluation			
Fair value gain before tax	24	**2,808**	-
Tax	15	**99**	(61)
		2,907	(61)
Actuarial gains/(losses) on the defined benefit plans			
Remeasurement gains/(losses) on defined benefit plans	12	**11,760**	(13,582)
		14,667	(13,643)
Other comprehensive income/(loss) after tax		**57,218**	(42,153)
Total comprehensive (loss)/income for the year		**(545,359)**	116,105

Balance Sheet

as at 31 December 2017

Assets	Notes	**2017**	2016
		€000	€000
Cash and balances with central banks	17	**2,989,555**	1,267,353
Loans and advances to banks	17	**1,134,494**	984,876
Derivative financial assets	19	**18,027**	20,834
Investments	18	**676,173**	333,270
Investments pledged as collateral	18	**290,129**	299,765
Loans and advances to customers	21	**12,986,757**	14,352,560
Balances with Group companies	22	**1,067,856**	1,364,982
Prepayments, accrued income and other assets	27	**116,453**	153,335
Stock of property	26	**652,963**	494,998
Investment properties	20	**-**	11,625
Property and equipment	24	**199,596**	199,888
Intangible assets	25	**30,927**	17,681
Investments in associates	23	**97,293**	97,293
Investments in subsidiaries	47	**259,372**	198,708
Deferred tax assets	15	**383,492**	450,350
Non-current assets held for sale	28	**-**	346
Total assets		**20,903,087**	20,247,864
Liabilities			
Deposits by banks		**486,049**	427,737
Funding from central banks	29	**930,000**	850,014
Repurchase agreements		**257,322**	257,367
Derivative financial liabilities	19	**50,970**	48,840
Customer deposits	30	**15,982,905**	15,045,090
Balances with Group companies	22	**286,722**	502,645
Accruals, deferred income and other liabilities	32	**326,399**	256,660
Subordinated loan stock	31	**268,485**	-
Deferred tax liabilities	15	**20,616**	20,533
Total liabilities		**18,609,468**	17,408,886
Equity			
Share capital	33	**892,294**	892,294
Share premium	33	**551,368**	551,368
Capital reduction reserve	33	**-**	1,952,486
Revaluation and other reserves		**114,337**	76,430
Retained earnings/(accumulated losses)	35	**735,620**	(633,600)
Total equity		**2,293,619**	2,838,978
Total liabilities and equity		**20,903,087**	20,247,864

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 2017

	Share capital (Note 33)	Share premium (Note 33)	Capital reduction reserve (Note 33)	(Accumulated losses)/ retained earnings (Note 35)	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**
1 January 2017	**892,294**	**551,368**	**1,952,486**	**(633,600)**	**64,132**	**5,636**	**6,059**	**603**	**2,838,978**
Loss for the year	-	-	-	(602,577)	-	-	-	-	**(602,577)**
Other comprehensive income after tax for the year	-	-	-	11,760	2,907	42,380	-	171	**57,218**
Total comprehensive (loss)/income for the year	-	-	-	(590,817)	2,907	42,380	-	171	**(545,359)**
Transfer of realised profits on disposal of properties	-	-	-	7,551	(7,551)	-	-	-	**-**
Cancellation of shares due to reorganisation (Note 33)	(892,294)	-	-	-	-	-	-	-	**(892,294)**
Issue of shares (Note 33)	892,294	-	-	-	-	-	-	-	**892,294**
Elimination of capital reduction reserve (Note 33)	-	-	(1,952,486)	1,952,486	-	-	-	-	**-**
31 December 2017	**892,294**	**551,368**	**-**	**735,620**	**59,488**	**48,016**	**6,059**	**774**	**2,293,619**

	Share capital (Note 33)	Share premium (Note 33)	Capital reduction reserve (Note 33)	Treasury shares (Note 33)	Accumulated losses (Note 35)	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 Cash Flows

for the year ended 31 December 2017

	Note	2017	2016
		€000	€000
Net cash flow from operating activities	38	**1,907,129**	3,268,849
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(402,977)**	(203,246)
Proceeds on disposal/redemption of investments:			
- debt securities		**91,741**	455,907
- equity securities		**1,522**	33,782
Interest received from debt securities		**19,501**	27,845
Dividend income received		**39,425**	109,891
Cash consideration paid for acquisition/increase in holding of subsidiaries		**(44,714)**	(4,288)
Proceeds on disposal of subsidiaries		**1,000**	-
Proceeds from the reduction of share capital of subsidiary		**1,778**	1,799
Purchases of property and equipment	24	**(4,925)**	(8,961)
Purchases of intangible assets	25	**(20,511)**	(9,486)
Proceeds on disposals of property and equipment and intangible assets		**72**	165
Proceeds on disposals of investment properties and investment properties held for sale		**10,375**	12,550
Net cash flow (used in)/from investing activities		**(307,713)**	415,958
Cash flows from financing activities			
Net proceeds/(repayments) of funding from central banks		**79,986**	(3,602,836)
Net proceeds from the issue of subordinated loan stock		**246,500**	-
Redemption of debt securities in issue		**-**	(712)
Interest on funding from central banks		**(28)**	(29,656)
Net cash flow from/(used in) financing activities		**326,458**	(3,633,204)
Net increase in cash and cash equivalents for the year		**1,925,874**	51,603
Cash and cash equivalents			
1 January		**1,894,655**	1,843,493
Foreign exchange adjustments		**552**	(441)
Net increase in cash and cash equivalents for the year		**1,925,874**	51,603
31 December	39	**3,821,081**	1,894,655

Details on non-cash transactions are presented in Note 38.

1. Corporate information

Bank of Cyprus Public Company Ltd (the Company) is the holding company of the Bank of Cyprus Group (the Group). The principal activities of the Company during the year involve the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. As at 31 December 2016 the Company had a primary listing on the Cyprus Stock Exchange (CSE) and a secondary listing on the Athens Exchange (ATHEX).

On 13 December 2016, at an Extraordinary General Meeting of the shareholders of the Company, a scheme of arrangement between Bank of Cyprus Holdings Public Limited Company (incorporated in Ireland on 11 July 2016 as a public limited company in accordance with the provisions of the Companies Act 2014 of Ireland with the intention of becoming the holding company of the Group for the purposes of the Group's listing on the London Stock Exchange (LSE)), the Company and the shareholders of the Company has been approved.

The shares of the Company were suspended from trading on the CSE and ATHEX with effect from and including 10 January 2017 and were subsequently cancelled pursuant to the 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 LSE and the CSE. 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 website www.bankofcyprus.com (Investor Relations).

The Annual Report of Bank of Cyprus Holdings Public Limited Company Group is available on the website www.bankofcyprus.com (Investor Relations).

Financial statements
The financial statements of Bank of Cyprus Public Company Ltd for the year ended 31 December 2017 (the Financial Statements) were authorised for issue by a resolution of the Board of Directors on 26 March 2018.

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 comma is used to separate thousands and a dot 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 41.

These Financial Statements 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. Summary of significant accounting policies (continued)

2.2 Accounting policies and 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 2017.

In addition the following policies are adopted:

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 2017.

2.3 Comparative information

Reclassifications to comparative information were made to conform to current year presentation. Specifically, special levy on deposits on credit institutions in Cyprus amounting to €19,968 thousand was reclassified from 'Other operating expenses' to being presented separately on the face of the income statement. Additionally, negative interest income on loans and advances to banks and central banks amounting to €3,716 thousand was reclassified from 'Interest income' (Note 6) to 'Interest expense' (Note 7). Such reclassification did not have an impact on the results for the year or equity of the Group.

3. Going concern

The Directors have made an assessment of the Company's and Group's ability to continue as a going concern.

The conditions that existed during 2017 and the developments up to the date of approval of these Financial Statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4).

The Directors believe 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.

The Directors, taking into consideration the factors described below and the uncertainties that existed at the reporting date, are satisfied that the Group has the resources to continue in business for a period of at least 12 months from the date of approval of the Financial Statements and, therefore, the going concern principle is appropriate for the reasons set out below.

- The Common Equity Tier 1 (CET1) ratio and the total capital ratio on a transitional basis stood at 12.7% and 14.3% respectively at 31 December 2017, higher than the minimum required ratios (Note 4.2.1).
- The IFRS 9 impact on a transitional and on a fully phased-in basis, after the period of transition is complete, is expected to be manageable and within the Group's capital plan.
- The increasing level of Group customer deposits (increase of €1,340 million during 2017). Customer deposits stood at €17,850 million at 31 December 2017.
- The continuous improvement in the Group liquidity position and its liquidity ratios. Following the repayment of Emergency Liquidity Assistance (ELA) in January 2017 (2016: €200 million), the Group achieved compliance with the Liquidity Coverage Ratio (LCR). The Group is also in compliance with the LCR add-on, which was introduced by the CBC as a macro-prudential measure and is applicable from 1 January 2018 (Notes 4.2.3 and 44). As at 31 December 2017, the Group was not in compliance with all liquidity regulatory requirements with respect to its operations in Cyprus, however, these ratios were abolished on 1 January 2018.
- The significant reduction of Group loans that are impaired or past due for more than 90 days (90+ DPD), which have decreased by 17% during 2017 and totalled €6,905 million at 31 December 2017 and the increase of provisions coverage to 61% compared to 54% at 31 December 2016 (Note 4.2.2).

3. Going concern (continue)

- The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB from BB- with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.
- The Company regained access to the debt capital markets in January 2017 with the issuance of a €250 million unsecured subordinated Tier 2 Capital Note.

4. Operating environment

4.1 Cyprus

Economic recovery in Cyprus accelerated in 2017 and the medium term outlook is favourable driven by an improving labour market, broadening investments and increasing resilience. Cyprus continues to face challenges primarily in relation to public and private indebtedness and non-performing exposures (NPEs), but while more remains to be done, considerable progress has been achieved.

Real Gross Domestic Product (GDP) in Cyprus increased by 3.9% in 2017 according to the Cyprus Statistical Service, compared with a 3.4% increase the previous year. In the labour market, the unemployment rate dropped to 11% on average in the year from 13% the year before according to the Cyprus Statistical Service. Average consumer inflation was marginally positive at 0.5% after four years of deflation. In the public sector the budget surplus increased significantly and the trend in the public debt to GDP ratio appears to be reversing downwards. In the banking sector funding conditions continued to improve against a backdrop of favourable developments regarding NPEs.

The growth momentum is expected to be maintained in the medium term. Real GDP is expected to grow by 3.6% in 2018 and by 2.9% in 2019, slowing towards 2.5% by 2022 according to the International Monetary Fund (IMF) (Cyprus country report, December 2017). Growth will be supported by private consumption and investment expenditures and by an improving and robust labour market. On the supply side, growth is expected to be driven by favourable developments in the tourism sector and robust performance in business services. Tourism remains robust and continues to benefit from geopolitical uncertainties in competing destinations. Tourist arrivals in 2017 reached 3.7 million persons, an all-time high, and revenues reached an estimated €2.6 billion or c.13.7% of GDP.

The budget surplus increased to 1.9% of GDP in 2017 according to estimates by the IMF (Cyprus country report, December 2017), from 0.5% the previous year. The budget is expected to generate sizeable surpluses in the medium term (IMF, Cyprus country report, December 2017). The debt to GDP ratio is estimated at 97.5% in 2017 according to the Cyprus Statistical Service, and it is expected to decline to 75% by 2022 also according to the IMF (Cyprus country report, December 2017). Debt remains affordable with interest charges at 2.6% of GDP in 2016-2017 compared with 3.3% of GDP in 2013 (IMF, Cyprus country report, December 2017). The government took advantage of favourable conditions in debt markets to issue a new €850 million 7-year bond in June 2017 yielding 2.8% to pre-finance borrowing needs through to end 2018, and to smooth its repayment schedule beyond 2018.

In the banking sector there have been significant improvements in funding conditions and asset quality. Total deposits increased marginally by 0.8% in the year, with resident deposits increasing by 3.3%. Loan deleveraging continued in the year with total loans outstanding dropping by 7.1% and loans to residents dropping by 4.8% (according to CBC data).

Cyprus' consistent fiscal outperformance and favourable outlook indicate a more rapid reversal in the public debt ratio and the ratio of NPEs, than previously expected. The outlook over the medium term is generally positive according to the IMF and the European Commission, while the economy continues to face challenges. Upside factors relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and stronger investment spending as property prices are stabilising and as projects in tourism, energy and public works are being implemented. Downside risks to this outlook are associated with the still high levels of NPEs and public debt ratio, and with a possible deterioration of the external environment.

4. Operating environment (continued)

4.1 Cyprus (continued)

The Cyprus government rating has been repeatedly upgraded following the consistent outperformance in public finances and the progress achieved in the banking sector. Most recently in March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, only one notch below investment grade, and maintained its outlook to positive. In October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to BB from BB- with positive outlook. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update.

4.2 The Company

4.2.1 Regulatory capital ratios

The CET1 ratio of the Group at 31 December 2017 stands at 12.7% and the total capital at 14.3% on a transitional basis.

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

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

The Group's minimum phased-in CET1 capital ratio requirement for 2017 was 9.50%, comprised of a 4.50% Pillar I requirement, a 3.75% Pillar II requirement and the Capital Conservation Buffer (CCB) of 1.25% applicable for 2017. Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2017 and based on the confirmation received in December 2017, the Pillar II requirement applicable from 1 January 2018, has been reduced to 3.00% from 3.75%. As a result, the Group's minimum phased-in CET1 capital ratio has been reduced to 9.375% from 9.50%, comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Ratio Requirement for 2017 was 13.00%, comprising of a Pillar I requirement of 8.00% (of which up to 1.50% can be in the form of Additional Tier 1 capital and up to 2.00% in the form of Tier 2 capital), a Pillar II requirement of 3.75% (in the form of CET1), and the CCB of 1.25% applicable for 2017. Following the 2017 SREP, the overall Total Capital Ratio Requirement has been reduced to 12.875% from 13.00%, comprising of 8.00% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018.

The minimum CET1 requirement including Pillar II, applicable for the year 2016 was determined by the ECB at 11.75% in November 2015 and included CCB on a fully loaded basis.

The above minimum ratios apply for both, the Company and the Group.

In January 2017 the Company issued a €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 31).

The capital position of the Group and the Company at 31 December 2017 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

4. Operating environment (continued)

4.2 The Company (continued)

4.2.2 Asset quality

The Group's loans that are impaired or past due for more than 90 days (90+ DPD) have decreased by 17% during 2017 and totalled €6,905 million at 31 December 2017, representing 37% of gross loans before fair value adjustment on initial recognition (Note 44 of the Consolidated Financial Statements). The provisioning coverage ratio improved to 61% at 31 December 2017 compared to 54% at 31 December 2016. The Group NPEs, as defined by the EBA, totalled €8,804 million at 31 December 2017 and accounted for 47% of gross loans before fair value adjustment on initial recognition. The provisioning coverage ratio of NPEs totalled 48% at 31 December 2017 compared to 41% at 31 December 2016.

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 47% since their peak of €13,003 million at 31 December 2013. NPEs have decreased by 42% since their peak of €15,175 million at 31 March 2015.

4.2.3 Liquidity

Group customer deposits totalled €17,850 million at 31 December 2017 compared to €16,510 million at 31 December 2016. Customer deposits in Cyprus reached €15,983 million at 31 December 2017 and €15,043 million at 31 December 2016. Customer deposits accounted for 76% of total assets as at 31 December 2017 (compared to 74% at 31 December 2016 and a low of 48% at 31 March 2014).

After repayment of the ELA in January 2017, the Group is focusing on measures to improve its liquidity position and continue to exceed the minimum requirement with respect to the LCR, which was increased to 100% from 1 January 2018 onwards. As at 31 December 2017 the LCR stood at 190% for the Group (compared to 49% at 31 December 2016) and was in compliance with the minimum regulatory requirement of 80% applicable for 2017. The Net Stable Funding Ratio (NSFR) was not introduced on 1 January 2018 as opposed to what was expected. As at 31 December 2017 the Group's NSFR, on the basis of Basel III standards, was 111% (compared to 95% at 31 December 2016).

As at 31 December 2017, the Company was not in compliance with all the local regulatory liquidity requirements set by the CBC with respect to its operations in Cyprus. On 1 January 2018, the local regulatory liquidity requirements were abolished, in accordance with the CRR and in December 2017 the CBC introduced a macro-prudential measure in the form of a liquidity add-on that was imposed on top of the LCR with effect on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The LCR add-on applies stricter outflow and inflow rates than those defined in the Commission Delegated Regulation (EU) 2015/61. The measure will be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones and are applicable from 1 July 2018 until 31 December 2018. Specifically there will be a reduction of 50% of the LCR add-on rates on 1 July 2018.

The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macro-prudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilised.

The Company is currently in compliance with the LCR including the LCR add-on.

In December 2017, Bank of Cyprus UK Ltd, a 100% subsidiary of the Company issued a £30 million unsecured and subordinated Tier 2 Capital Loan priced at par with a coupon of 8.00% (Note 33 of the consolidated financial statements).

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.

4. Operating environment (continued)

4.2 The Company (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 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 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 Company. Additional information on pending litigation, claims, regulatory matters is provided in Note 37.

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.

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

5. Significant judgements, estimates and assumptions (continued)

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

At 31 December 2017 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is c.34% (2016: average of 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 timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average 6 years (2016: average of 3 years except for customers in Debt Recovery, average of 6 years).

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

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

The above assumptions are also influenced by the ongoing regulatory dialogue 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 (e.g. 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.

5. Significant judgements, estimates and assumptions (continued)

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

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 and are treated as up to date loans for measurement purposes. Loans subject to collective impairment assessment whose terms have been renegotiated are taken into account in determining the inputs for collective impairment calculation. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification in accordance with the rules of the relevant EBA technical standard.

Economic and credit conditions within geographical areas are influenced by many factors with a high degree of interdependency so that there is no one single factor to which the 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 42.

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. Significant judgements, estimates and assumptions (continued)

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.

5.4 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. Significant judgements, estimates and assumptions (continued)

5.6 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 and 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 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 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 37.

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.

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

More details on the stock of property are presented in Note 26.

6. Interest income

	2017	2016
	€000	€000
Loans and advances to customers	**699,658**	815,670
Loans and advances to banks and central banks	**12,743**	11,296
Debt securities available-for-sale	**19,881**	10,749
Investments classified as loans and receivables	**2,706**	11,209
	734,988	848,924
Derivative financial instruments	**32,185**	5,571
Other investments at fair value through profit or loss	**66**	637
	767,239	855,132

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances as defined in Note 42 amounting to €137,565 thousand (2016: €201,604 thousand).

7. Interest expense

	2017	2016
	€000	€000
Customer deposits	**126,455**	124,319
Funding from central banks and deposits by banks	**3,652**	40,812
Subordinated loan stock	**22,175**	-
Repurchase agreements	**10,207**	6,476
Negative interest on loans and advances to banks and central banks	**7,132**	3,716
	169,621	175,323
Derivative financial instruments	**44,310**	17,458
	213,931	192,781

8. Fee and commission income and expense

Fee and commission income

	2017	2016
	€000	€000
Credit-related fees and commissions	**69,404**	82,193
Other banking commissions	**98,640**	72,976
Mutual funds and asset management fees	**2,160**	1,882
Other commissions	**997**	790
	171,201	157,841

8. Fee and commission income and expense (continued)

Mutual funds and asset management fees include income of €2,160 thousand (2016: €1,820 thousand) relating to fiduciary and other similar activities.

Fee and commission expense

	2017	2016
	€000	€000
Banking commissions	**9,747**	9,591
Mutual funds and asset management fees	**244**	202
	9,991	9,793

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 disposal/dissolution of subsidiaries

	2017	2016
	€000	€000
Trading portfolio:		
- equity securities	**(48)**	(472)
- debt securities	**-**	3
- derivative financial instruments	**460**	910
Other investments at fair value through profit or loss:		
- debt securities	**(57)**	(400)
Net gains on disposal of available-for-sale investments:		
- equity securities	**1,506**	37,013
- debt securities	**2,104**	-
Net gains on disposal/repayment of loans and receivables:		
- debt securities	**-**	8,419
Realised (losses)/ gains on disposal of loans	**(12)**	64
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments	**13,020**	4,017
- hedged items	**(12,792)**	(4,033)
Loss on disposal/dissolution of subsidiaries	**(465)**	(10,719)
	3,716	34,802

In the comparative period, the gains on disposal of available-for-sale equity securities primarily relate to the gain on sale of shares held in Visa Europe Limited following the approved purchase of Visa Europe Limited by Visa Inc and the gains on disposal of debt securities classified as loans and receivables, related to the Company's participation in the Cyprus Government buyback process of Cyprus government bonds.

In the comparative period, the loss on disposal/dissolution of subsidiaries primarily related to the closure of the operations of Bank of Cyprus (Channel Islands) Ltd.

11. Other income

	2017	2016
	€000	€000
Dividend income – third parties	**194**	217
Loss on sale and write-off of property and equipment and intangible assets	**(204)**	(54)
Rental income from investment properties	**2,196**	1,302
Rental income from stock of property	**6,756**	1,460
Other income	**1,207**	4,172
	10,149	7,097

12. Staff costs

	2017	2016
	€000	€000
Salaries	**150,038**	153,998
Employer's contributions to state social insurance	**21,054**	23,811
Retirement benefit plan costs	**14,703**	13,682
	185,795	191,491
Restructuring costs – voluntary exit plans	**338**	58,920
	186,133	250,411

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 2016. During 2017 a small number of employees left the Company, under the same terms of the 2016 voluntary exit plan. The cost of this exit amounts to €338 thousand.

The number of persons employed by the Company as at 31 December 2017 was 3,646 (2016: 3,662).

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:

	2017	2016
	€000	€000
Defined benefit plans	**1,506**	121
Defined contribution plans	**13,197**	13,561
	14,703	13,682

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% (2016: 9%) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

12. **Staff costs** (continued)

Retirement benefit plan costs (continued)

Cyprus (continued)
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.

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	**2017**	2016
	€000	€000
Liabilities (Note 32)	**9,761**	22,743

One of the plans has a funded status surplus of €13,814 thousand (2016: €14,000 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 2017	92,144	(83,401)	8,743	14,000	**22,743**
Losses on curtailment and settlement	1,150	-	1,150	-	**1,150**
Net interest expense/(income)	2,260	(1,904)	356	-	**356**
Total amount recognised in the income statement	3,410	(1,904)	1,506	-	**1,506**
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	(5,315)	(5,315)	-	**(5,315)**
- Actuarial loss from changes in financial assumptions	(31)	-	(31)	-	**(31)**
- Demographic assumptions	(2,041)	-	(2,041)	-	**(2,041)**
- Experience adjustments	(4,187)	-	(4,187)	-	**(4,187)**
- Change in asset ceiling	-	-	-	(186)	**(186)**
Total amount recognised in the OCI	(6,259)	(5,315)	(11,574)	(186)	**(11,760)**
Exchange differences	(2,551)	1,849	(702)	-	**(702)**
Contributions:					
- Employer	-	(2,026)	(2,026)	-	**(2,026)**
Benefits paid from the plans	(16,024)	16,024	-	-	**-**
31 December 2017	70,720	(74,773)	(4,053)	13,814	**9,761**

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)

The actual return on plan assets for year 2017 was a gain of €7,219 thousand (2016: gain of €9,031 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:

	2017	2016
Equity securities	**48%**	46%
Debt securities	**42%**	44%
Loans and advances to banks	**10%**	10%
	100%	100%

The assets held by the funded plans include equity securities issued by Bank of Cyprus Holdings Public Limited Company, the fair value of which is as at 31 December 2017 €2,000 thousand (2016: equity securities issued by the Company of fair value €2,276 thousand).

The Company expects to make contributions to defined benefit plans of €2,474 thousand during 2018.

At the end of the reporting period, the average duration of the defined benefit obligation was 19.8 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 2017 and 2016 are set out below:

2017	**Cyprus**	**Greece**	**UK**
Discount rate	1.58%	1.30%	2.55%
Inflation rate	1.75%	1.75%	3.20%
Future salary increases	2.25%	2.00%	n/a
Rate of pension increase	2.00%	n/a	3.00%
Life expectancy for pensioners at age 60	23.5 years M 29.6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	23.0 years M 24.5 years F

2016			
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

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 3% 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 97% 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 2017 and 2016 is presented below:

12. Staff costs (continued)

Retirement benefit plan costs (continued)

Principal actuarial assumptions used in the actuarial valuations (continued)

Variable	2017		2016	
	Change +0.5%	**Change -0.5%**	Change +0.5%	Change -0.5%
Discount rate	**-12.1%**	**13.0%**	-10.4%	11.3%
Inflation growth rate	**10.0%**	**-9.3%**	8.8%	-8.1%
Salary growth rate	**0%**	**0%**	0%	0%
Pension growth rate	**0.1%**	**-0.1%**	0.9%	-0.8%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**-1.8%**	**2.2%**	-1.5%	1.9%

The above sensitivity analysis (with the exception of the inflation sensitivity) is based on a change in one assumption while holding all other assumptions constant. In practice this is unlikely to occur and some changes of the assumptions may be correlated. The inflation sensitivity above includes changes to any inflation-linked benefit increases. When calculating the sensitivity of the defined benefit obligation to significant assumptions, the same method has been applied as when calculating the pension liability recognised on the 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

	2017	2016
	€000	€000
Repairs and maintenance of property and equipment and stock of property	**16,297**	15,711
Other property-related costs	**15,583**	12,990
Operating lease rentals for property and equipment	**9,143**	9,872
Consultancy and other professional services fees	**14,829**	11,822
Insurance	**7,761**	10,451
Advertising and marketing	**16,614**	15,752
Depreciation of property and equipment (Note 24)	**7,318**	7,550
Amortisation of intangible assets (Note 25)	**7,243**	6,110
Communication expenses	**7,458**	6,860
Provisions/(reversal of provisions) for pending of litigation, claims and regulatory matters (Note 32)	**92,939**	(2,936)
Printing and stationery	**2,440**	3,023
Local cash transfer expenses	**3,056**	2,848
Other operating expenses	**24,261**	17,659
	224,942	117,712
Advisory and other restructuring costs	**28,800**	46,650
	253,742	164,362

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.

The special levy on credit institutions in Cyprus (the Special Levy) is imposed on the level of deposits as at the end of the previous quarter at the rate of 0.0375% per quarter. Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the Special Levy up to the level of the total annual Special Levy charge.

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

	2017	2016
	€000	€000
Audit of the financial statements of the Company	**1,311**	1,866
Other audit-related services	**294**	339
Tax services	**298**	404
Services related to the listing on the London Stock Exchange	**114**	4,879
Other services	**493**	1,027
	2,510	8,515

The following table discloses the fees (including taxes) to the independent auditors of the Company, for the audit and other professional services provided both in Cyprus and overseas for the Group.

	2017	2016
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**2,416**	2,615
Other audit-related services	**407**	423
Tax services	**462**	598
Services related to the listing on the London Stock Exchange	**114**	4,879
Other services	**499**	1,032
	3,898	9,547

14. Provisions for impairment of financial and non-financial instruments

	2017	2016
	€000	€000
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 42)	**935,321**	429,778
Financial guarantees and commitments (Note 32)	**14,987**	(6,152)
	950,308	423,626

Impairment/(reversal of impairment) of other financial instruments		
Available-for-sale equity securities	**70**	336
Available-for-sale mutual funds	**-**	56
Impairment of balances with Group companies (Note 22)	**1,272**	33,356
Loans and advances to banks	**7,127**	13,820
Other receivables	**(1,895)**	(1,603)
	6,574	45,965

Impairment of non-financial instruments		
Stock of property (Note 26)	**35,932**	11,745
Property held for own use (Note 24)	**582**	-
Investments in subsidiaries (Note 47)	**57,611**	24,798
	94,125	36,543

15. Income tax

	2017	2016
	€000	€000
Cyprus special defence contribution	**35**	23
Deferred tax	**67,040**	6,733
Prior years' tax adjustments	**1,390**	1,943
Other tax charges	**1,430**	1,200
	69,895	9,899

15. Income tax (continued)

The increase in the deferred tax charge is primarily due to the reduction of the level of deferred tax asset by €62 million following increase in provision for impairment of loans and advances to customers and evaluation of the recoverability assessment of the deferred tax asset balance.

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

	2017	2016
	€000	€000
(Loss)/profit before tax	**(532,682)**	168,157
Income tax at the normal tax rates in Cyprus	**(66,550)**	21,044
Income tax effect of:		
- expenses not deductible for income tax purposes	**20,364**	12,582
- income not subject to income tax	**(12,056)**	(30,344)
- differences between overseas income tax rates and Cyprus income tax rates	**4,511**	(124)
- reversal of previously recognised deferred tax asset	**66,858**	3,598
- losses on which deferred tax was not recognised	**53,948**	-
	67,075	6,756
Prior years' tax adjustments	**1,390**	1,943
Other tax charges	**1,430**	1,200
	69,895	9,899

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2016: 12.5%).

Special defence contribution is payable on rental income at a rate of 3% (2016: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2016: 30%).

The Company's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2017 were: Greece 29% (2016: 29%) and Romania 16% (2016: 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.

15. Income tax (continued)

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

2017	**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 5 years	**2,694,565**	**-**	**2,694,565**
Expiring by the end of 2028	**7,378,801**	**3,067,936**	**4,310,865**
	10,073,366	**3,067,936**	**7,005,430**

2016			
Expiring within 5 years	4,611,469	266,800	4,344,669
Expiring between 6 and 10 years	16,306	-	16,306
Expiring by the end of 2028	7,378,801	3,336,000	4,042,801
	12,006,576	3,602,800	8,403,776

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 tax losses of the transferring credit institution at the time of the transfer, are transferred to the acquiring credit institution and may be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the Company's acquisition of certain operations of Laiki Bank, these tax losses can be utilised up to 2028. The income tax losses transferred are still subject to review and agreement with the income tax authorities in Cyprus. The deferred tax asset recognised on these specific losses can be set off against the future profits of 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 assessment for the recoverability of its deferred tax asset as at 31 December 2017 taking into account the Company's actual performance, the key objectives of the Company's strategy as well as the macroeconomic environment in Cyprus, and the detailed financial projections up to the end of 2020 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 NPEs (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
- Further improve the funding structure
- Focus on the core Cyprus market
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital
- Deliver value to shareholders and other stakeholders

Based on the above, management has concluded that the deferred tax asset of €383,492 thousand for the Company as at 31 December 2017 is recoverable.

Deferred tax

The net deferred tax assets arise from:

	2017	2016
	€000	€000
Difference between capital allowances and depreciation	**(7,304)**	(7,122)
Property revaluation	**(13,312)**	(13,411)
Unutilised income tax losses carried forward	**383,492**	450,350
Net deferred tax assets	**362,876**	429,817

Deferred tax assets	**383,492**	450,350
Deferred tax liabilities	**(20,616)**	(20,533)
Net deferred tax assets	**362,876**	429,817

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:

	2017	2016
	€000	€000
1 January	**429,817**	436,611
Deferred tax recognised in the income statement	**(67,040)**	(6,733)
Deferred tax recognised in the statement of comprehensive income	**99**	(61)
31 December	**362,876**	429,817

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:

	2017	2016
	€000	€000
Difference between capital allowances and depreciation	**182**	604
Reversal of previously recognised deferred tax assets	**66,858**	3,598
Other temporary differences	**-**	2,531
	67,040	6,733

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

	2017	2016
	€000	€000
Timing differences on property revaluation – income/(expense)	**99**	(61)

16. Earnings per share

	2017	2016
	€000	€000
Basic and diluted (losses)/earnings per share		
(Loss)/ profit for the year (€ thousand)	**(602,577)**	158,258
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**8,922,945**	8,922,945
Basic and diluted (losses)/earnings per share (€ cent)	**(6.8)**	1.8

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

	2017	2016
	€000	€000
Cash	**143,327**	132,180
Balances with central banks	**2,846,228**	1,135,173
Cash and balances with central banks	**2,989,555**	1,267,353

Loans and advances to banks	**1,134,494**	984,876

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2017 which amount to €152,538 thousand (2016: €142,002 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 42.

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

18. Investments

	2017	2016
	€000	€000
Investments		
Investments at fair value through profit or loss	**1,224**	11,802
Investments available-for-sale	**626,291**	253,394
Investments classified as loans and receivables	**48,658**	68,074
	676,173	333,270

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

	2017	2016
	€000	€000
Investments pledged as collateral		
Investments available-for-sale	**290,129**	299,765

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 42 and the debt securities' price risk sensitivity analysis is disclosed in Note 43.

18. Investments (continued)

Investments at fair value through profit or loss

	Trading investments		Other investments at fair value through profit or loss		Total	
	2017	2016	**2017**	2016	**2017**	2016
	€000	€000	**€000**	€000	**€000**	€000
Debt securities	**-**	-	**-**	10,426	**-**	10,426
Equity securities	**1,224**	1,376	**-**	-	**1,224**	1,376
	1,224	1,376	**-**	10,426	**1,224**	11,802
Debt securities						
Cyprus government	**-**	-	**-**	10,426	**-**	10,426
Listed on the Cyprus Stock Exchange	**-**	-	**-**	10,426	**-**	10,426
Equity securities						
Listed on the Cyprus Stock Exchange	**1,224**	1,376	**-**	-	**1,224**	1,376

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

	2017	2016
	€000	€000
Debt securities	**901,692**	540,551
Equity securities (including preference shares)	**14,341**	12,329
Mutual funds	**387**	279
	916,420	553,159

18. **Investments** (continued)

Investments available-for-sale (continued)

Debt securities	**2017**	2016
	€000	€000
Cyprus government	**451,029**	178,479
French government	**281,979**	287,324
Other governments	**22,462**	41,887
Banks and other corporations	**146,222**	32,861
	901,692	540,551
Listed on the Cyprus Stock Exchange	**451,029**	178,479
Listed on other stock exchanges	**450,163**	362,072
Unlisted	**500**	-
	901,692	540,551
Geographic dispersion by country of issuer		
Cyprus	**451,529**	178,479
France	**281,979**	287,324
Other European Union countries	**75,573**	22,980
European Financial Stability Facility and European Investment Fund	**11,443**	11,823
Supranational organisations	**9,058**	9,365
Other countries	**72,110**	30,580
	901,692	540,551

Equity securities		
Listed on the Cyprus Stock Exchange	**5,023**	4,156
Listed on other stock exchanges	**546**	430
Unlisted	**8,772**	7,743
	14,341	12,329

At 31 December 2017 and 2016 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

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

18. Investments (continued)

Investments classified as loans and receivables

	2017	2016
	€000	€000
Debt securities	**48,658**	68,074
Cyprus government	**48,658**	68,074
Listed on the Cyprus Stock Exchange	**48,658**	68,074
Geographic dispersion by country of issuer		
Cyprus	**48,658**	68,074

At 31 December 2017 the total loans and receivables have been determined to be individually impaired (2016: €49,185 thousand).

Reclassification of investments

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.

18. Investments (continued)

Reclassification of investments (continued)

The tables below present the debt securities reclassified by the Company, by date of reclassification.

	Reclassification date	Carrying and fair value on reclassification date	31 December 2017		31 December 2016		Year 2017		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	48,658	55,104	49,185	50,329	-	6,446	4.6%-4.7%

18. Investments (continued)

Reclassification of investments (continued)

	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%

19. Derivative financial instruments

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

	2017			2016		
	Contract amount	**Fair value**		Contract amount	Fair value	
		Assets	**Liabilities**		Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**33,259**	**99**	**114**	43,709	793	589
Currency swaps	**1,455,855**	**1,103**	**14,160**	1,774,976	15,875	8,430
Interest rate swaps	**106,268**	**216**	**873**	230,874	480	1,901
Currency options	**396**	**18**	**402**	7,986	85	198
	1,595,778	**1,436**	**15,549**	2,057,545	17,233	11,118
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**1,171,424**	**16,315**	**35,420**	418,293	87	37,463
Net investments - forward exchange rate contracts	**61,012**	**276**	**1**	178,605	3,514	259
	1,232,436	**16,591**	**35,421**	596,898	3,601	37,722
Total	**2,828,214**	**18,027**	**50,970**	2,654,443	20,834	48,840

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 2017, deposits and forward exchange rate contracts amounting to €142,273 thousand and €61,012 thousand respectively (2016: €100,756 thousand and €178,605 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.

	2017		2016	
	Carrying value	**Fair value**	Carrying value	Fair value
	€000	**€000**	€000	€000
Financial assets				
Cash and balances with central banks	**2,989,555**	**2,989,555**	1,267,353	1,267,353
Loans and advances to banks	**1,134,494**	**1,133,759**	984,876	960,937
Investments at fair value through profit or loss	**1,224**	**1,224**	11,802	11,802
Investments available-for-sale	**916,420**	**916,420**	553,159	553,159
Investments classified as loans and receivables	**48,658**	**55,104**	68,074	69,451
Derivative financial assets	**18,027**	**18,027**	20,834	20,834
Loans and advances to customers	**12,986,757**	**13,770,094**	14,352,560	15,493,752
Balances with Group companies	**1,067,856**	**1,067,856**	1,364,982	1,364,982
Other assets	**69,486**	**69,486**	96,068	96,068
	19,232,477	**20,021,525**	18,719,708	19,838,338
Financial liabilities				
Funding from central banks and deposits by banks	**1,416,049**	**1,416,049**	1,277,751	1,277,751
Repurchase agreements	**257,322**	**281,951**	257,367	292,752
Derivative financial liabilities	**50,970**	**50,970**	48,840	48,840
Customer deposits	**15,982,905**	**16,008,225**	15,045,090	15,029,167
Balances with Group companies	**286,722**	**286,722**	502,645	502,645
Subordinated loan stock	**268,485**	**300,980**	-	-
Other liabilities	**139,794**	**139,794**	129,413	129,413
	18,402,247	**18,484,691**	17,261,106	17,280,568

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 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 CRR and takes into account the netting agreements where they exist. A standard LGD assumption in line with industry norms is adopted. Alternative LGD assumptions may be adopted when both the nature of the exposure and the available data support this.

The 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. The rest of the investments are valued using quoted prices in active markets.

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

Customer deposits
The fair value of customer deposits is determined by calculating the present value of future cash flows. The discount rate takes into account current market rates and the credit profile of 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.

20. Fair value measurement (continued)

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

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

Subordinated loan stock
The current issue of the Company is liquid with quoted prices in an active market.

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

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

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

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:

2017	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Assets measured at fair value				
Freehold property				
Offices and other commercial properties	-	-	183,539	**183,539**
Trading derivatives				
Forward exchange rate contracts	-	99	-	**99**
Currency swaps	-	1,103	-	**1,103**
Interest rate swaps	-	216	-	**216**
Currency options	-	18	-	**18**
	-	1,436	-	**1,436**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	16,315	-	**16,315**
Net investments-forward exchange rate contracts	-	276	-	**276**
	-	16,591	-	**16,591**
Investments at fair value through profit or loss				
Trading investments	1,224	-	-	**1,224**
Investments available-for-sale	907,232	-	9,188	**916,420**
	908,456	18,027	192,727	**1,119,210**

20. Fair value measurement (continued)

Model inputs for valuation (continued)

2017	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Other financial assets not measured at fair value				
Loans and advances to banks	-	1,133,759	-	**1,133,759**
Loans and receivables-investments	-	55,104	-	**55,104**
Loans and advances to customers	-	-	13,770,094	**13,770,094**
	-	1,188,863	13,770,094	**14,958,957**

For available-for-sale equity securities categorised as Level 3, for one investment with a carrying amount of €7,123 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €712 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 43.

2017	Level 1	Level 2	Level 3	**Total**
	€000	€000	€000	**€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	114	-	**114**
Currency swaps	-	14,160	-	**14,160**
Interest rate swaps	-	873	-	**873**
Currency options	-	402	-	**402**
	-	15,549	-	**15,549**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	35,420	-	**35,420**
Net investments-forward exchange rate contracts	-	1	-	**1**
	-	35,421	-	**35,421**
	-	50,970	-	**50,970**
Other financial liabilities not measured at fair value				
Deposits by banks	-	486,049	-	**486,049**
Repurchase agreements	-	281,951	-	**281,951**
Customer deposits	-	-	16,008,225	**16,008,225**
Subordinated loan stock	300,980	-	-	**300,980**
	300,980	768,000	16,008,225	**17,077,205**

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

Model inputs for valuation (continued)

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**

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**

20. Fair value measurement (continued)

Model inputs for valuation (continued)

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 €532 thousand.

For additional disclosures on sensitivity analysis of equity securities refer to Note 43.

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**

The cash and balances with central banks and the funding from central banks are financial instruments whose carrying value is a reasonable approximation of fair value, because they are mostly short-term in nature or are repriced to current market rates frequently. 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 2017 and 2016 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:

	2017			2016			
	Investment properties	**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
1 January	**11,625**	**181,754**	**7,400**	11,688	2,450	180,994	34,665
Additions	**-**	**1,008**	**724**	-	-	2,312	5,435
Disposals	**(10,000)**	**-**	**(572)**	-	(2,450)	-	(32,489)
Transfers from stock of property	**-**	**129**	**-**	-	-	-	-
Net gains/(losses) from fair value changes recognised in the statement of other comprehensive income	**-**	**2,808**	**2,267**	-	-	-	(21)
Depreciation charge for the year	**-**	**(1,578)**	**-**	-	-	(1,552)	-
Impairment charge for the year (Note 14)	**-**	**(582)**	**-**	-	-	-	-
Revaluation losses	**(1,625)**	**-**	**-**	(63)	-	-	-
Foreign exchange adjustments	**-**	**-**	**(631)**	-	-	-	(190)
31 December	**-**	**183,539**	**9,188**	11,625	-	181,754	7,400

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 own use properties

Type and country	2017	Estimated rental value per m^2 per annum	Rent growth per annum	Estimated building cost per m^2	Yield	Estimated fair value per m^2	Estimated land value per m^2	Land	Building area	Age of building
Offices and other commercial properties	**€000**							**m^2**	**m^2**	**Years**
Cyprus	**183,539**	€26-€277	n/a	€821-€1,895	6%	€600-€6,557	€145-€1,220	390-51,947	122-11,109	18-77

20. 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	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)

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

	2017	2016
	€000	€000
Gross loans and advances to customers	**16,351,720**	17,745,707
Provisions for impairment of loans and advances to customers (Note 42)	**(3,364,963)**	(3,393,147)
	12,986,757	14,352,560

Loans and advances to customers pledged as collateral are disclosed in Note 44.

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 42.

22. Balances and transactions with Group companies

Debit balances with Group companies

Name of Group company	2017	2016
	€000	€000
The Cyprus Investment and Securities Corporation Ltd (CISCO)	**3,451**	2,042
General Insurance of Cyprus Ltd	**606**	855
EuroLife Ltd	**527**	400
Kermia Ltd	**1,978**	1,978
Finerose Properties Ltd	**60**	216
Hydrobius Ltd	**27,754**	42,453
Bank of Cyprus (Channel Islands) Ltd	**3**	3
Kyprou Commercial SA	**-**	55
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	**29,580**	10,093
MC Investment Assets Management LLC	**2,631**	2,631
Kyprou Finance (NL) B.V.	**57,136**	317,136
Bank of Cyprus UK Ltd	**29,445**	66,966
Obafemi Holdings Ltd	**6,534**	6,684
S.Z. Eliades Leisure Ltd	**4,114**	3,386
K. Athienitis Kalamon Ltd	**-**	22,662
Fortuna Astrum Ltd	**9,283**	4,238
Stamoland Properties Ltd	**6,015**	5,671
Nicosia Mall Holdings (NMH) Limited	**61,405**	-
Group property companies in Cyprus	**826,380**	807,339
Group property companies in Romania	**-**	69,229
Other Group companies in Cyprus	**954**	945
Total	**1,067,856**	1,364,982

Neither past due nor impaired	**762,785**	750,057
Impaired	**305,071**	614,925
Total	**1,067,856**	1,364,982

The provision for impairment for intercompany balances recognised during 2017 amounts to €1,272 thousand (2016: €33,356 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.

On 28 September 2017, the Company acquired a 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Further information is disclosed in Note 48.1.1.

22. Balances and transactions with Group companies (continued)

Credit balances with Group companies

Name of Group company	2017	2016
	€000	€000
JCC Payment Systems Ltd	20,561	25,015
The Cyprus Investment and Securities Corporation Ltd (CISCO)	6,528	3,677
General Insurance of Cyprus Ltd	17,447	31,823
EuroLife Ltd	27,978	20,112
Kermia Properties & Investments Ltd	5,710	6,035
Kermia Ltd	3,255	2,300
Bank of Cyprus (Channel Islands) Ltd	63	1,823
Kyprou Zois (branch of EuroLife Ltd)	575	2,411
Kyprou Securities SA	-	1,651
Kyprou Commercial S.A.	1,651	-
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	12,380	1,687
MC Investment Assets Management LLC	1,852	2,297
Cytrustees Investment Public Company Ltd	1,247	851
Kyprou Finance (NL) B.V.	112,244	369,553
Bank of Cyprus UK Ltd	64,036	29,250
Nicosia Mall Holdings (NMH) Limited	4,084	-
BOC Asset Management Ltd	375	-
Bank of Cyprus Holdings Public Limited Company	143	-
Obafemi Holdings Ltd	229	175
Group property companies in Romania	135	1,493
Other Group companies in Cyprus	6,229	2,492
Total	**286,722**	502,645

Credit balances with Bank of Cyprus UK Ltd at 31 December 2017 include amounts of €35,446 in regards to UK regulatory matters due by the Company to Bank of Cyprus UK Ltd. Further information is disclosed in Notes 32 and 37.2.2.

22. Balances and transactions with Group companies (continued)

Dividends received from subsidiary companies and associates

	2017	2016
	€000	€000
EuroLife Ltd	**13,000**	13,000
General Insurance of Cyprus Ltd	**10,000**	10,000
JCC Payment Systems Ltd	**5,250**	15,000
Kermia Properties & Investments Ltd	**548**	-
Kermia Ltd	**271**	24,000
Labancor Ltd	**41**	-
Bank of Cyprus (Channel Islands) Ltd	**-**	39,235
CNP Cyprus Insurance Holdings Ltd	**774**	6,621
	29,884	107,856

Transactions with Group companies

	2017	2016
	€000	€000
Interest income	**14,975**	20,609
Interest expense	**2,315**	4,211
Fee and commission income	**5,042**	4,366
Fee and commission expense	**-**	78
Other income	**299**	242
Other operating expenses	**2,739**	1,963

23. Investments in associates

Carrying value of the investments in associates

	Percentage holdings	**2017**	2016
	(%)	**€000**	€000
CNP Cyprus Insurance Holdings Ltd	**49.9**	**95,068**	95,068
Interfund Investments Plc	**23.1**	**2,225**	2,225
Aris Capital Management LLC	**30.0**	**-**	-
Rosequeens Properties Limited	**33.3**	**-**	-
Rosequeens Properties SRL	**33.3**	**-**	-
M.S. (Skyra) Vassas Ltd	**15.0**	**-**	-
D.J. Karapatakis & Sons Limited	**7.5**	**-**	-
Rodhagate Entertainment Ltd	**7.5**	**-**	-
Fairways Automotive Holdings Ltd	**45.0**	**-**	-
		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:

	2017	2016
	€000	€000
Total assets	**707,796**	696,005
Total liabilities	**(475,794)**	(481,234)
Net assets, including value of in-force business	**232,002**	214,771

CNP Cyprus Insurance Holdings Ltd holds deposits with the Company amounting to €19,547 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Company are presented in the table below:

	2017	2016
	€000	€000
Interest expense paid by the Company	**139**	197
Other expenses paid by the Company	**92**	92

Interfund Investments Plc
The Company has a 23.1% 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 €1,804 thousand (2016: €1,399 thousand).

During the years 2017 and 2016 there were no material transactions between the Company and the associate.

Rosequeens Properties Limited and Rosequeens Properties SRL
The Company effectively owns 33.3% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after 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.

Aris Capital Management LLC
The Company's holding in Aris Capital Management LLC of 30.0% was transferred to the Company following the acquisition of certain operations of Laiki Bank. During the years 2017 and 2016, there were no material transactions between the Company and the associate. During previous years, the Company has recognised an impairment loss of €2,078 thousand.

M.S. (Skyra) Vassas Ltd
During the year ended 31 December 2016, in the context of its loan restructuring activities, the Company acquired a 15.0% interest in the share capital of M.S. (Skyra) Vassas Ltd. M.S. (Skyra) Vassas Ltd is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The 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.

23. Investments in associates (continued)

Investment in associates (continued)

D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd
During the year ended 31 December 2016, 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 ended 31 December 2016, in the context of its loan restructuring activities, the Company acquired a 45.0% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The 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

2017	Property	Equipment	**Total**
	€000	€000	**€000**
Net book value at 1 January	183,741	16,147	**199,888**
Additions	1,324	3,601	**4,925**
Revaluation	2,808	-	**2,808**
Transfers from stock of property (Note 26)	129	-	**129**
Disposals and write-offs	(35)	(219)	**(254)**
Depreciation charge for the year	(2,611)	(4,707)	**(7,318)**
Impairment charge for the year	(582)	-	**(582)**
Net book value at 31 December	**184,774**	**14,822**	**199,596**

1 January 2017			
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**

24. Property and equipment (continued)

	Property	Equipment	**Total**
	€000	€000	**€000**
31 December 2017			
Cost or valuation	219,528	103,710	**323,238**
Accumulated depreciation	(34,754)	(88,888)	**(123,642)**
Net book value	**184,774**	**14,822**	**199,596**

2016			
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	(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**

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**

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

	2017	2016
	€000	€000
Freehold property	**183,539**	**181,754**
Improvements on leasehold property	**1,235**	**1,987**
	184,774	**183,741**

Freehold property includes land amounting to €76,951 thousand (2016: €77,127 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. The Company performed revaluations as at 31 December 2017. As a result, a net gain on revaluation of €2,808 thousand (2016: nil) was recognised in the statement of comprehensive income and an impairment loss of €582 thousand (2016: nil) was recognised in the income statement for the year ended 31 December 2017. The valuations at year end were carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 20.

As at 31 December 2017 and 2016 there are charges against freehold property of the Company with carrying value €20,850 thousand (2016: €21,134 thousand).

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2017 would have amounted to €132,265 thousand (2016: €130,699 thousand).

25. Intangible assets

Computer software

	2017	2016
	€000	€000
Net book value at 1 January	**17,681**	14,773
Additions	**20,511**	9,486
Transfers to equipment (Note 24)	**-**	(456)
Disposals and write-offs	**(22)**	(12)
Amortisation charge for the year (Note 13)	**(7,243)**	(6,110)
Net book value at 31 December	**30,927**	17,681

1 January		
Cost	**121,187**	106,143
Accumulated amortisation	**(103,506)**	(91,370)
Net book value	**17,681**	14,773

31 December		
Cost	**140,943**	121,187
Accumulated amortisation	**(110,016)**	(103,506)
Net book value	**30,927**	17,681

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 cost. During 2017 an impairment loss of €35,932 thousand (2016: €11,745 thousand) was recognised in 'Impairment of non-financial instruments' in the income statement. At 31 December 2017, stock of €200,606 thousand (2016: €272,261 thousand) is carried at net realisable value which is the fair value less costs to sell.

26. Stock of property (continued)

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. There is no stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA (2016: €22,055 thousand).

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

	2017	2016
	€000	€000
Net book value at 1 January	**494,998**	276,095
Additions	**264,517**	258,555
Disposals	**(70,491)**	(27,907)
Transfers to own use properties (Note 24)	**(129)**	-
Impairment (Note 14)	**(35,932)**	(11,745)
Net book value at 31 December	**652,963**	494,998

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2017	**€000**	**€000**	**€000**	**€000**
Residential properties	119,331	28,994	-	**148,325**
Offices and other commercial properties	72,139	38,882	558	**111,579**
Manufacturing and industrial properties	19,580	33,427	-	**53,007**
Hotels	17,390	493	-	**17,883**
Land (fields and plots)	315,443	6,345	-	**321,788**
Properties under construction	381	-	-	**381**
Total	**544,264**	**108,141**	**558**	**652,963**

2016				
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**

27. Prepayments, accrued income and other assets

	2017	2016
	€000	€000
Receivables relating to disposal of operations	**36,282**	57,056
Taxes refundable	**23,251**	31,007
Debtors	**240**	315
Prepaid expenses	**223**	209
Other assets	**56,457**	64,748
	116,453	153,335

As at 31 December 2017 and 2016, the receivables relating to disposal of operations related to the disposal of the Ukrainian operations during 2014. In 2017 the settlement terms of the deferred consideration, the related interest rate and the collaterals were amended. The deferred consideration is due to be paid to the Company under a repayment programme which has been extended from June 2019 to December 2022. The receivable is fully secured.

During 2017, a reversal of impairment of €1,895 thousand was recognised in relation to other assets (2016: reversal of impairment loss of €1,603 thousand) (Note 14).

28. Non-current assets held for sale

	2017	2016
	€000	€000
Investment properties held for sale	**-**	346

Investment properties
The investment properties classified as held for sale are properties which management is committed to sell and has proceeded with an active programme to complete this plan. The disposals are expected to take place within 12 months from the date of classification. Investment properties classified as held for sale are measured at fair value. The results of the fair value changes are presented within 'Net (losses)/gains 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:

	2017	2016
	€000	€000
Emergency Liquidity Assistance (ELA)	**-**	200,014
Main Refinancing Operations (MRO)	**100,000**	-
Longer-Term Refinancing Operations (LTRO)	**-**	50,000
Targeted Longer-Term Refinancing Operations (TLTRO)	**830,000**	600,000
	930,000	850,014

29. Funding from central banks (continued)

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 and an amount of €50 million through the LTRO. In March 2017, the €50 million borrowed through the LTRO matured and €40 million was re-borrowed, which matured in June 2017 and was re-borrowed through a new LTRO. This was repaid in September 2017. In March 2017, the Company raised an additional €230 million funding from ECB, through TLTRO II. In April 2017, an additional €40 million was borrowed through the MRO of which €10 million was repaid in May 2017 and the remaining €30 million was repaid in August 2017. In December 2017 an amount of €100 million was borrowed through the MRO.

As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

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.

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 44.

30. Customer deposits

	2017	2016
	€000	€000
By type of deposit		
Demand	**6,016,510**	5,883,141
Savings	**934,058**	831,872
Time or notice	**9,032,337**	8,330,077
	15,982,905	15,045,090
By geographical area		
Cyprus	**15,982,905**	15,043,362
Romania	**-**	1,728
	15,982,905	15,045,090
By currency		
Euro	**13,764,246**	12,333,221
US Dollar	**1,727,947**	2,183,015
British Pound	**326,105**	310,822
Russian Rouble	**49,788**	92,472
Romanian Lei	**42**	1,669
Swiss Franc	**14,866**	17,988
Other currencies	**99,911**	105,903
	15,982,905	15,045,090

30. Customer deposits (continued)

By customer sector	Cyprus	Romania	**Total**
2017	€000	€000	**€000**
Corporate	1,529,521	-	**1,529,521**
SMEs	665,940	-	**665,940**
Retail	8,670,625	-	**8,670,625**
Restructuring			
– Corporate	145,084	-	**145,084**
– SMEs	40,743	-	**40,743**
Recoveries	6,615	-	**6,615**
International banking services	4,163,384	-	**4,163,384**
Wealth management	760,993	-	**760,993**
	15,982,905	**-**	**15,982,905**
2016			
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	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**

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

31. Subordinated loan stock

	Contractual interest rate	2017	2016
		€000	€000
Subordinated Tier 2 Capital Note	9.25% up to 19 January 2022	**268,485**	-

The Company maintains a Euro Medium Term Note (EMTN) Programme with an aggregate nominal amount up to €4,000 million.

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% per annum payable annually up to 19 January 2022 and then a rate at the then prevailing 5-year swap rate plus a margin of 9.176% per annum up to 19 January 2027, payable annually. The Note matures on 19 January 2027. The Company has the option to redeem the Note early on 19 January 2022, subject to applicable regulatory consents.

The Note is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

32. Accruals, deferred income and other liabilities

	2017	2016
	€000	€000
Income tax payable and related provisions	**16,653**	17,067
Special defence contribution payable	**5,891**	5,719
Retirement benefit plans liabilities (Note 12)	**9,761**	22,743
Provisions for pending litigation, claims and regulatory matters (Note 37)	**77,819**	22,978
Provisions for financial guarantees and commitments (Notes 14 and 37)	**51,987**	38,196
Accrued expenses and other provisions	**48,298**	50,132
Deferred income	**8,575**	7,139
Items in the course of settlement	**72,241**	49,522
Other liabilities	**35,174**	43,164
	326,399	256,660

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:

	2017	2016
	€000	€000
1 January	**22,978**	33,772
Transfer to Bank of Cyprus UK Ltd for settlement on behalf of the Company	**(35,446)**	-
Increase of provisions (Note 13)	**94,159**	4,988
Utilisation of provisions	**(2,650)**	(7,858)
Release of provisions (Note 13)	**(1,220)**	(7,924)
Foreign exchange adjustments	**(2)**	-
31 December	**77,819**	22,978

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

Provisions for pending litigation, claims and regulatory matters (continued)

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

	2017	2016
	€000	€000
Pending litigation or claims	**57,389**	19,978
Regulatory matters	**20,430**	3,000
31 December	**77,819**	22,978

An agreement has been reached between the Company and its subsidiary Bank of Cyprus UK Ltd under which the provisions recognised on UK regulatory matters by Bank of Cyprus UK Ltd are reimbursed by the Company. The balances due by the Company to Bank of Cyprus UK Ltd are disclosed within Credit Balances with Group Companies (Note 22).

Further details on the pending litigations, claims and regulatory matters are disclosed in Note 37.

33. Share capital

	2017		2016	
	Number of shares (thousand)	**€000**	Number of 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**	8,922,945	892,294
Cancellation of shares due to reorganisation	**(8,922,945)**	**(892,294)**	-	-
Issue of shares	**8,922,945**	**892,294**	-	-
31 December	**8,922,945**	**892,294**	8,922,945	892,294

Authorised and issued share capital

2017

The Extraordinary General Meeting (EGM) of the shareholders of the Company held on 13 December 2016 approved a scheme of arrangement between the Company, Bank of Cyprus Holdings Public Limited Company and the shareholders of the Company. The scheme of arrangement introduced 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 scheme of arrangement was sanctioned by the District Court of Nicosia on 21 December 2016.

Following the submission of the Court Order to the Registrar of Companies and the registration, by the latter, of the reduction of capital, the scheme of arrangement became effective on 18 January 2017. As a result on the same date, the authorised share capital of the Company which amounted to €4,767,759,272.00 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each was reduced to €3,875,464,818.70 divided into 38,754,648,453.30 ordinary shares with a nominal value of €0.10 each and its issued share capital which amounted to €892,294,453.30 divided into 8,922,944,533 ordinary shares with a nominal value of €0.10 each was reduced to nil by cancelling all the shares comprising the issued share capital of 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 Cyprus Companies Law, Cap. 113 (the Reduction of Capital).

33. Share capital

Authorised and issued share capital (continued)

2017 (continued)
Following the reduction of the share capital of the Company, the authorised share capital was increased to €4,767,759,272 divided into 47,677,592,720 ordinary shares with a nominal value of €0.10 each through the creation of 8,922,944,533 ordinary shares with a nominal value of €0.10 each, each of which have the same rights and rank pari passu with the existing ordinary shares of the Company. Also, the reserve arising in the books of account of the Company as a result of the cancellation of the Existing Shares was applied in paying up in full at par 8,922,944,533 new ordinary shares with a nominal value of €0.10 each in the capital of the Company, which were issued and allotted, credited as fully paid, to the Company or its nominee(s) in accordance with the scheme of arrangement.

As mentioned above, all of the shares comprising the issued share capital of 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.

2016
There were no changes to the issued share capital during the year 2016.

All issued ordinary shares carry the same rights.

Share premium reserve

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

The share premium as at 31 December 2017 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 was maintained pursuant to the provisions of section 55 of the Companies Law, Cap. 113 and was 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.

The Company continues to explore opportunities, subject to market conditions, to raise up to 1.5% of Additional Tier 1 (AT1) in the near term to further strengthen the Company's capital base. In preparation for a potential issuance of AT1 capital instruments and following the approval of the Cypriot courts in July 2017 and December 2017, the Company proceeded with the full reduction of its capital reduction reserve in order to eliminate the Company's accumulated losses.

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.

Share-based payments - share options

Following the incorporation of the 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 (as approved on 24 November 2015 by the Annual General Meeting of the Company) was replaced by the Share Option Plan which operates at the level of the Bank of Cyprus Holdings Public Limited Company.

34. Dividends

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividends were declared or paid during years 2017 and 2016.

35. Retained earnings

For the purpose of dividend distribution, retained earnings determined at the Company level are the only distributable reserve.

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

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

This special defence contribution is paid by the company on account of the shareholders. During 2017 and 2016 no deemed dividend distribution was paid by the Company.

36. 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 2017 amounted to €885,290 thousand (2016: €847,564 thousand).

37. 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 42).

37.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2017 amount to €38,270 thousand (2016: €13,536 thousand).

37. Contingent liabilities and commitments (continued)

37.2 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 2017 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Company. Further information is disclosed in Note 32.

37.2.1 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 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. Also, a small number of cases are being heard Cyprus. No judgement has yet been issued. Provision has been made based on management's best estimate of probable outflows and based on advice of legal counsel.

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.

37. Contingent liabilities and commitments (continued)

37.2 Pending litigation, claims and regulatory matters (continued)

37.2.1 Pending litigation and claims (continued)

Bail-in related litigation (continued)
Shareholders
Numerous claims were filed by shareholders in 2013 (some of whom were 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. A number of actions for damages have been filed and are still being filed with the District Courts of Cyprus.

Claims based on set-off
Certain claims have been filed by customers against 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.

Provident fund case
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 subsequently filed a civil action in the District Court on the same grounds as the previous case which was filed in the Labour Disputes Court. The Company does not consider that these cases will have a material impact upon its financial position.

37. Contingent liabilities and commitments (continued)

37.2 Pending litigation, claims and regulatory matters (continued)

37.2.1 Pending litigation and claims (continued)

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

UK property lending claims
The Company is the defendant in certain proceedings alleging that the Company is legally responsible for allegedly, inter alia, advancing and 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 had filed a criminal case against the Company and five former members of the Board of Directors for alleged market manipulation offences referring to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. On 14 December 2017, the Court found the Company and its former Chief Executive Officer guilty only in relation to the one charge regarding market manipulation and acquitted all accused of all remaining charges. On 5 January 2018 the Court imposed a fine of €120,000 on the Company and a prison sentence of two and a half years on Mr Andreas Eliades. The Company has filed an appeal against both the decision and the fine imposed on it.

The Attorney General had also filed a separate criminal case against the Company and six former members of the Board of Directors of the Company for alleged market manipulation offences referring to the non-disclosure of the purchase of the Greek Government Bonds during a specified period. On 18 December 2017, the Criminal Court dismissed the proceedings against the accused following a ruling by the Supreme Court (first instance jurisdiction) which rendered the charges void ab initio. The Attorney General has filed an appeal against the first instance ruling of the Supreme Court.

In 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. The hearing of this case has not yet commenced.

37. Contingent liabilities and commitments (continued)

37.2 Pending litigation, claims and regulatory matters (continued)

37.2.2 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
The only pending CySEC investigation against the Company concerns possible price manipulation attributable to the Company for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania. This is now pending for decision by the CySEC's Board. It is not expected that any resulting liability or fine 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 completed in 2016 with no findings being communicated to the Company.

On 1 December 2017 CySEC imposed a series of fines totaling €595 thousand upon the Company and ten of its former directors for failing to adequately provide for doubtful debts in 2011. The fine imposed upon the Company amounts to €15 thousand and the Company has filed a recourse against the decision and fine before the Administrative Court.

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

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. In May 2017 the CPC imposed a fine of €18 million upon the Company and the Company filed a recourse against the decision and the fine. The payment of the fine has been stayed pending the final outcome of the recourse.

37. Contingent liabilities and commitments (continued)

37.2 Pending litigation, claims and regulatory matters (continued)

37.2.2 Provisions for regulatory matters (continued)

UK regulatory matters
During 2017 the Company recognised provision of €35,446 thousand on a conduct principle issue. The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. Management continues to reassess the adequacy of the provision, as well as the assumptions underlying the calculations based upon experience and other relevant factors prevailing at the time.

37.3 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.

38. Net cash flow from operating activities

	2017	2016
	€000	€000
(Loss)/profit before tax	**(532,682)**	168,157
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	**776,865**	360,311
Depreciation of property and equipment	**7,318**	7,550
Amortisation of intangible assets	**7,243**	6,110
Impairment of property held for own use	**582**	-
Impairment of other financial instruments	**5,302**	12,609
Amortisation of discounts/premiums, catch-up adjustment on debt securities and interest on debt securities	**(22,653)**	(22,596)
Loss on sale and write-offs of property and equipment and intangible assets	**204**	54
Net gains on disposal of investment properties and investment properties held for sale	**(29)**	(4,050)
Net losses from revaluation of investment properties and investment properties held for sale	**1,625**	63
Loss on disposal/dissolution of subsidiaries	**465**	10,719
Dividend income	**(30,078)**	(108,073)
Impairment of investments in subsidiaries	**57,611**	24,798
Impairment of balances with Group companies	**1,272**	33,356
Net gains on disposal of available-for-sale investments in equity securities	**(1,506)**	(37,013)
Net gains on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	**(2,104)**	(8,419)
Loss from revaluation of debt securities designated as fair value hedges	**14,150**	16,466
Gains on disposal of stock of property	**(7,590)**	(399)
Impairment of stock of property	**35,932**	11,745
Interest on subordinated loan stock	**22,175**	-
Interest on funding from central banks	**28**	29,656
	334,130	501,044
Change in:		
Loans and advances to banks	**58,016**	49,909
Deposits by banks	**58,312**	189,877
Obligatory balances with central banks	**(10,536)**	(19,655)
Customer deposits	**937,815**	2,350,960
Debit balances with Group companies	**499,624**	64,054
Credit balances with Group companies	**(250,709)**	(65,841)
Loans and advances to customers	**79,462**	236,696
Other assets	**40,424**	12,091
Accrued income and prepaid expenses	**(14)**	59
Other liabilities	**56,760**	32,968
Accrued expenses and deferred income	**(398)**	(1,331)
Derivative financial instruments	**4,937**	(12,380)
Investments at fair value through profit or loss	**10,578**	7,925
Repurchase agreements	**(45)**	(110,784)
Proceeds on disposals of stock of property	**78,081**	28,306
	1,896,437	3,263,898
Tax received	**10,692**	4,951
Net cash flow from operating activities	**1,907,129**	3,268,849

38. Net cash flow from operating activities (continued)

Non-cash transactions

2017

Acquisition of Nicosia Mall Holdings (NMH) Limited
During the year ended 31 December 2017 the Company acquired a 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 48.1.1.

Closure of the operations of Bank of Cyprus branch in Romania
In accordance with the Company's strategy to exit from overseas non-core operations, the operations of the branch in Romania are expected to be terminated, subject to the completion of deregistration formalities with respective authorities during 2018. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to others entities of the Group.

Repossession of collaterals
During the year ended 31 December 2017, the Company acquired stock of property by taking possession of collaterals held as security for loans and advances to customers of €264,517 thousand (2016: €258,555 thousand) (Note 26).

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 48.3.1.

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.

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.

Net cash flow from operating activities – interest and dividends

	2017	2016
	€000	€000
Interest paid	**(175,728)**	(195,046)
Interest received	**734,566**	929,681
Dividends received	**30,078**	108,073
	588,916	842,708

38. Net cash flow from operating activities (continued)

Changes in liabilities arising from financing activities

	Funding from central banks	Subordinated loan stock	**Total**
	€000	€000	**€000**
1 January 2017	850,014	-	**850,014**
Cash flows	79,986	246,500	**326,486**
Other non-cash movements	-	21,985	**21,985**
31 December 2017	930,000	268,485	**1,198,485**

39. Cash and cash equivalents

Cash and cash equivalents comprise:

	2017	2016
	€000	€000
Cash and non-obligatory balances with central banks	**2,837,017**	1,125,351
Loans and advances to banks with original maturity less than three months	**984,064**	769,304
	3,821,081	1,894,655

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

	2017	2016
	€000	€000
Cash and non-obligatory balances with central banks	**2,837,017**	1,125,351
Obligatory balances with central banks	**152,538**	142,002
Total cash and balances with central banks (Note 17)	**2,989,555**	1,267,353

Loans and advances to banks with original maturity less than three months	**984,064**	769,304
Other restricted loans and advances to banks	**117,426**	136,398
Other loans and advances to banks	**33,004**	79,174
Total loans and advances to banks (Note 17)	**1,134,494**	984,876

Restricted loans and advances to banks include collaterals under derivative transactions of €59,997 thousand (2016: €55,017 thousand) which are not immediately available for use by the Company, but are released once the transactions are terminated.

40. Operating leases – The Company as lessee

The total future minimum lease payments under non-cancellable operating leases at 31 December 2017 and 2016 are presented below:

	2017	2016
	€000	€000
Within one year	**2,274**	2,142
Between one and five years	**3,578**	4,637
After five years	**85**	282
	5,937	7,061

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

41. Analysis of assets and liabilities by expected maturity

	2017			2016		
	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	**2,837,017**	**152,538**	**2,989,555**	1,125,906	141,447	1,267,353
Loans and advances to banks	**1,036,779**	**97,715**	**1,134,494**	850,199	134,677	984,876
Derivative financial assets	**1,495**	**16,532**	**18,027**	20,374	460	20,834
Investments	**22,986**	**943,316**	**966,302**	60,264	572,771	633,035
Loans and advances to customers	**3,248,565**	**9,738,192**	**12,986,757**	5,201,405	9,151,155	14,352,560
Balances with Group companies	**310,302**	**757,554**	**1,067,856**	159,412	1,205,570	1,364,982
Prepayments, accrued income and other assets	**23,957**	**92,496**	**116,453**	34,589	118,746	153,335
Stock of property	**178,933**	**474,030**	**652,963**	133,000	361,998	494,998
Property, equipment and intangible assets	**-**	**230,523**	**230,523**	-	217,569	217,569
Investment properties	**-**	**-**	**-**	-	11,625	11,625
Investments in associates	**-**	**97,293**	**97,293**	-	97,293	97,293
Investments in Group companies	**-**	**259,372**	**259,372**	-	198,708	198,708
Deferred tax assets	**26,000**	**357,492**	**383,492**	2,885	447,465	450,350
Non-current assets held for sale	**-**	**-**	**-**	346	-	346
	7,686,034	**13,217,053**	**20,903,087**	7,588,380	12,659,484	20,247,864
Liabilities						
Deposits by banks	**351,066**	**134,983**	**486,049**	347,729	80,008	427,737
Funding from central banks	**100,000**	**830,000**	**930,000**	250,014	600,000	850,014
Repurchase agreements	**-**	**257,322**	**257,322**	-	257,367	257,367
Derivative financial liabilities	**15,283**	**35,687**	**50,970**	9,649	39,191	48,840
Customer deposits	**3,105,628**	**12,877,277**	**15,982,905**	4,206,159	10,838,931	15,045,090
Balances with Group companies	**142,097**	**144,625**	**286,722**	133,483	369,162	502,645
Accruals, deferred income and other liabilities	**237,579**	**88,820**	**326,399**	211,680	44,980	256,660
Subordinated loan stock	**-**	**268,485**	**268,485**	-	-	-
Deferred tax liabilities	**-**	**20,616**	**20,616**	-	20,533	20,533
	3,951,653	**14,657,815**	**18,609,468**	5,158,714	12,250,172	17,408,886

41. 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 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.

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

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'over one year' time band. The impaired loans as defined in Note 42, 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.

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.

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 were classified on the basis of contractual maturities.

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.

42. 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 meet their obligations towards the Company.

The Credit Risk Management Department sets the Company's credit disbursement policies, monitors compliance with credit risk policy applicable to each business line and 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 Management Department, safeguards the effective management of credit risk at all stages of the credit cycle, monitors the quality of decisions and processes and ensures that the 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 Management Department determines the prohibited/high risk/dangerous sectors of the economy and sets out stricter policy rules for these sectors, according to their level of riskiness.

42. 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	2017	2016
	€000	€000
Cyprus	**18,934,865**	18,265,382
Greece	**41,518**	48,399
Russia	**5,786**	10,985
United Kingdom	**30,347**	22,027
Romania	**60,682**	226,751
	19,073,198	18,573,544

Off-balance sheet		
Cyprus	**2,980,446**	2,738,382
Greece	**72,752**	112,596
United Kingdom	**13,000**	-
Romania	**848**	397
	3,067,046	2,851,375

Total on and off-balance sheet		
Cyprus	**21,915,311**	21,003,764
Greece	**114,270**	160,995
Russia	**5,786**	10,985
United Kingdom	**43,347**	22,027
Romania	**61,530**	227,148
	22,140,244	21,424,919

42. 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 Management 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.

42. Risk management – Credit risk (continued)

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

2017	**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)	**2,846,228**	-	-	-	-	-	-	-	**2,846,228**
Loans and advances to banks (Note 17)	**1,134,494**	-	-	-	-	-	-	-	**1,134,494**
Debt securities classified as available-for-sale and loans and receivables (Note 18)	**950,350**	-	-	-	-	-	-	-	**950,350**
Derivative financial instruments (Note 19)	**18,027**	-	-	-	-	-	-	-	**18,027**
Loans and advances to customers (Note 21)	**12,986,757**	333,207	275,111	258,848	18,408,178	747,362	(8,564,126)	11,458,580	**1,528,177**
Debtors (Note 27)	**240**	-	-	-	-	-	-	-	**240**
Balances with Group companies (Note 22)	**1,067,856**	-	-	-	-	-	-	-	**1,067,856**
Other assets	**69,246**	-	-	37,798	-	-	(1,516)	36,282	**32,964**
On-balance sheet total	**19,073,198**	**333,207**	**275,111**	**296,646**	**18,408,178**	**747,362**	**(8,565,642)**	**11,494,862**	**7,578,336**
Contingent liabilities									
Acceptances and endorsements	**7,274**	790	-	-	4,691	79	-	5,560	**1,714**
Guarantees	**773,596**	85,099	464	3,736	153,700	11,405	-	254,404	**519,192**
Commitments							-		
Documentary credits	**29,630**	1,139	7	190	7,550	486	-	9,372	**20,258**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,256,546**	38,068	5,563	1,543	365,487	36,266	-	446,927	**1,809,619**
Off-balance sheet total	**3,067,046**	**125,096**	**6,034**	**5,469**	**531,428**	**48,236**	**-**	**716,263**	**2,350,783**
Total credit risk exposure	**22,140,244**	**458,303**	**281,145**	**302,115**	**18,939,606**	**795,598**	**(8,565,642)**	**12,211,125**	**9,929,119**

42. 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**	-	-	59,656	-	-	(967)	58,689	**37,064**
On-balance sheet total	**18,573,544**	**337,198**	**335,599**	**364,858**	**19,259,024**	**501,500**	**(8,266,344)**	**12,531,835**	**6,041,709**
Contingent liabilities									
Acceptances and endorsements	**6,413**	353	-	-	4,263	13	-	4,629	**1,784**
Guarantees	**797,071**	69,712	1,326	5,529	164,480	6,222	-	247,269	**549,802**
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**	**7,852**	**471,694**	**22,690**	**-**	**616,876**	**2,234,499**
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**

42. 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, 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 the 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.

The Company categorises its loans using the following customer sectors:

- Retail – all personal customers and small businesses with facilities from the Company of up to €260 thousand, excluding professional property loans;
- SME – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with facilities with the Company in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million; and
- Corporate – any company or group of companies (including personal and housing loans to the directors or shareholders of a company) with available credit lines with the Company in excess of an aggregate principal amount of €6 million or having a minimum annual credit turnover of €10 million.

Fair value adjustment on initial recognition
The fair value adjustment on initial recognition relates to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013 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.

42. 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:

2017	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	1,969,360	-	26	8,925	-	**1,978,311**	**(71,636)**	**1,906,675**
Manufacturing	630,101	-	-	7,404	-	**637,505**	**(19,968)**	**617,537**
Hotels and catering	1,283,512	-	141	6,208	-	**1,289,861**	**(47,257)**	**1,242,604**
Construction	2,310,057	-	-	5,816	-	**2,315,873**	**(144,899)**	**2,170,974**
Real estate	1,760,498	15,003	16,349	80,377	1	**1,872,228**	**(89,647)**	**1,782,581**
Private individuals	6,677,670	-	11,884	5	-	**6,689,559**	**(195,686)**	**6,493,873**
Professional and other services	1,166,920	-	2,489	8,984	13,691	**1,192,084**	**(53,527)**	**1,138,557**
Other sectors	1,000,451	338	16	35,552	-	**1,036,357**	**(37,438)**	**998,919**
	16,798,569	**15,341**	**30,905**	**153,271**	**13,692**	**17,011,778**	**(660,058)**	**16,351,720**
By customer sector								
Corporate	7,086,004	15,341	29,074	153,271	13,692	**7,297,382**	**(325,313)**	**6,972,069**
SMEs	3,254,742	-	1,104	-	-	**3,255,846**	**(121,514)**	**3,134,332**
Retail								
- housing	4,097,800	-	-	-	-	**4,097,800**	**(88,799)**	**4,009,001**
- consumer, credit cards and other	2,049,335	-	727	-	-	**2,050,062**	**(116,752)**	**1,933,310**
International banking services	256,554	-	-	-	-	**256,554**	**(3,005)**	**253,549**
Wealth management	54,134	-	-	-	-	**54,134**	**(4,675)**	**49,459**
	16,798,569	**15,341**	**30,905**	**153,271**	**13,692**	**17,011,778**	**(660,058)**	**16,351,720**

42. Risk management – Credit risk (continued)

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

2017	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	3,306,747	15,341	26,668	96,075	13,692	**3,458,523**	**(74,824)**	**3,383,699**
SMEs	1,219,350	-	1,104	-	-	**1,220,454**	**(14,566)**	**1,205,888**
Retail								
- housing	3,007,487	-	-	-	-	**3,007,487**	**(30,274)**	**2,977,213**
- consumer, credit cards and other	1,085,146	-	727	-	-	**1,085,873**	**(14,348)**	**1,071,525**
Restructuring								
- major corporate	1,292,607	-	-	33,860	-	**1,326,467**	**(55,850)**	**1,270,617**
- corporate	777,460	-	-	-	-	**777,460**	**(15,303)**	**762,157**
- SMEs	1,085,221	-	-	-	-	**1,085,221**	**(37,096)**	**1,048,125**
- retail housing	437,892	-	-	-	-	**437,892**	**(6,319)**	**431,573**
- retail other	226,623	-	-	-	-	**226,623**	**(8,037)**	**218,586**
Recoveries								
- corporate	1,709,190	-	2,406	23,336	-	**1,734,932**	**(179,336)**	**1,555,596**
- SMEs	950,171	-	-	-	-	**950,171**	**(69,852)**	**880,319**
- retail housing	652,421	-	-	-	-	**652,421**	**(52,206)**	**600,215**
- retail other	737,566	-	-	-	-	**737,566**	**(94,367)**	**643,199**
International banking services	256,554	-	-	-	-	**256,554**	**(3,005)**	**253,549**
Wealth management	54,134	-	-	-	-	**54,134**	**(4,675)**	**49,459**
	16,798,569	**15,341**	**30,905**	**153,271**	**13,692**	**17,011,778**	**(660,058)**	**16,351,720**

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.

42. 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 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**

42. 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**

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 €69,616 thousand (2016: €82,154 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €98,660 thousand (2016: €106,968 thousand).

42. Risk management – Credit risk (continued)

Currency concentration of loans and advances to customers

2017	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	15,986,620	15,341	16,025	152,212	13,692	**16,183,890**	**(642,226)**	**15,541,664**
US Dollar	228,660	-	-	-	-	**228,660**	**(525)**	**228,135**
British Pound	74,707	-	14,880	92	-	**89,679**	**(423)**	**89,256**
Russian Rouble	229	-	-	-	-	**229**	**(1)**	**228**
Romanian Lei	-	-	-	967	-	**967**	**-**	**967**
Swiss Franc	451,883	-	-	-	-	**451,883**	**(14,525)**	**437,358**
Other currencies	56,470	-	-	-	-	**56,470**	**(2,358)**	**54,112**
	16,798,569	**15,341**	**30,905**	**153,271**	**13,692**	**17,011,778**	**(660,058)**	**16,351,720**
2016								
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**

42. 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:

	2017			2016		
	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	**9,601,362**	**(140,405)**	**9,460,957**	9,749,523	(166,185)	9,583,338
Past due but not impaired	**2,044,987**	**(29,554)**	**2,015,433**	2,214,988	(38,743)	2,176,245
Impaired	**5,365,429**	**(490,099)**	**4,875,330**	6,702,108	(715,984)	5,986,124
	17,011,778	**(660,058)**	**16,351,720**	18,666,619	(920,912)	17,745,707

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those 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 2017 the total gross amount of non-contractual write-offs recorded by the Company amounted to €466,248 thousand (2016: €517,694 thousand). The remaining gross loan balance of these customers as at 31 December 2017 was €326,636 thousand (2016: €305,591 thousand) of which €23,090 thousand (2016: €19,651 thousand) were past due for more than 90 days but not impaired and €230,832 thousand (2016: €130,964 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.

2017	**Grade 1**	**Grade 2**	**Grade 3**	**Total**
	€000	**€000**	**€000**	**€000**
Cyprus	7,031,139	1,384,121	1,158,512	**9,573,772**
United Kingdom	16,025	744	10,607	**27,376**
Romania	-	-	214	**214**
	7,047,164	**1,384,865**	**1,169,333**	**9,601,362**

2016				
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**

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.

42. 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

	2017	2016
Past due analysis:	**€000**	€000
- up to 30 days	**414,720**	442,742
- 31 to 90 days	**254,157**	374,675
- 91 to 180 days	**121,247**	125,468
- 181 to 365 days	**248,755**	140,078
- over one year	**1,006,108**	1,132,025
	2,044,987	2,214,988

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 2017 is €1,583,138 thousand (2016: €1,706,196 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

	2017		2016	
	Gross loans and advances	**Fair value of collateral**	Gross loans and advances	Fair value of collateral
	€000	**€000**	€000	€000
Cyprus	**5,198,278**	**3,297,979**	6,374,803	3,953,087
Greece	**15,341**	**7,041**	19,936	17,962
Russia	**13,691**	**13,692**	20,635	13,692
United Kingdom	**3,213**	**-**	6,118	490
Romania	**134,906**	**19,825**	280,616	51,999
	5,365,429	**3,338,537**	6,702,108	4,037,230

42. 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.

	2017	2016
Impaired:	**€000**	€000
- no arrears	**401,719**	471,855
- up to 30 days	**141,329**	61,484
- 31 to 90 days	**20,880**	28,921
- 91 to 180 days	**26,340**	44,060
- 181 to 365 days	**73,073**	51,438
- over one year	**4,702,088**	6,044,350
	5,365,429	6,702,108

Provision for impairment of loans and advances to customers

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

2017	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
1 January	3,170,162	5,685	217,300	**3,393,147**
Transfer between geographical areas	23	(23)	-	**-**
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	**(12,792)**
Foreign exchange and other adjustments	77,233	(24)	3,116	**80,325**
Applied in writing off impaired loans and advances	(831,708)	(33)	(105,913)	**(937,654)**
Interest accrued on impaired loans and advances	(97,951)	(2)	(1,406)	**(99,359)**
Collection of loans and advances previously written off	5,975	-	-	**5,975**
Charge for the year (Note 14)	925,161	(2,650)	12,810	**935,321**
31 December	**3,236,103**	**2,953**	**125,907**	**3,364,963**
Individual impairment	**2,367,205**	**2,944**	**113,495**	**2,483,644**
Collective impairment	**868,898**	**9**	**12,412**	**881,319**

42. Risk management – Credit risk (continued)

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

2016	Cyprus	United Kingdom	Other countries	**Total**
	€000	€000	€000	**€000**
1 January	3,731,750	24,801	223,920	**3,980,471**
Acquisition of subsidiary	(8,577)	-	-	**(8,577)**
Foreign exchange and other adjustments	113,110	(1,125)	2,709	**114,694**
Applied in writing off impaired loans and advances	(923,723)	(15,805)	(45,051)	**(984,579)**
Interest accrued on impaired loans and advances	(138,603)	-	(1,909)	**(140,512)**
Collection of loans and advances previously written off	1,872	-	-	**1,872**
Charge for the year (Note 14)	394,333	(2,186)	37,631	**429,778**
31 December	**3,170,162**	**5,685**	**217,300**	**3,393,147**
Individual impairment	**2,779,380**	**5,207**	**217,293**	**3,001,880**
Collective impairment	**390,782**	**478**	**7**	**391,267**

The above table does not include the fair value adjustments on initial recognition of loans acquired from Laiki Bank and provisions for impairment on financial guarantees and commitments which are part of 'Accruals, deferred income and other liabilities' (Note 32).

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

At 31 December 2017 the weighted average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is c.34% (2016: average of 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 timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average 6 years (2016: average of 3 years except for customers in Debt Recovery, average of 6 years).

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

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

The above assumptions are also influenced by the ongoing regulatory dialogue 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.

42. 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 2017. The impact on the provisions for impairment of loans and advances is presented below:

	Increase/(decrease) on provisions for impairment of loans and advances
Change in provisions assumptions:	**€000**
Increase the timing of recovery from collaterals by 1 year for all customers	120,700
Decrease the timing of recovery from collaterals by 1 year for all customers	(121,875)
Increase haircuts by 5% on all customers	179,447
Decrease haircuts by 5% on all customers	(169,291)
Increase the average expected recovery period by 1 year and decrease of haircuts by 5% on all customers	(47,199)
Decrease the average expected recovery period by 1 year and increase haircuts by 5% on all customers	59,748

Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2017 and 2016 by taking possession of collateral held as security, was as follows:

	2017	2016
	€000	€000
Residential property	**77,932**	85,171
Commercial and other property	**386,501**	921,185
	464,433	1,006,356

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 2017 amounted to €1,451,912 thousand (2016: €1,268,811 thousand, including an amount of €3,072 thousand relating to commercial and other property which were classified as held for sale).

The disposals of repossessed assets during 2017 amounted to €241,669 thousand (2016: €128,887 thousand).

42. Risk management – Credit risk (continued)

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 restructuring solutions, which are suitable for the borrower and acceptable for the Company.

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.

42. Risk management – Credit risk (continued)

Forbearance (continued)

Long-term restructuring solutions can include the following:

- Interest rate reduction: permanent or temporary reduction of interest rate (fixed or variable) into a fair and sustainable rate.
- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Discounted Sale (Sale by agreement/assisted sale): when the Company and the borrower agree to voluntarily dispose of the secured asset(s) to partially or fully repay the debt.
- 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.
- Conversion of currency: the aim should be to align the currency of the debt to the currency of the cash flows.
- Alteration of contract conditions/covenants: when the Company discharges the borrower of covenants or conditions included in a loan agreement.
- 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/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.
- Partial or total debt forgiveness: this corresponds to the Company forfeiting the right to legally recover 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.
- Debt forgiveness (write-off) and restructuring: this corresponds to the Company forfeiting the right to legally recover part of the amount of debt outstanding by the borrower.
- Rollover: consists of modifying the maturity date, providing for the same interest for the extended period of time granted for repayment.
- 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.
- 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.

In addition, the following solutions can be used:

a) 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.
b) Capture surplus cash: aims at securing cash flows, which may currently not be unencumbered and/or not pledged by the Bank. Surplus cash may be obtained, for example, from higher cash flows from operations, as well as from disposal of collaterals, or unencumbered assets.

42. 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.

2017	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
1 January	7,401,870	337	277	78,881	**7,481,365**
New loans and advances rescheduled in the year	402,521	-	89	3,424	**406,034**
Assets no longer classified as rescheduled (including repayments)	(1,326,918)	-	(103)	(52,034)	**(1,379,055)**
Applied in writing off rescheduled loans and advances	(461,468)	-	(2)	(13,076)	**(474,546)**
Interest accrued on rescheduled loans and advances	278,858	1	16	1,381	**280,256**
Foreign exchange adjustments	(21,917)	-	(10)	(327)	**(22,254)**
31 December	**6,272,946**	**338**	**267**	**18,249**	**6,291,800**
2016					
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**

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 ECB Guidance to Banks on Non-Performing Loans.

42. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit quality

2017	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
Neither past due nor impaired	3,158,894	-	207	79	**3,159,180**
Past due but not impaired	1,218,160	-	1	-	**1,218,161**
Impaired	1,895,892	338	59	18,170	**1,914,459**
	6,272,946	**338**	**267**	**18,249**	**6,291,800**
2016					
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**

Fair value of collateral

2017	Cyprus	United Kingdom	Romania	**Total**
	€000	€000	€000	**€000**
Neither past due nor impaired	2,818,937	170	93	**2,819,200**
Past due but not impaired	1,020,063	-	-	**1,020,063**
Impaired	1,437,734	-	9,948	**1,447,682**
	5,276,734	**170**	**10,041**	**5,286,945**
2016				
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**

The fair value of collateral presented above has been computed based on the extent that the collateral mitigates credit risk.

42. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration

2017	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
By economic activity					
Trade	607,700	-	-	713	**608,413**
Manufacturing	201,377	-	-	122	**201,499**
Hotels and catering	429,520	-	2	-	**429,522**
Construction	1,222,591	-	-	11,933	**1,234,524**
Real estate	862,508	-	-	5,401	**867,909**
Private individuals	2,221,465	-	265	-	**2,221,730**
Professional and other services	359,970	-	-	80	**360,050**
Other sectors	367,815	338	-	-	**368,153**
	6,272,946	**338**	**267**	**18,249**	**6,291,800**
By customer sector					
Corporate	2,923,699	338	-	18,249	**2,942,286**
SMEs	1,310,652	-	125	-	**1,310,777**
Retail					
- housing	1,430,760	-	-	-	**1,430,760**
- consumer, credit cards and other	552,908	-	142	-	**553,050**
International banking services	53,103	-	-	-	**53,103**
Wealth management	1,824	-	-	-	**1,824**
	6,272,946	**338**	**267**	**18,249**	**6,291,800**

42. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Credit risk concentration (continued)

2017	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
By business line					
Corporate	795,714	338	-	14,637	**810,689**
SMEs	344,957	-	125	-	**345,082**
Retail					
- housing	958,415	-	-	-	**958,415**
- consumer, credit cards and other	290,308	-	142	-	**290,450**
Restructuring					
- major corporate	934,096	-	-	79	**934,175**
- corporate	624,602	-	-	-	**624,602**
- SMEs	739,537	-	-	-	**739,537**
- retail housing	301,111	-	-	-	**301,111**
- retail other	122,749	-	-	-	**122,749**
Recoveries					
- corporate	569,287	-	-	3,533	**572,820**
- SMEs	226,158	-	-	-	**226,158**
- retail housing	171,234	-	-	-	**171,234**
- retail other	139,851	-	-	-	**139,851**
International banking services	53,103	-	-	-	**53,103**
Wealth management	1,824	-	-	-	**1,824**
	6,272,946	**338**	**267**	**18,249**	**6,291,800**

42. 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 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**

42. 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**

42. Risk management – Credit risk (continued)

Rescheduled loans and advances to customers (continued)

Provisions for impairment

2017	Cyprus	Greece	United Kingdom	Romania	**Total**
	€000	€000	€000	€000	**€000**
Individual impairment	797,975	338	58	10,078	**808,449**
Collective impairment	594,075	-	1	-	**594,076**
	1,392,050	**338**	**59**	**10,078**	**1,402,525**
2016					
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**

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 Investors Service rating as follows:

	2017	2016
	€000	€000
Aaa – Aa3	**310,227**	492,870
A1 – A3	**554,579**	220,509
Baa1 – Baa3	**127,752**	36,844
Ba1 – Ba3	**2,870,600**	37,067
B1 – B3	**-**	1,133,287
Caa - C	**10,173**	10,695
Unrated	**50,788**	147,692
Other receivables from banks	**56,603**	41,085
	3,980,722	2,120,049

Band Ba1-Ba3 above includes an amount of €152,538 thousand which mainly relates to obligatory deposits for liquidity purposes with the CBC. As at 31 December 2017, bank balances with carrying value of €33,004 thousand are impaired (2016: €78,725 thousand) with cumulative impairment loss of €24,998 thousand (2016: €55,655 thousand).

42. 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 Investors Service rating, their issuer and classification, as follows:

	2017	2016
	€000	€000
Aaa – Aa3	**437,857**	349,565
Baa1 – Baa3	**12,306**	12,507
Ba1-Ba3	**499,687**	-
B1 – B3	**-**	256,979
Unrated	**500**	-
	950,350	619,051
Issued by:		
- Cyprus government	**499,687**	256,979
- other governments	**304,441**	329,211
- banks and other corporations	**146,222**	32,861
	950,350	619,051
Classified as:		
- investments at fair value through profit or loss	**-**	10,426
- available-for-sale investments	**901,692**	540,551
- investments classified as loans and receivables	**48,658**	68,074
	950,350	619,051

43. 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 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.

43. Risk management – Market risk (continued)

Interest rate risk (continued)

Interest rate risk is managed through a Year 1 Interest Rate Effect (IRE) limit on the maximum reduction of net interest income under the various interest rate shock scenarios. Limits are set as a percentage of the Company capital and as a percentage of the net interest income (when positive) and are allocated to the various banking units of the Company. In the case of Cyprus, there are different limits for Euro and foreign currencies.

Sensitivity analysis

The table below sets out the impact on the Company's net interest income, over a one-year period, from reasonably possible parallel changes in the interest rates of the main currencies:

	Euro	**US Dollar**	**British Pound**	**Other currencies**	**Total**
Parallel change in interest rates ((increase)/decrease in net interest income)	**€000**	**€000**	**€000**	**€000**	**€000**
2017					
+1.6% for Russian Rouble +0.6% for Euro, US Dollar and British Pound +0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	**24,280**	**190**	**39**	**605**	**25,114**
-1.7% for Russian Rouble -0.6% for Euro, US Dollar and British Pound -0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other currencies	**(28,459)**	**(1,428)**	**(313)**	**(1,333)**	**(31,533)**
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)

43. 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 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.

	Impact on profit/loss before tax	**Impact on equity**
Change in interest rates	**€000**	**€000**
2017		
+0.4% for Swiss Franc +0.2% for Japanese Yen +0.6% for all other currencies	**834**	**(3,139)**
-0.3% for Swiss Franc -0.2% for Japanese Yen -0.6% for all other currencies	**(834)**	**3,139**
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

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.

43. Risk management – Market risk (continued)

Currency risk (continued)

2017	**Change in foreign exchange rate**	**Impact on profit/loss after tax**	**Impact on equity**
	%	**€000**	**€000**
US Dollar	**+10**	**1,109**	**-**
Russian Rouble	**+25**	**2,714**	**22,323**
Romanian Lei	**+10**	**(419)**	**(407)**
Swiss Franc	**+20**	**3,812**	**-**
British Pound	**+20**	**868**	**(34,079)**
Japanese Yen	**+10**	**197**	**-**
Other currencies	**+10**	**(18)**	**-**
US Dollar	**-10**	**(908)**	**-**
Russian Rouble	**-25**	**(1,628)**	**(13,394)**
Romanian Lei	**-10**	**343**	**333**
Swiss Franc	**-20**	**(2,541)**	**-**
British Pound	**-20**	**(578)**	**22,719**
Japanese Yen	**-10**	**(161)**	**-**
Other currencies	**-10**	**14**	**-**
2016			
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)	(19,358)
Japanese Yen	+10	307	-
Other currencies	+10	174	-
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	12,905
Japanese Yen	-10	(251)	-
Other currencies	-10	(143)	-

43. Risk management – Market risk (continued)

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.

2017	Change in index	Impact on profit/loss before tax	Impact on equity
	%	€000	€000
Cyprus stock exchange	**+25**	**306**	**1,256**
Athens exchange	**+25**	**-**	**17**
Other stock exchanges and non listed	**+20**	**37**	**1,785**
Cyprus stock exchange	**-25**	**(306)**	**(1,256)**
Athens exchange	**-25**	**-**	**(17)**
Other stock exchanges and non listed	**-20**	**(284)**	**(1,539)**
2016			
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)

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 Investors Service rating of the debt securities portfolio of the Company as at 31 December 2017 was Baa1 (2016: Baa1). The average rating excluding the Cyprus Government bonds for 31 December 2017 was Aa1 (2016:Aa3).

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).

43. Risk management – Market risk (continued)

Price risk (continued)

Debt securities price risk (continued)
The table below indicates how the profit/loss before tax and equity of the 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**
2017		
+3% for A3 and above rated bonds	**-**	**13,038**
+10% for below A3 rated bonds	**-**	**45,614**
-3% for A3 and above rated bonds	**-**	**(13,038)**
-10% for below A3 rated bonds	**-**	**(45,614)**
2016		
+6.5%	667	33,614
-6.5%	(667)	(33,614)

44. 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.

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.

44. Risk management – Liquidity risk and funding (continued)

Management and structure (continued)

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. Every unit is responsible for managing its liquidity and targets to finance its own needs. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to 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 (RP). The key objectives of the RP are to set the key Recovery and Early Warning indicators, so as to monitor these consistently and to set in advance a range of recovery options to enable the Company to be adequately prepared to respond to stressed conditions and restore the Company's position.

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: 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 eligible unencumbered/available bonds. Most of these are High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible bonds and excludes domestic issues of Cyprus Government 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.

44. Risk management – Liquidity risk and funding (continued)

Monitoring process (continued)

Weekly
Market Risk prepares a weekly report of Euro and foreign currency liquidity mismatch, which also discloses the level of liquidity ratios 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.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and the Board Risk Committee quarterly. Moreover, Market Risk reports the NSFR, Leverage Ratio to the CBC/ECB quarterly and various other liquidity reports, included in the short-term exercise of the SSM per the SREP guidelines.

Annually
The Company prepares on an annual basis its report on ILAAP.

As part of the Company's procedures for monitoring and managing liquidity risk, there is a Group LCP for handling liquidity difficulties. The LCP details the steps to be taken in the event that liquidity problems arise, which escalate to a special meeting of the extended ALCO. The LCP sets out the members of this Committee and a series of the possible actions that can be taken. This LCP, as well as the Group's Liquidity Policy, is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated Liquidity Policy with its recommendations to the Board through the Board Risk Committee for approval. The approved Liquidity Policy is notified to the SSM.

Liquidity ratios

The LCR presented in the table below, is calculated based on the Delegated Regulation (EU) 2015/61. It is designed to establish a minimum level of high-quality liquid assets sufficient to meet an acute stress lasting for 30 calendar days. During 2017 the minimum requirement was 80% and increased to 100% on 1 January 2018.

The LCR is calculated monthly by Market Risk and sent to CBC/ECB 15 days after the month end. Following ELA repayment in January 2017, the Company has been concentrating its efforts in increasing liquid assets and thus improving its LCR.

44. Risk management – Liquidity risk and funding (continued)

Liquidity ratios (continued)

The LCR ratio was as follows:

	2017	2016
	%	%
End of reporting period	**188**	49
Average monthly ratio	**118**	5
Highest monthly ratio	**188**	49
Lowest monthly ratio	**57**	0

As at 31 December 2017, the Company is in compliance with its regulatory liquidity requirement with respect to the LCR.

As at 31 December 2017, the Company was not in compliance with all of the local regulatory liquidity requirements (which were abolished on 1 January 2018 as per Article 412(5) of EU Regulation No 575/2013) with respect to its operations in Cyprus. More specifically, the Company was in compliance with the CBC EUR stock ratio and the CBC EUR 0-30 days mismatch ratio, but was not in compliance with the rest of the local regulatory liquidity requirements.

In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR and which became effective on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applies stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR than the ones defined in the Commission Delegated Regulation (EU) 2015/61 as well as additional liquidity requirements in the form of outflow rates on other items that are not subject to any outflow rates as per the Regulation. The measure will be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones, and are applicable from 1 July 2018 until 31 December 2018. Specifically, there will be a reduction of 50% of the LCR add-on rates on 1 July 2018. The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macroprudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilized. As at 31 December 2017, the Company was in compliance with LCR add-on implemented on 1 January 2018.

Main sources of funding

During the year 2017, the Company's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

ELA was fully repaid on 5 January 2017 (31 December 2016: €200 million).

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

The funding via Eurosystem monetary policy operations ranges from short term to long term.

As at 31 December 2017, ECB funding was at €930 million of which €100 million was from the weekly MRO and €830 million was from the 4-year TLTRO II.

In January 2017, the Company issued a €250 million unsecured and subordinated Tier 2 Capital Note under the Company's EMTN Programme. Further information is disclosed in Note 31.

44. Risk management – Liquidity risk and funding (continued)

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. 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.

Collateral requirements

The carrying values of the Company's encumbered assets as at 31 December 2017 and 2016 are summarised below:

	2017	2016
	€000	€000
Cash and other liquid assets	**120,525**	139,975
Investments	**315,425**	358,252
Loans and advances	**2,976,614**	2,609,248
Property	**-**	93,574
	3,412,564	3,201,049

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 2017 and 2016 are mainly used as collateral for funding from the Central Banks (ECB, CBC and Bank of England), the covered bond and government deposits.

As at 31 December 2017 no loans and advances to customers or property were pledged as collateral for ELA (2016: €787 million). Loans and advances to customers include mortgage loans of a nominal amount €1,001 million (2016: €1,002 million) in Cyprus, pledged as collateral for the covered bond issued by the Company in 2011 under the Covered Bond Programme. Furthermore housing loans of a nominal amount €1,273 million (2016: €765 million) in Cyprus are pledged as collateral for the funding from the ECB (Note 29). At 31 December 2017, loans of a nominal amount of €715 million in Cyprus are pledged as collateral for deposits of the Republic of Cyprus (2016: nil).

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 Covered Bond Programme, the Company has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. The covered bonds have a maturity date of 12 December 2018, bear interest of 3 months Euribor plus 3.25% on a quarterly basis and are traded on the Luxemburg Bourse. The covered bonds have a Conditional Pass-Through structure. All the bonds are held by the Company. The credit rating of the covered bonds was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. As from 2 October 2015, it has been placed as collateral for accessing funding from the ECB.

44. Risk management – Liquidity risk and funding (continued)

Collateral requirements (continued)

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 does not include Cyprus Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations.

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.

Subordinated loan stock is classified in the relevant time band according to the remaining contractual maturity, ignoring the call date.

The amounts presented in the table below are not equal to the amounts presented on the balance sheet, since the table below presents all cash flows (including interest to maturity) on an undiscounted basis.

44. 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.

2017	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	2,917,182	29,509	34,371	8,493	-	**2,989,555**
Loans and advances to banks	1,001,050	1,188	1,536	110,476	20,244	**1,134,494**
Investments at fair value through profit or loss	734	-	-	-	490	**1,224**
Loans and advances to customers	4,180,600	204,569	616,425	2,949,801	5,035,362	**12,986,757**
Fair value of net settled derivative assets	1,414	69	11	16,369	164	**18,027**
Non-trading investments	19,692	-	10,480	601,319	333,587	**965,078**
Other assets	7,520	1,750	6,750	53,466	-	**69,486**
Balances with Group companies	69,117	118	241,067	696,149	61,405	**1,067,856**
Total financial assets	**8,197,309**	**237,203**	**910,640**	**4,436,073**	**5,451,252**	**19,232,477**
Financial liabilities						
Deposits by banks	185,645	140,361	25,513	460	141,511	**493,490**
Funding from central banks	100,000	-	-	830,000	-	**930,000**
Repurchase agreements	-	-	-	267,524	10,908	**278,432**
Customer deposits	8,773,099	2,935,976	3,908,936	456,120	5,320	**16,079,451**
Subordinated loan stock	23,125	-	-	92,500	362,125	**477,750**
Fair value of net settled derivative liabilities	14,039	992	252	23,789	11,898	**50,970**
Other liabilities	79,566	12,051	21,691	4,820	2,410	**120,538**
Balances with Group companies	104,367	19,422	18,308	144,625	-	**286,722**
Total undiscounted financial liabilities	**9,279,841**	**3,108,802**	**3,974,700**	**1,819,838**	**534,172**	**18,717,353**

44. 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**
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**

44. Risk management – Liquidity risk and funding (continued)

Analysis of financial assets and liabilities based on remaining contractual maturity (continued)

2017	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	403,689	6,552	1,966	-	-	**412,207**
Contractual amounts payable	(402,221)	(6,465)	(1,956)	-	-	**(410,642)**
	1,468	**87**	**10**	**-**	**-**	**1,565**
Financial liabilities						
Contractual amounts receivable	919,721	181,629	1,106	-	-	**1,102,456**
Contractual amounts payable	(933,009)	(182,582)	(1,107)	-	-	**(1,116,698)**
	(13,288)	**(953)**	**(1)**	**-**	**-**	**(14,242)**

Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2,849	3,062	1,363	-	-	**7,274**
Guarantees	132,897	134,110	248,430	167,153	91,006	**773,596**
Commitments						
Documentary credits	3,382	5,447	17,931	505	2,365	**29,630**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,256,546	-	-	-	-	**2,256,546**
	2,395,674	**142,619**	**267,724**	**167,658**	**93,371**	**3,067,046**

44. 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**

45. Capital management

The primary objective of the Group's capital management is to ensure compliance with the relevant regulatory capital requirements and to maintain strong credit ratings and healthy capital adequacy ratios in order to support its business and maximise shareholders' value.

The Company follows the EU Regulations, primarily the CRR and CRDIV and any other decisions or circulars issued by the regulators, ECB and CBC, with respect to the capital adequacy calculations.

The Group and the Company have complied with the minimum capital requirements (Pillar I and Pillar II).

The Pillar 3 Disclosures Report (unaudited) of the Bank of Cyprus Holdings Public Limited Company 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).

46. Related party transactions

	2017	2016	**2017**	2016
	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**	10	**265**	314
Loans and advances to other key management personnel and connected persons			**2,885**	2,955
Total loans and advances as at 31 December			**3,150**	3,269
Loans and advances as at 31 December:				
- members of the Board of Directors and other key management personnel			**2,736**	2,811
- connected persons			**414**	458
			3,150	3,269
Interest income for the year			**85**	112

Deposits as at 31 December:				
- members of the Board of Directors and other key management personnel			**2,737**	2,981
- connected persons			**3,088**	3,559
			5,825	6,540
Interest expense on deposits for the year			**64**	69

Accruals and other liabilities as at 31 December:				
- balances with entity providing key management personnel services			**5,236**	2,635
Staff costs, consultancy and restructuring expenses			**13,363**	10,782

46. 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 €76 thousand (2016: €61 thousand). As at 31 December 2017 and 2016, 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 €431 thousand (2016: €385 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 their connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2017 amounted to €663 thousand (2016: €635 thousand).

At 31 December 2017 the Company has a deposit of €5,367 thousand (2016: €4,370) 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.

During the year ended 31 December 2017 commissions amounting to €7 thousand were received by the Company for the provision of investment services.

Additionally, during the year ended 31 December 2017, the Company has signed an agreement to rent property owned by connected persons to the director Mr Michalis Spanos covering the period from 1 June 2017 to 31 May 2027. The monthly rental expense amounts to €4 thousand commencing from June 2018.

There were no other transactions during the years ended 31 December 2017 and 2016 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 on the same terms as those applicable to the rest of the Company's employees and their connected persons on the same terms as those of customers.

46. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel

	2017	2016
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**2,300**	1,848
Employer's contributions	**91**	110
Retirement benefit plan costs	**202**	168
	2,593	2,126
Non-executives		
Fees	**-**	861
Total directors' emoluments	**2,593**	2,987
Other key management personnel emoluments		
Salaries and other short term benefits	**2,430**	2,693
Termination benefits	**-**	200
Employer's contributions	**111**	140
Retirement benefit plan costs	**103**	121
Total other key management personnel emoluments	**2,644**	3,154
Total	**5,237**	6,141

Fees and benefits are included for the period that they serve as members of the Board of Directors.

The retirement benefit plan costs relate to contributions paid for defined contribution plan.

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:

	2017	2016
	€000	€000
John Patrick Hourican (Chief Executive Officer)	**2,104**	1,652
Christodoulos Patsalides (Deputy Chief Executive Officer and Chief Operating Officer)	**196**	196
	2,300	1,848

The retirement benefit plan costs for 2017 amounting to €202 thousand (2016: €168 thousand) relate to: Mr John Patrick Hourican €184 thousand (2016: €150 thousand) and Dr Christodoulos Patsalides €18 thousand (2016: €18 thousand).

46. Related party transactions (continued)

Fees and emoluments of members of the Board of Directors and other key management personnel *(continued)*

Non-executive Directors

	2017	2016
	€000	€000
Josef Ackermann	**-**	150
Wilbur L. Ross Jr.	**-**	120
Arne Berggren	**-**	115
Maksim Goldman	**-**	120
Michalis Spanos	**-**	100
Ioannis Zographakis	**-**	115
Marios Kalochoritis	**-**	90
Michael Heger	**-**	51
Lyn Grobler	**-**	-
Anat Bar-Gera	**-**	-
	-	861

Following the introduction of Bank of Cyprus Holdings Public Limited Company as the holding company of the Company, director fees are reflected as an expense of the holding company and as a result no director fees are disclosed in the table above. However, these are recharged by the holding company back to the Company and the recharge cost is included within 'Other operating expenses'.

For the year 2016, 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.

47. 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 2017 are:

Company	Country	Activities	Percentage holding (%)
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	100
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
LCP Holdings and Investments Public 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
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
Bank of Cyprus Financial Services Ltd (formerly BOC Financial Services Ltd)	United Kingdom	Financial advisory services	100
BOC Asset Management Romania S.A. (formerly Cyprus Leasing S.A.)	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

47. Group companies (continued)

In addition to the above companies, at 31 December 2017 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, 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, 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, Kernland Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Melsolia 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, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Citlali Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Camela Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Mostero Properties Ltd, Helal Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Bonsova Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozy Properties Ltd, Palmco Properties Ltd, Thermano Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Venicous Properties Ltd, Lasmane Properties Ltd, Lorman 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, Artozaco Properties Ltd, Elizano Properties Ltd, Letimo Properties Ltd (previously K. Athienitis Kalamon Ltd), Allodica Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Carnota Properties Ltd, Desogus Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Nelipo Properties Ltd, Paradexia Properties Ltd, Paramina Properties Ltd, Prosilia Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Barway Properties Ltd, Cimonia Properties Ltd, Coeval Properties Ltd, Comenal Properties Ltd, Demoro Properties Ltd, Elosis Properties Ltd, Fastflow Properties Ltd, Finacap Properties Ltd, Finevo Properties Ltd, Ganina Properties Ltd, Nicosia Mall Property (NMP) Ltd (previously Gileco Properties Ltd), Intelamon Properties Ltd, Jomento Properties Ltd, Kenelyne Properties Ltd, Lancast Properties Ltd, Mazima Properties Ltd, Nesia Properties Ltd, Nigora Properties Ltd, Nivoco Properties Ltd, Pariza Properties Ltd, Primaco Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Unoplan Properties Ltd, Venetolio Properties Ltd and Zandexo Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Romaland Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2017 the Company had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd, 51% shareholding in Nicosia Mall Management (NMM) Limited (previously Devoco Properties Limited), Nicosia Mall Finance (NMF) Limited (previously Harimo Properties Limited) and Nicosia Mall Holdings (NMH) Limited (previously NCMH Nicosia City Mall Holdings Limited) whose main activities are the holding of shares and other investments and the provision of services.

47. Group companies (continued)

At 31 December 2017 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Belvesi Properties Ltd, Tavoni Properties Ltd, Amary Properties Ltd, Hamura Properties Ltd, Meriaco Properties Ltd, Flymoon Properties Ltd, Holstone Properties Ltd, Alepar Properties Ltd, Calandomo Properties Ltd, Cramonco Properties Ltd, Bigwaive Properties Ltd, Monata Properties Ltd, Valecast Properties Ltd, Legamon Properties Ltd, Teresan Properties Ltd, Aktilo Properties Ltd, Alezia Properties Ltd, Aparno Properties Ltd, Arleta Properties Ltd, Asendo Properties Ltd, Azemo Properties Ltd, Domilas Properties Ltd, Dorfilo Properties Ltd, Enelo Properties Ltd, Gylito Properties Ltd, Kuvena Properties Ltd, Lamezoco Properties Ltd, Mikosa Properties Ltd, Noleta Properties Ltd, Nuca Properties Ltd, Odolo Properties Ltd, Orleania Properties Ltd, Prodino Properties Ltd, Racotino Properties Ltd, Ravenica Properties Ltd, Rondemio Properties Ltd, Rouena Properties Ltd, Rylico Properties Ltd, Sailoma Properties Ltd, Stormino Properties Ltd, Tolmeco Properties Ltd, Vatino Properties Ltd, Virero Properties Ltd, Volparo Properties Ltd, Wiceco Properties Ltd and Zedoma Properties Ltd.

Romania: 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, 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, Landanafield Properties Ltd and Hydrobius Properties Ltd.

The Company 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, Renalandia Properties Ltd, Sylvesta Properties Ltd, Crolandia Properties Ltd, Iperi Properties Ltd, Finerose Properties Ltd and Fantasio Properties Ltd.

Greece: Kyprou Zois (branch of EuroLife Ltd), Kyprou Asfalistiki (branch of General Insurance of Cyprus Ltd), Kyprou Commercial SA and Kyprou Properties SA.

Romania: Frozenport Properties SRL, Loneland Properties SRL and Melgred Properties SRL.

All Group companies are accounted for as subsidiaries using the full consolidation method.

47. Group companies (continued)

Control over CLR Investment Fund Public Ltd (CLR and its subsidiaries) without substantial shareholding

The Company considers that it exercises control over CLR and its subsidiaries (Europrofit Capital Investros Public Limited, Axxel Ventures Limited and CLR Private Equity Limited) through control of the members of the Board of Directors and is exposed to variable returns through its holding.

Dissolution and disposal of subsidiaries

As at 31 December 2017, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, BOC Ventures Ltd, Salecom Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC, Unknownplan Properties SRL, Bank of Cyprus (Channel Islands) Ltd, Buchuland Properties SRL, Janoland Properties SRL, Mirodi Properties SRL, Nallora Properties SRL, Pittsburg Properties SRL and Blindingqueen Properties SRL.

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania are expected to be terminated, subject to the completion of deregistration formalities with respective authorities. Most of the remaining assets and liabilities of the branch in Romania with third parties have been transferred to other entities of the Group.

Longtail Properties Ltd, Kyprou Securities SA and Tefkros Investments Ltd were dissolved during the year ended 31 December 2017. Moonland Properties Ltd, Lepidoland Properties Ltd, Danoma Properties Ltd, Metin Properties Ltd, Jemina Properties Ltd, Flitous Properties Ltd, Belzeco Properties Ltd, Landeed Properties Ltd, Nabela Properties Ltd, Singleserve Properties Ltd, Consento Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd, Balisimo Properties Ltd, Tezia Properties Ltd, Fireford Properties Ltd, Conemia Properties Ltd, Endar Properties Ltd, Valiro Properties Ltd, Nimoland Properties Ltd, Pekiro Properties Ltd, Nerofarm Properties Ltd, Orasmo Properties Ltd, Unduma Properties Ltd, Silen Properties Ltd, Cavadino Properties Ltd, Avolo Properties Ltd, Vidalaco Properties Ltd, Warmbaths Properties Ltd, Bothwick Properties Ltd, Caruzoco Properties Ltd, Threerich Properties Ltd, Hotel New Montana SRL, Commonland Properties SRL and Fledgego Properties SRL were disposed of during the year ended 31 December 2017 as part of the Company's strategy to dispose of repossessed properties.

Carrying value of investments in subsidiaries

	2017	2016
	€000	€000
1 January	**198,708**	207,781
Additions (Note 48.3.1 and 48.3.2)	**-**	47,962
Contribution to subsidiaries	**120,053**	80
Reduction of share capital of subsidiaries	**-**	(1,799)
Impairment of investments in subsidiaries (Note 14)	**(57,611)**	(24,798)
Repatriation of capital	**(1,778)**	(30,518)
31 December	**259,372**	198,708

48. Acquisitions and disposals

48.1 Acquisitions during 2017

48.1.1 Acquisition of Nicosia Mall Holdings (NMH) Limited

In the context of the loan restructuring activities, the Company acquired on 28 September 2017 a 51% interest in the share capital of Nicosia Mall Holdings (NMH) Limited. Nicosia Mall Holdings (NMH) Limited is involved in the construction of the Nicosia Mall. The consideration for the acquisition of 51% share in Nicosia Mall Holdings (NMH) Limited amounts to €7,500 thousand which was used to reduce part of the outstanding facilities and therefore the acquisition did not include any cash consideration. The Company has control over Nicosia Mall Holdings (NMH) Limited.

48.2 Disposals during 2017

There were no material disposals during the year ended 31 December 2017.

48.3 Acquisitions during 2016

48.3.1 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.

48.3.2 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.

48.4 Disposal during 2016

48.4.1 Disposal of Kermia Hotels Ltd and adjacent land

In June 2016, the Company completed the sale of 100% of its subsidiary Kermia Hotels Ltd and adjacent land which was classified as a disposal group held for sale.

Building a better
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Independent Auditor's Report

To the Members of Bank of Cyprus Public Company Ltd

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of parent company Bank of Cyprus Public Company Ltd (the 'Company') on pages 199 to 323, which comprise the balance sheet as at 31 December 2017, 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 separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 Separate Financial Statements* section of our report. We remained independent of the Company throughout the period of our appointment 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 separate 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the separate 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 below, 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 separate 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 separate 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 separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment provision on loans and advances to customers including IFRS 9 transition	
As at 31 December 2017, gross loans and advances amounted to €16,352m and the related impairment provision amounted to €3,365m. The basis of the impairment provision policy is presented in the accounting policies and further analysed in Note 5.1 to the separate financial statements. Impairment provisions are calculated on a collective basis for portfolios of loans of similar credit risk characteristics and on an individual basis for loans that meet the internal definition of significant. Management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the impairment provision for loans and advances. As loans and advances comprise a large portion of the Company's assets, and due to the significance of judgement used in estimating both the individual and collective provisions, this is considered to be a key audit matter. Refer to Note 42 to the separate financial statements. The Company is required under IAS 8 to disclose the impact of IFRS 9 adoption for accounting periods beginning on or after 1 January 2018. We consider this transition and disclosure to be a key audit	Impairment provisions recognised in respect of retail and commercial lending are determined by management using discounted cash flow assessments and modelling techniques that utilise customer data, historical loan performance, expected future performance and a variety of market assumptions. We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias: • The completeness and timing of recognition of loss events. • The measurement of individually assessed provisions, which is dependent on the valuation of collateral, the timing of cash flows and realisations. • The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default and recovery rates and the discounted cash flow assessments. In obtaining sufficient audit evidence we: • Reviewed design and operating effectiveness of key controls around the end-to-end process from classification and performance monitoring and calculation of impairment provisions to the final stages of approval governance and model validation, with consideration given to susceptibility of controls to management override. • Reviewed impairment methodology to establish model parameters and performed data integrity validation checks to ensure that the inputs

matter because new models have been developed to calculate IFRS 9 impairment losses (see Note 2.2 to the separate financial statements) and judgement is required in a number of significant areas, in particular around the calculation of Expected Credit Loss.	employed by the Company's modelling tools in the calculation of provisions are correct. • Involved our credit risk specialists within the engagement team to test the assumptions and calculations of modelled collective provisions. 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. • For non-performing loans, we tested a sample of the bank's loan reviews and assessed the measurement of the provisions, involving our valuation specialists to value the collateral. We examined other cash flow assumptions where the level of provision is not dependent on collateral values. We also assessed the timing of estimated cash flows. • Evaluated and tested the key assumptions adopted by management. In respect of the disclosure of the impact of IFRS 9, we obtained an understanding of and evaluated management's process for the calculation of the transition adjustment including governance over the determination of key judgements. These included probability weighted macroeconomic scenarios, staging criteria and forward looking information. We also performed the following procedures: • Reviewed key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation. • Tested the key controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement. • Assessed the output of management's Classification & Measurement workstream for consistency with our understanding of the Group's business models.

	• With the assistance of our internal specialists, tested key IFRS 9 models developed by management where these were relevant to the calculation of the transition adjustment. We assessed the key assumptions and judgements made by management. • Reviewed management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018. • We assessed the disclosures made against the relevant accounting standards.
Legal and conduct provisions As at 31 December 2017, provision for litigation and conduct matters amounted to €78m. The accounting policy for provisions is described in Note 2.2 to the separate financial statements and further analysed in Note 5.6 to the separate financial statements. The Company, in the ordinary course of business, is subject to various legal claims, investigations and other proceedings. It also operates in a heavily regulated environment and needs to remain constantly alert to ensure compliance with relevant rules and regulations. Management reviews all existing and potential legal and conduct cases based on the assessment of the probability of economic outflow from the Company in conjunction with the internal compliance and legal departments. The recognition and measurement of provisions in respect of litigation, regulatory actions and customer remediation require a high level of judgement. Due to the risk that the	In relation to provision for pending litigation, audit focus was placed on the completeness of the exposures and the litigation provision identified by the Company and the probability of occurrence assigned to each case. In relation to the provision for conduct matters, audit focus was placed on the reliability and completeness of underlying customer data, assumptions incorporated within the provision valuations, and the completeness of the provisions recorded. In obtaining sufficient audit evidence we: • Obtained detailed assessment from the Company's internal legal department of potential outcomes for each individual case in excess of €200k. We ensured that this assessment was endorsed by the Company's external legal advisors in Cyprus and Greece. • Reviewed with the head of the internal legal department the list of existing and potential claims, the current progression of existing cases with a range of related outcome possibilities and the consequential exposure for the Company. • Reviewed lists of legal cases from each location and tested that sufficient provision has been recorded in the Company's records where the exposure is assessed as probable.

provision for impending litigations and pending regulatory matters may be incomplete or inappropriately provided for, and the difficulty in assessing and measuring the quantum from any resulting obligations, this is considered a key audit matter. Refer to Notes 32 and 37 to the separate financial statements.	• Reviewed the board of directors and other committee meeting minutes for evidence of any unidentified legal cases or developments in current cases which may impact the outcome. • Reviewed regulatory correspondence for the duration of the audit period and further inquired with the compliance department about known existing circumstances or possible non-compliance with any regulatory requirements. • Reviewed working files and results reports for the assessment of customer redress provisions, prepared by the Group's external advisors. We involved our internal specialists to assess the assumptions around response rates and consequential losses. • Assessed the disclosures made against the relevant accounting standards.
Going Concern As required by IFRSs, Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. The Directors have determined that the going concern principle is appropriate and that the Company is taking all necessary measures to maintain its viability and the development of its business in the current economic environment. The Company at 31 December 2017 was not in compliance with all liquidity regulatory requirements with respect to its operations in Cyprus. This is no longer the case. However, important considerations affecting the going concern assumption remain relevant and as such this is considered to be a key audit matter.	Our audit procedures included evaluating the Directors' going concern assessment in order to assess whether there are events and conditions that exist that create material uncertainty that may cast significant doubt of the Group's ability to continue as a going concern. In obtaining sufficient audit evidence we: • Read regulator correspondence for evidence of changes in the Company's capital and liquidity requirements. • Evaluated the progress made in relation to the funding position and compliance with minimum liquidity requirements. • Reviewed the Group's 3 year plan approved by the Board of Directors in December 2017. • Involved our internal valuation specialists to review and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating

Refer to Management Report and Note 3 to the separate financial statements.	environment in Cyprus and of the Group, the future strategy and the past performance. • Assessed whether the Company's disclosures in relation to going concern adequately reflected the risks and uncertainties inherent to the going concern assessment.
Recoverability of Deferred Tax Assets The Company has recognised deferred tax assets of €383m in respect of tax losses available to be carried forward to future years. The basis of the recognition is presented in the accounting policies and further analysed in Note 5.5 to the separate financial statements. The recoverability and carrying amount of the deferred tax assets require management judgement and estimation in assessing the probability, timing and sufficiency of future taxable profits from which deductible temporary differences and unutilised tax losses can be offset, particularly when this forecasting extends beyond the normal planning cycle. This in turn is based on assumptions concerning future economic conditions, business performance and legislation governing the use of historical trading losses carried forward. In light of the inherent uncertainty and significant amount of judgement and estimation required by management, we have considered future forecasts supporting the recognition of	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the profit projections such as macro-economic assumptions, business growth rates, cost reduction and restructuring initiatives. In obtaining sufficient audit evidence we: • Reviewed and tested the supporting calculations of the Group's initial 3 year plan which formed the basis of the extended projections until 2028. • Involved our internal valuation specialists to review and test the inputs and assumptions embedded in forecasts, considering whether the overall forecasts are within a range of possible alternative outcomes and in line with our knowledge of the business, the operating environment in Cyprus and of the Group, the future strategy and the past performance. • Compared the actual results with management profit projections and obtained explanations about significant variances to assess the accuracy of the forecasting process. • Assessed the disclosures made against the relevant accounting standards.

deferred tax assets to be a key audit matter. Refer to Note 15 to the separate financial statements.	
Valuation of stock of property The Company has acquired a significant number of properties as a result of restructuring agreements with customers. As at 31 December 2017, the stock of properties amounted to €653m. The basis of the property valuation policy is presented in the accounting policies and further analysed in Note 5.8 to the separate financial statements. These properties are valued by the Company as stock of property in accordance with IAS 2. In light of the large volume of properties held and the uncertainty around market conditions when estimating the recoverable amount, we have considered the judgement based valuation inputs involved to be a key audit matter. Refer to Note 26 to the separate financial statements.	In the performance of our audit procedures, focus was placed on assessing the key judgement inputs and assumptions underlying the valuation of the properties held in accordance to IAS2. In obtaining sufficient audit evidence we: • Reviewed design and operating effectiveness of key controls around the end-to-end valuation process of stock of property. • Obtained management's assessment of the net realisable value ('NRV') and tested whether the lower of the cost and NRV is considered as the value of the inventory as at the reporting date, in accordance with IAS 2. • Obtained the valuation reports received by the Company from independent external valuers for a sample of properties and tested that the fair value used in the calculation of the NRV was in accordance with these valuations. • For a sample of external valuation reports reviewed we assessed the methodology and assumptions by involving our internal valuation specialists. • Compared disposal cost assumptions incorporated in the Company's calculation of the NRV to disposals that have occurred during the year. • Performed substantive analytical review procedures, categorising the properties by type and district and comparing the change in the value of each type of property and each district over the year to the changes in Royal Institute of Chartered Surveyors ('RICS') indices. • Assessed the disclosures made against the relevant accounting standards.

Report on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Management Report.

Our opinion on the separate 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 separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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 and those charged with governance for the Separate Financial Statements

The Company's Board of Directors is responsible for the preparation of separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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 separate 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 separate financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and period of engagement

We were first appointed as auditors of the Company on 18 December 1939 by the Company's Board of Directors. Our appointment has been renewed annually by shareholder resolution since then representing a total period of uninterrupted engagement appointment of 79 years.

Consistency of the additional report to the Audit Committee

We confirm that our audit opinion on the separate financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Company, which we issued on 21 March 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate financial statements.

Other legal requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, 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 separate financial statements.
- In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of the Auditors Law of 2017 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.

The engagement partner on the audit resulting in this independent auditor's report is Savvas Pentaris.

Savvas Pentaris
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
26 March 2018

Accumulated provisions	Accumulated provisions comprise (i) provisions for impairment of customer loans and advances to customers, (ii) the fair value adjustment on initial recognition of loans, and (iii) provisions for off-balance sheet exposures (contingent liabilities and commitments) disclosed on the balance sheet within other liabilities.
Cost to Income ratio	Cost-to-income ratio is calculated as the total staff costs and other operating expenses (excluding advisory and other restructuring costs) divided by total income (excluding gains/(losses) on disposals of non-core assets).
Interest earning assets	Interest earning assets is the sum of: cash and balances with central banks, loans and advances to banks, net loans and advances to customers, investments (excluding equities and mutual funds) and derivatives.
Leverage ratio	The leverage ratio is calculated as the tangible total equity to total assets as presented on the balance sheet.
Loans in arrears for more than 90 days (90+ DPD)	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 (i) for which a provision for impairment has been recognised on an individual basis or (ii) for which incurred losses existed at their initial recognition or (iii) customers in Debt Recovery).
Loans in arrears for more than 90 days (90+ DPD) ratio	Loans past-due for more than 90 days (as defined) divided by loans before the deduction of accumulated provisions (as defined).
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined), but excluding gains/(losses) on disposals of non-core assets.
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets.
Net loans to deposit ratio	Net loans to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits. Where applicable, loans and deposits held for sale are added to the numerator and denominator respectively.
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, 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. The NPEs are reported before the deduction of accumulated provisions (as defined).
NPE ratio	NPE ratio is non-performing exposures (as defined) divided by loans before the deduction of accumulated provisions (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the operating profit divided by the average of total assets for the relevant period.
Provisioning charge (cost of risk)	Provisioning charge (cost of risk) is calculated as the provisions for impairment of customer loans plus the gain on derecognition of loans and advances to customers for the year divided by average customer loans before accumulated provisions (as defined).

Provisioning coverage ratio for 90+ DPD	Provisioning coverage ratio for 90+ DPD is calculated as the accumulated provisions (as defined) divided by 90+ DPD (as defined).
Provisioning coverage ratio for NPEs	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs (as defined).
Total income	Comprises total of net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions and disposal/dissolution of subsidiaries, insurance income net of claims and commissions, net (losses)/gains from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income.