Annual Financial Report 2019

Bank of Cyprus Holdings

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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 or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Bank of Cyprus Holdings Group's (the Group) near term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group's future results of operations, financial condition, expected impairment charges, the level of the Group's assets, liquidity, performance, prospects, anticipated growth, provisions, impairments, business 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.

Non-IFRS performance measures

Bank of Cyprus Holdings Public Limited Company (the 'Company') management believes that the non-IFRS performance measures included in this document provide valuable information to the readers of the Annual Financial Report as they enable the readers to identify a more consistent basis for comparing the Group's performance between financial periods and provide more detail concerning the elements of performance which management is most directly able to influence or are relevant for an assessment of the Group. They also reflect an important aspect of the way in which the operating targets are defined and performance is monitored by the Group's management. However, any non-IFRS performance measures in this document are not a substitute for IFRS measures and readers should consider the IFRS measures as the key measures of the 31 December position. Refer to 'Definitions and explanations on Alternative Performance Measures Disclosures' on pages 391 to 401 of the Annual Financial Report for the year ended 31 December 2019 for further information, reconciliations with Consolidated Financial Statements and calculations of non-IFRS performance measures included throughout this document and the most directly comparable IFRS measures.

The Annual Financial Report for the year ended 31 December 2019 is available on the Group's website www.bankofcyprus.com (Investor Relations/Annual Reports).

The Board of Directors submits to the shareholders of Bank of Cyprus Holdings Public Limited Company (the Company) their Directors' Report together with the audited Consolidated Financial Statements (Consolidated Financial Statements) and Financial Statements of the Company for the year ended 31 December 2019.

The Annual Financial Report relates to the Company and together with its subsidiaries the Group, which was listed on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE) as at 31 December 2019.

Activities

The Company is the holding company of the Group and the sole shareholder of Bank of Cyprus Public Company Ltd (BOC PCL). The principal activities of BOC PCL 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 52 of the Consolidated Financial Statements. The Group has established branches in Greece. Acquisitions and disposals made during the year 2019 are detailed in Notes 52, 53 and 54 of the Consolidated Financial Statements.

Group financial results on the underlying basis

Commentary on underlying basis
The financial information presented below provides an overview of the Group financial results for the year ended 31 December 2019 on the ‘underlying basis’ which the management believes it best fits the true measurement of the performance and position of the Group. Reconciliations are included in section ‘Unaudited reconciliation of the Income Statement for the year ended 31 December 2019 between statutory basis and underlying basis’ below and in ‘Definitions and explanations on Alternative Performance Measures Disclosures’ of this Annual Financial Report for the year ended 31 December 2019 to allow for the comparability of the underlying basis to statutory information.

Group financial results on the underlying basis (continued)

The main financial highlights for 2019 are set out below:

Unaudited Consolidated Income Statement on the underlying basis

€ million	**2019**[1,4]	2018 (represented)[1,2,4]
Net interest income	**344**	331
Net fee and commission income	**150**	162
Net foreign exchange gains and net gains on financial instruments transactions and disposal/dissolution of subsidiaries and associates	**38**	67
Insurance income net of insurance claims and commissions	**58**	53
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	**32**	18
Other income	**29**	26
Total income	**651**	657
Staff costs	**(220)**	(212)
Other operating expenses	**(165)**	(156)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF)	**(25)**	(25)
Total expenses	**(410)**	(393)
Operating profit	**241**	264
Loan credit losses	**(146)**	(135)
Impairments of other financial and non-financial assets	**(22)**	(20)
Provisions for litigation, claims, regulatory and other matters	**(10)**	(23)
Total loan credit losses, impairments and provisions	**(178)**	(178)
Profit before tax and non-recurring items	**63**	86
Tax	**(3)**	3
Profit attributable to non-controlling interests	**(2)**	(1)
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**58**	88
Advisory and other restructuring costs-organic	**(22)**	(42)
Profit after tax - organic (attributable to the owners of the Company)	**36**	46
Restructuring costs - Voluntary Staff Exit Plan (VEP)	**(81)**	-
Provisions/net loss relating to NPE sales[3]	**(92)**	(83)
(Loss)/profit on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	**(21)**	9
Reversal of impairment/(impairment) of deferred tax assets (DTA) and impairment of other tax receivables	**88**	(79)
Profit from discontinued operations (UK)	**-**	3
Loss after tax (attributable to the owners of the Company)	**(70)**	(104)

Group financial results on the underlying basis (continued)

Unaudited Consolidated Income Statement on the underlying basis (continued)

Key Performance Ratios	**2019**[1]	2018[1,2]
Net interest margin	**1.90%**	1.82%
Cost to income ratio	**63%**	60%
Cost to income ratio excluding special levy and contribution to SRF	**59%**	56%
Operating profit return on average assets	**1.1%**	1.2%
Basic loss per share attributable to the owners of the Company (€ cent)	**(15.75)**	(23.21)

[1]The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales' in the underlying basis in order to separate out the impact of this non-recurring transaction.

[2]Reclassifications to comparative information were made for unrecognised interest on previously credit impaired loans which cured during the year ended 31 December 2018, amounting to €33 million. This was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC discussion, which took place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).

[3]'Provisions/net loss relating to NPE sales' refer to the net loss on transactions completed during 2019, net loan credit losses on transactions under consideration at 31 December 2019, as well as the restructuring costs relating to these trades. For further details refer to section Income Statement Analysis/Loss after tax (attributable to the owners of the Company).

[4]The financial information is extracted from the published accounts. This information should be read with the information included in the accompanied Consolidated Financial Statements.

The following changes were made in the underlying basis, when compared with the prior year disclosures for the year end 2018.

Project Helix (from Unaudited Consolidated Income Statement, footnote 1)
Reclassifications effected to comparative information were made so that items relating to the NPE sale (Project Helix) are disclosed under non-recurring items within 'Provisions/net (loss)/profit relating to NPE sales' under the underlying basis. Specifically, net interest income of €89 million, fee and commission income of €4 million, total expenses of €26 million (comprising staff costs of €5 million, operating expenses of €2 million and restructuring costs of €19 million), as well as loan credit losses of €150 million, relating to the year ended 31 December 2018, are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.

Reclassifications to current year information for items relating to the NPE sale (Project Helix) are disclosed under non-recurring items within 'Provisions/net (loss)/profit relating to NPE sales' under the underlying basis. These are disclosed in Section 'Unaudited reconciliation of the Income Statement for the year ended 31 December 2019 between statutory basis and underlying basis'.

IFRIC (from Unaudited Consolidated Income Statement, footnote 2)
Reclassifications to comparative information were also made for unrecognised interest on previously credit impaired loans which cured during the year ended 31 December 2018, amounting to €33 million. This was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC discussion, which took place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).

Group financial results on the underlying basis (continued)

Unaudited Consolidated Balance Sheet underlying basis

€ million	**2019**[6]	2018 (restated)[5,6]
Cash and balances with central banks	**5,060**	4,610
Loans and advances to banks	**321**	473
Debt securities, treasury bills and equity investments	**1,906**	1,515
Net loans and advances to customers	**10,722**	10,922
Stock of property	**1,378**	1,427
Investment properties	**136**	127
Other assets	**1,574**	1,531
Non-current assets and disposal groups held for sale	**26**	1,470
Total assets	**21,123**	22,075
Deposits by banks	**533**	432
Funding from central banks	**-**	830
Repurchase agreements	**168**	249
Customer deposits	**16,692**	16,844
Subordinated loan stock	**272**	271
Other liabilities	**1,169**	1,082
Total liabilities	**18,834**	19,708
Shareholders' equity	**2,040**	2,121
Other equity instruments (AT1)	**220**	220
Total equity excluding non-controlling interests	**2,260**	2,341
Non-controlling interests	**29**	26
Total equity	**2,289**	2,367
Total liabilities and equity	**21,123**	22,075

Group financial results on the underlying basis (continued)

Unaudited Consolidated Balance Sheet underlying basis (continued)

Key Balance Sheet figures and ratios	**2019**	**2018** Pro-forma[3]	2018[4]
Gross loans (€ million)	**12,822**	**13,148**	15,900
Allowance for expected credit losses (€ million)	**2,096**	**2,254**	3,852
Customer deposits (€ million)	**16,692**	**16,844**	16,844
Loans to deposits ratio (net)	**64%**	**65%**	72%
NPE ratio	**30%**	**36%**	47%
Expected credit losses coverage ratio for NPEs	**54%**	**47%**	52%
Leverage ratio	**10.0%**	**10.0%**	10.0%
Capital ratios and risk weighted assets			
Common Equity Tier 1 capital ratio (CET 1)[1] ratio (transitional for IFRS 9)	**14.8%**	**15.4%**	11.9%[2]
Total capital ratio	**18.0%**	**18.3%**	14.9%
Risk weighted assets (€ million)	**12,890**	**14,016**	15,373

[1]The CET FL ratio as at 31 December 2019 (including the full impact of IFRS 9) amounts to 13.1%, compared to 10.1% and 13.5% pro forma for DTC and Helix as at 31 December 2018.

[2]The CET 1 ratio transitional also for DTA as at 31 December 2018 stood at 12.1%.

[3]Pro forma for DTA and Helix (see footnote 4) as at 31 December 2018.

[4]Ignoring the classification of the following portfolios as non-current assets held for sale as at 31 December 2018: Helix of €1,148 million (NBV) and Velocity 1 of €6 million (NBV).

[5]Comparative information was restated following the change in the classification of stock of properties which are leased out under operating leases as investment properties. Refer to Note 2.38 of the Consolidated Financial Statements for the year ended 31 December 2019 for details on the restatements on comparative information. The changes did not have an impact on the results for the year or the equity of the Group.

[6]The financial information above is extracted from the published accounts. This information should be read together with the information included in the accompanying consolidated financial statements.

Group financial results on the underlying basis (continued)

Unaudited Reconciliation of the Income Statement for year ended 31 December 2019 between statutory and underlying basis

€ million	**Underlying basis**	**Helix portfolio**	**NPE sales**	**Investment in associate**	**Tax related items**	**Other**	**Statutory basis**
Net interest income	344	34	-	-	-	(12)	366
Net fee and commission income	150	12	-	-	-	-	162
Net foreign exchange gains and net gains on financial instruments transactions and disposal/ dissolution of subsidiaries and associates	38	-	-	-	-	7	45
Insurance income net of insurance claims and commissions	58	-	-	-	-	-	58
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	32	-	-	-	-	(4)	28
Other income	29	-	-	-	-	-	29
Total income	**651**	46	-	-	-	(9)	**688**
Total expenses	**(410)**	(36)	(15)	-	(19)	(113)	**(593)**
Operating profit	**241**	10	(15)	-	(19)	(122)	**95**
Loan credit losses	(146)	(16)	(71)	-	-	9	(224)
Impairments of other financial and non-financial assets	(22)	-	-	-	(8)	-	(30)
Provisions for litigation, claims, regulatory and other matters	(10)	-	-	-	-	10	-
Remeasurement of investment in associate upon classification as held for sale	-	-	-	(26)	-	-	(26)
Share of profit from associates	-	-	-	5	-	-	5
Profit/(loss) before tax and non-recurring items	**63**	(6)	(86)	(21)	(27)	(103)	**(180)**
Tax	(3)	-	-	-	115	-	112
Profit attributable to non-controlling interests	(2)	-	-	-	-	-	(2)
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	**58**	(6)	(86)	(21)	88	(103)	**(70)**
Advisory and other restructuring costs - organic	(22)	-	-	-	-	22	-
Profit/(loss) after tax - organic*(attributable to the owners of the Company)	**36**	(6)	(86)	(21)	88	(81)	**(70)**
Restructuring costs - Voluntary staff exit plan (VEP)	(81)	-	-	-	-	81	-
Provisions/net loss relating to NPE Sales	(92)	6	86	-	-	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	(21)	-	-	21	-	-	-
Reversal of impairment of deferred tax assets (DTA) and impairment of other tax receivables	88	-	-	-	(88)	-	-
Loss after tax (attributable to the owners of the Company)	**(70)**	-	-	-	-	-	**(70)**

*This is the profit/(loss) after tax (attributable to the owners of Company), before restructuring costs relating to the voluntary staff exit plan (VEP), the provisions/net loss relating to NPE sales (for further details refer to Section Income Statement Analysis/Loss after tax attributable to the owner of the Company), the net loss on remeasurement of investment in associate upon classification as held for sale (CNP) and the reversal of impairment of DTA and impairment of other tax receivables.

Group financial results on the underlying basis (continued)

Unaudited Reconciliation of the Income Statement for year ended 31 December 2019 between statutory and underlying basis (continued)

The reclassification differences between the statutory basis and underlying basis mainly relate to the impact from 'non-recurring items' and are explained as follows:

Helix Portfolio

- Net interest income of €34 million and fee and commission income of €12 million relating to the NPE sales is disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- Total expenses include staff costs of €6 million, restructuring costs of €10 million and operating expenses of €20 million relating to NPE sales, and are presented within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- Net loan credit losses of €16 million are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.

NPE sales

- Total expenses include restructuring costs of €15 million mainly relating to the sale of portfolio of NPEs and are presented within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- Net loan credit losses of €71 million within the context of IFRS 9 were recorded as a result of the anticipated balance sheet de-risking through further NPE sales in the future and are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.

Investment in associate

- Loss on remeasurement of investment in associate upon classification held for sale (CNP) net of share of profit from associates of €21 million comprises the share of profit from associate of €5 million which is reported in the 'Share of profit from associates' under the statutory basis and the loss on remeasurement of €26 million which is classified as 'Remeasurement of investment in associate upon classification as held for sale' under the statutory basis.

Tax related items

- Reversal of impairment of the deferred tax asset amounting to €115 million included within 'Income Tax' under the statutory basis is classified as a non-recurring item and disclosed within 'Reversal of impairment of deferred tax assets (DTA) and impairment of other tax receivables' under the underlying basis. Similarly levy in the form of a guarantee fee relating to the revised income tax legislation of €19 million, which has been disclosed within 'Reversal of impairment of deferred tax asset (DTA) and impairment of other tax receivables' under the underlying basis, is disclosed within 'Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies' under the statutory basis.
- Impairment of other financial assets of €8 million, which are included in 'Credit losses of other financial instruments' under the statutory basis, relate to the impairment of Greek tax receivables and are classified as a non-recurring item and disclosed within 'Reversal of impairment of DTA and impairment of other tax receivables' under the underlying basis.

Other reclassifications

- Advisory and other restructuring costs of approximately €22 million included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis since they represent one-off items.
- Provisions for litigation, claims, regulatory and other matters amounting to €10 million included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis, since they mainly relate to cases that arose outside the normal activities of the Group.
- Restructuring costs relating to voluntary staff exit plan amounting to €81 million and included within 'Staff costs' under the statutory basis, are separately presented under the underlying basis since they represent one-off items.

Group financial results on the underlying basis (continued)

Unaudited Reconciliation of the Income Statement for year ended 31 December 2019 between statutory and underlying basis (continued)

- Net gains on loans and advances to customers at FVPL of €3 million included in 'Loan credit losses' under the underlying basis are included in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis. Their classification under the underlying basis is consistent to the net losses on loans and advances to customers at amortised cost.
- Profit from the disposal of subsidiaries of approximately €4 million included in 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' under the underlying basis, is included in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis since it is considered as one-off item.
- An amount of approximately €12 million relating to one-off charge included in 'Net interest income' under the statutory basis is presented within 'Loan credit losses' under the underlying basis given that this was a non-recurring item which is related to a change in the method of amortising arrangement fees.

Balance Sheet Analysis

Capital Base

Total equity excluding non-controlling interests totalled €2,260 million at 31 December 2019, compared to €2,341 million at 31 December 2018. Shareholders' equity totalled €2,040 million at 31 December 2019, compared to €2,121 million at 31 December 2018.

The Common Equity Tier 1 capital (CET1) ratio on an IFRS 9 transitional basis stood at 14.8% at 31 December 2019, compared to 11.9% at 31 December 2018 (adjusted to take into account the deferred tax assets (DTAs) which were fully phased in as of 1 January 2019). During 2019 the CET1 ratio was positively affected mainly by the decrease in risk weighted assets (RWAs) and the completion of the sale of investment in CNP, and negatively affected mainly by the one-off cost of €81 million for the completion of the Voluntary Staff Exit Plan and the additional loan credit losses within the context of IFRS 9 of €75 million as a result of the anticipated balance sheet de-risking through further NPE sales in the future.

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 is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. The impact on the capital position for the year 2018 was 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019 and to 30% (cumulative) for the year 2020. At 1 January 2020, the CET1 ratio on an IFRS 9 transitional basis stood at 14.5% resulting mainly from the phasing-in of the transitional arrangements for IFRS 9.

The CET1 ratio on a fully loaded basis (including the full impact of IFRS 9) amounted to 13.1% as at 31 December 2019 compared to 10.1% at 31 December 2018 (and 13.5% pro forma for DTC and Helix). On a transitional basis and on a fully phased-in basis, after the five-year period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The Total Capital ratio stood at 18.0% as at 31 December 2019, compared to 14.9% at 31 December 2018 (and 18.3% pro forma for DTC and Helix). At 1 January 2020, the Total Capital ratio stood at 17.7% resulting mainly from the phasing-in of the transitional arrangements for IFRS 9.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Capital Base (continued)

The Group's capital ratios are above the minimum CET1 regulatory capital requirement of 10.5% (comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%) and the overall Total Capital requirement of 14.0%, comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a 3.0% Pillar II requirement (in the form of CET1), the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The European Central Bank (ECB) has also provided non-public guidance for an additional Pillar II CET1 buffer. Pillar II add-on capital requirements derive from the context of the Supervisory Review and Evaluation Process (SREP), which is a point in time assessment, and are therefore subject to change over time.

In accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, the CBC is the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the O-SII buffer currently set by the CBC for the Group is 2%. This buffer is being phased-in gradually, having started from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%) on 1 January 2022.

Following the annual SREP performed by the ECB in 2019 and based on the final 2019 SREP decision received in December 2019, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the Other Systemically Important Institution Buffer. The Group's phased-in CET1 capital ratio will be 11.0%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (fully phased-in as of 1 January 2019) and the Other Systemically Important Institution Buffer of 1.0%. The Group's Total Capital requirement will be 14.5%, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%. The final 2019 SREP decision is effective from 1 January 2020.

The recent developments on the regulatory capital ratios due to the COVID-19 outbreak are set out below:

The European Banking Authority (EBA) final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar 1, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice. Following the annual SREP performed by the ECB in 2019 and based on the final 2019 ECB decision received in December 2019, the new provisions are effective from 1 January 2020.

The Group capital ratios remain above the SREP requirements.

Based on the SREP decisions of prior years, the Company and BOC PCL were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2019 and 2018. Following the 2019 SREP decision, the Company and BOC PCL are still under equity dividend distribution prohibition. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders, which are eligible as CET1 capital. No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company or BOC PCL.

Share Premium reduction

BOC PCL
BOC PCL will proceed (subject to approvals mainly by the ECB and the Court of Cyprus) with a capital reduction process which will result in the reclassification of approximately €619 million of the BOC PCL's share premium balance as distributable reserves, which shall be available for distribution to the shareholders of BOC PCL, resulting in total net distributable reserves of approximately €800 million on a pro forma basis (31 December 2019). The reduction of capital will not have any impact on regulatory capital or the total equity position of BOC PCL or the Group.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Capital Base (continued)

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Company
The Company will proceed (subject to approval by the shareholders, the ECB and the Irish High Court) with a capital reduction process which will result in the reclassification of €700 million of the Company's share premium as distributable reserves. This will increase the distributable reserves of the Company to approximately €1 billion on a pro forma basis (31 December 2019). The capital reduction has been proposed as a special resolution for approval by shareholders at the Company's Annual General Meeting scheduled on 26 May 2020. The capital reduction will not have any impact on regulatory capital or the total equity position of the Company, the Bank or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Additional Tier 1

In December 2018, the Company proceeded with the issuance of €220 million of Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable on a discretionary basis, semi-annually. The coupon payments to AT1 holders were made in June and December 2019 and were recognised in retained earnings.

Legislative amendments for the conversion of DTA to DTC

Legislative amendments allowing for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC) were adopted by the Cyprus Parliament on 1 March 2019 and published on the Official Gazette of the Republic on 15 March 2019. The law amendments cover the utilisation of income tax losses transferred from Laiki Bank to BOC PCL in March 2013. The introduction of CRD IV in January 2014 and its subsequent phasing-in led to a more capital intensive treatment of this DTA for BOC PCL. The law amendments have resulted in an improved regulatory capital treatment, under Capital Requirements Regulation (EU) No. 575/2013 ('CRR'), of the DTA amounting to approximately €285 million or a CET1 uplift of approximately 190 bps.

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, potentially including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already acknowledged to maintain the conversion of such DTAs into tax credits. In anticipation of such modifications the Group has recorded an additional amount of €13 million by way of an estimated additional fee (for the years 2018 and 2019), bringing the total guarantee fee recognised for the year 2019 to €19 million.

Project Helix

In June 2019, Project Helix was completed resulting in a positive impact of approximately 140 bps on both the Group's CET1 and Total Capital ratios, mainly from the release of risk weighted assets. Project Helix had an overall net positive impact on the Group capital ratios of approximately 60 bps.

Sale of investment in CNP Cyprus Insurance Holdings Ltd

In October 2019, the sale of the Group's investment in its associate CNP Cyprus Insurance Holdings Limited ('CNP') was completed, resulting in a positive impact of approximately 30 bps on both the Group's CET1 and Total Capital ratios, mainly from the release of risk weighted assets. The shareholding had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and was sold to CNP Assurances S.A. for a cash consideration of €97.5 million.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Capital Base (continued)

Voluntary Staff Exit Plan

In October 2019, the Group completed a voluntary staff exit plan ('VEP') at a total cost of €81 million, recorded in the consolidated income statement in fourth quarter of 2019, resulting in a negative impact of approximately 60 bps on both the Group's CET1 and Total Capital ratios.

Further NPE sales in the future

Against the backdrop of market volatility arising out of the COVID-19 pandemic, the Group continues to work with its advisers towards the sale of a portfolio of NPEs in the future. Due to prevailing market and operational conditions, this process is likely to take longer than originally anticipated. In the context of IFRS 9, BOC PCL recognised additional loan credit losses of €75 million in the fourth quarter of 2019, with a negative capital impact of 46 bps, as a result of the anticipated balance sheet de-risking through further NPE sales in the future. On completion of an NPE trade, the Group's capital ratios would benefit from an RWA reduction, subject to regulatory approval.

Implications on capital from the Outbreak of COVID-19

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. The ECB has announced a package of positive measures that should help to support the capital position of BOC PCL in order to secure favourable conditions of financing for the economy with the aim to mitigate the effects of the crisis. Specifically the measures increase the Group's capital base available to absorb potential losses due to the crisis. In addition, the early adoption of CRD V for the composition of the Pillar II Requirement provides flexibility regarding the Group's compliance with the minimum capital requirement of Pillar II.

The ECB's capital easing measures for COVID-19 will increase the Group's CET1 buffer by approximately 131 bps following the frontloading of the new rules on the Pillar II Requirement composition, to allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirement and not only by CET 1, initially scheduled to come into effect in January 2021. The Total SREP capital requirement remains unchanged. In addition, the ECB allows banks to operate temporarily below the level of Pillar II Guidance, the capital conservation buffer (CCB) and the countercyclical buffer. It is noted that the countercyclical buffer is 0% for Cypriot banks.

In addition in April 2020, the CBC decided to delay the phasing-in of the 1 January 2021 of the O-SII buffer (0.5% for BOC PCL) by 12 months. Consequently the O-SII buffer will be fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set.

Following the COVID-19 outbreak and the resultant volatile market and economic environment, the Fair Value Reserve of the Fair Value through Other Comprehensive Income (FVOCI) debt security portfolio of the Group held as at 31 December 2019 has decreased by €39 million on 24 April 2020. This change is recognised directly in equity i.e. through Other Comprehensive Income (OCI). Furthermore, on 24 April 2020, the Group held Cyprus sovereign debt securities of a nominal amount of €772 million, compared to €477 million on 31 December 2019, of which €350 million is held at FVOCI portfolio and €422 million is held at amortised cost. The increase since the year end is mainly due to the Group's participation on the issuance of 52-week treasury bills of the Cyprus Government in April 2020.

For further information please refer to Note 56 'Events after the reporting date' of the Financial Statements for the year ended 31 December 2019.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Capital Base (continued)

Regulations and Directives

Revised rules on capital and liquidity (CRR II and CRD V)

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Member states are required to transpose the CRD V into national law. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities, MREL), but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of among others changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR).

Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)
The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD 2 came into effect and must be transposed into national law. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

BOC PCL has received formal notification from the Single Resolution Board (SRB), of its draft decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for BOC PCL, determined as the preferred resolution point of entry. The MREL requirement has been set at 28.36% of risk weighted assets as of 30 June 2019 and must be met by 31 December 2025. This MREL requirement would be equivalent to 18.54% of total liabilities and own funds (TLOF) as at 30 June 2019. The MREL requirement is in line with BOC PCL's expectations, and largely in line with its funding plans.

The MREL requirements remain subject to final confirmation by the SRB. This decision is based on the current legislation; it is expected to be updated annually and could be subject to subsequent changes by the resolution authorities, especially considering the developments of the BRRD and its transposition into the local legislation.

The MREL ratio of BOC PCL as at 31 December 2019, calculated according to SRB's eligibility criteria currently in effect, and based on BOC PCL's internal estimate stood at 18.54% of RWAs.

Funding and liquidity

Funding

Funding from Central Banks

At 31 December 2019, BOC PCL had no funding from central banks. At 31 December 2018, BOC PCL's funding from central banks which amounted to €830 million, which related to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO II). During 2019 BOC PCL decided to early repay the ECB funding, of €830 million given its comfortable liquidity position.

Deposits

Customer deposits totalled €16,692 million at 31 December 2019, compared to €16,844 million at 31 December 2018, remaining broadly flat.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Funding (continued)

The deposit market share in Cyprus for BOC PCL reached 35.1% as at 31 December 2019. Customer deposits accounted for 79% of total assets and 89% of total liabilities at 31 December 2019.

The net Loans to Deposit ratio (L/D) stood at 64% as at 31 December 2019 compared to 65% at 31 December 2018 pro forma for Helix. The L/D ratio had reached a peak of 151% as at 31 March 2014.

Subordinated Loan Stock

At 31 December 2019 BOC PCL's subordinated loan stock (including accrued interest) amounted to €272 million, compared to €271 million as at 31 December 2018 and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 million, issued by BOC PCL in January 2017.

Liquidity

At 31 December 2019 the Group Liquidity Coverage Ratio (LCR) stood at 208%, compared to 231% at 31 December 2018 and was in compliance with the minimum regulatory requirement of 100%.

The liquidity surplus of 31 December 2019 amounted to €3,2 billion, compared to €3,1 billion at 31 December 2018.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will become a regulatory indicator when CRR II is enforced, with the limit set at 100%. At 31 December 2019, the Group's NSFR, on the basis of Basel III standards, stood at 127%, compared to 119% at 31 December 2018.

Implications on liquidity from the Outbreak of COVID-19

Resulting from the outbreak of COVID-19, the ECB has announced a positive package of measures including that the ECB will allow banks to temporarily operate below the LCR minimum requirements. In addition, the ECB decided on additional longer-term refinancing operations (LTROs) through a full-spread fixed-rate auction equal to the average deposit facility interest rate. Similarly, the ECB announced that for the TLTRO III operation in June 2020, considerably more favourable terms will be applied during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time.

The Governing Council of the ECB on 18 March 2020 decided to launch a new Pandemic Emergency Purchase Programme (PEPP) for an amount of €750 billion and purchases will be conducted until the end of 2020. Furthermore, it was decided to expand the range of eligible assets under the Corporate Sector Purchase Programme (CSPP) to non-financial commercial paper and to ease the collateral standards by adjusting the main risk parameters of the collateral framework.

For further information please refer to Note 56 'Events after the reporting date' of the Financial Statements for the year ended 31 December 2019.

Loans

Group gross loans totalled €12,822 million at 31 December 2019, compared to €15,900 million at 31 December 2018 (when ignoring the classification of the Helix loan portfolio as a disposal group held for sale). Pro forma for Helix, gross loans totalled €13,148 million at 31 December 2018. Gross loans in Cyprus totalled €12,736 million at 31 December 2019 on the same basis, accounting for 99% of Group gross loans, compared to €15,702 million at 31 December 2018 (when ignoring the classification of the Helix loan portfolio as a disposal group held for sale), accounting for 99% of Group gross loans.

The reduction in gross loans by 19% since 31 December 2018 is attributed mainly to the completion of Project Helix ((sale of €2.8 billion of gross loans of which €2.7 billion related to non-performing loans) and to a lesser extent to the completion of Project Velocity (sale of €30 million gross loans as at the date of disposal, relating wholly to non-performing loans) during the second quarter of 2019.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Loans (continued)

New loans granted in Cyprus reached €2,045 million during 2019 compared to €1,870 million for 2018 (up by 9%), and reached the highest level of new lending in Cyprus since 2015.

At 31 December 2019, the Group net loans and advances to customers totalled €10,722 million, compared to 10,922 million at 31 December 2018.

At 31 December 2018 net loans and advances to customers of €1,154 million were classified as a disposal group held for sale in line with IFRS 5 relating to Project Helix of €1,148 million and Velocity 1 of €6 million.

BOC PCL is the single largest credit provider in Cyprus with a market share of 41.1% at 31 December 2019, compared to 45.4% at 31 December 2018, with the reduction reflecting the derecognition of the Helix portfolio on completion.

Loan portfolio quality

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

Non-performing exposures (NPEs) as defined by the EBA were reduced (organic reduction) to €889 million during 2019, ahead of the target for organic NPE reduction of approximately €800 million for 2019.

The NPEs at 31 December 2019 amounted to €3,880 million, compared to €7,419 million at 31 December 2018, reflecting a reduction of 48% compared to last year, driven mainly by the completion of Project Helix.

The NPEs account for 30% of gross loans as at 31 December 2019 compared to 47% at 31 December 2018 (when ignoring the classification of Helix and Velocity 1 portfolios as disposal groups held for sale), an improvement of 17 p.p. compared to previous year. Pro forma for Helix and Velocity 1 the NPEs accumulated for 36% of gross loans at 31 December 2018.

The NPE coverage ratio improved to 54% at 31 December 2019 compared to 52% at 31 December 2018 compared to prior year (when ignoring the classification of the Helix and Velocity 1 portfolios as disposal groups held for sale), an improvement of 2 p.p. compared to last year. Pro forma for Helix and Velocity 1, the NPE coverage ratio stood at 47% at 31 December 2018.

When taking into account tangible collateral at fair value, NPEs are fully covered.

	2019		2018	
	€ million	**% gross loans**	€ million	% gross loans
NPEs as per EBA definition	**3,880**	**30.3%**	7,419	46.7%
Of which: - NPEs with forbearance measures, no arrears*	**428**	**3.3%**	1,211	7.6%

*The analysis is performed on a customer basis.

Project Helix

In June 2019, the Group announced the completion of Project Helix, that refers to the sale of a portfolio of loans with a gross book value of €2.8 billion (of which €2.7 billion related to non-performing loans) (the 'Portfolio') secured by real estate collateral to certain funds affiliated with Apollo Global Management LLC, the agreement for which was announced on 28 August 2018.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Loan portfolio quality (continued)

Upon completion of Project Helix, the Group's gross NPEs are approximately 70% lower than its peak in 2014. Project Helix reduced the NPE ratio by approximately 11 p.p. to 33% as at 30 June 2019.

Cash consideration of approximately €1.2 billion was received on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Helix portfolio since the reference date of 31 March 2018.

The participation of BOC PCL in the senior debt in relation to financing the transaction has been syndicated down from the initial level of €450 million to approximately €45 million, representing approximately 4% of the total acquisition funding.

ESTIA

In July 2018 the Government announced a scheme aimed at addressing NPEs backed by primary residence, known as ESTIA (the 'Scheme'). The ESTIA eligible portfolio of approximately €0.8 billion of retail core NPEs as at 31 December 2019, referred to the potentially eligible portfolio following on-going detailed assessment based on the available data of BOC PCL on Open Market Value (OMV) and NPE status. Eligibility criteria related primarily to the OMV of the residence, total income and net wealth of the household. These act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of the contractual balance and the OMV. The Government subsidises one third of the instalment of the restructured loan, subject to the borrowers servicing their restructured loans.

In July 2019 the Memorandum of Understanding was signed by the institutions and the Government for participation in the Scheme, which was officially launched in September 2019. According to the updated timeline provided by the Government in November 2019, application submissions continued until the end of the year. The participating institutions evaluate the applications and offer restructuring solutions whilst at the same time, the applications are being reviewed and approved by the Government.

The Scheme is expected to resolve part of the ESTIA-eligible portfolio (€41 million as at 10 April 2020), to identify non-viable customers for which alternative restructuring solutions are being considered, including by the Government (€30 million as at 10 April 2020), and to facilitate the resolution of the remaining customers (€745 million as at 10 April 2020), mainly by focusing on realising collateral through consensual and non-consensual foreclosures.

Over 80% of the applications submitted by 31 December 2019 currently remain incomplete. Following the outbreak of COVID-19, the deadline for borrowers to complete their application has been extended by three months to June 2020.

Project Velocity 1

In June 2019, BOC PCL completed the sale of a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €245 million and a gross book value of €34 million as at the reference date of 30 September 2018 (known as 'Project Velocity 1') to APS Delta s.r.o. This portfolio comprised 9,700 heavily delinquent borrowers, including 8,800 private individuals and 900 small-to-medium-sized enterprises. The gross book value of this portfolio as at the date of disposal was €30 million. The sale was broadly neutral to both, the profit and loss and to capital.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Loan portfolio quality (continued)

Project Velocity 2

In January 2020, BOC PCL entered into an agreement with B2Kapital Cyprus Ltd, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €398 million and gross book value of €144 million as at the reference date of 31 August 2019, known as Project Velocity 2. This portfolio comprises of approximately 10,000 borrowers, including approximately 8,400 private individuals and approximately 1,600 small-to-medium-sized enterprises. As at 31 December 2019, the portfolio is classified as a disposal group held for sale as at 31 December 2019 with gross book value of €139 million. The transaction resulted in a reversal of impairment of €6 million recorded in the fourth quarter of 2019, under 'Provisions/net loss relating to NPE sales' in the underlying basis income statement and is expected to be capital neutral on completion. The sale is subject to the necessary approvals and is expected to be completed within the second quarter of 2020.

Additional strategies to accelerate de-risking

The Group continues to assess the potential to accelerate the decrease in NPEs on its balance sheet through additional sales of NPEs in the future. To that extent the Group continues to review the feasibility of NPE reduction structures with the aim of identifying the option that best meets the Group's strategic objectives. The preparation phase involves defining the relevant NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and in order to conclude on the best possible structure, the Group has engaged international advisors, and is continuing to engage in discussions with various third parties, including financial investors and investment banks, that may be interested in pursuing a possible collaboration with the Group. A range of potential outcomes is possible, including outright sales (including BOC PCL retaining a portion of the related financing). The Group is not committed to any outcome arising from these third party discussions.

Against the backdrop of market volatility arising out of the COVID-19 pandemic, the Group continues to work with its advisers towards the sale of a portfolio of NPEs in the future. Due to prevailing market and operational conditions, this process is likely to take longer than originally anticipated. In the context of IFRS 9, BOC PCL recognised additional loan credit losses of €75 million in the fourth quarter of 2019, with a negative capital impact of 46 bps, as a result of the anticipated balance sheet de-risking through further NPE sales in the future. On completion of an NPE trade, the Group's capital ratios would benefit from the RWA reduction, subject to regulatory approval.

As at 31 December 2019, a portfolio of credit facilities related to Helix with a gross book value of €46 million of mainly secured non-performing exposures (known as 'Helix Tail') was classified as a disposal group held for sale.

Following the outbreak of COVID-19, the Group is now focused on arresting any potential asset quality deterioration. Once economic conditions normalise, the Group expects to resume its efforts to improve its asset quality position by seeking solutions, both organic and inorganic, to make BOC PCL a stronger and safer institution, capable of continuing to support the local economy.

For further information regarding the regulatory forbearance as allowed by the Guidelines issued in April 2020 by the EBA, refer to Note 56 'Events after the reporting date' of the Financial Statements for the year ended 31 December 2019.

Real Estate Management Unit (REMU)

The Real Estate Management Unit (REMU) on-boarded €196 million of assets in 2019 (down by 54% compared to 2018) via the execution of debt for asset swaps and repossessed properties. 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 organic disposals of €207 million during 2019 (compared to €196 million during 2018), resulting in a profit on disposal of €32 million during 2019.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

Real Estate Management Unit (REMU) (continued)

During 2019, the Group executed sale-purchase agreements (SPAs) with contract value of €345 million (558 properties), in addition to the sale of the Cyreit, see below. In addition, the Group had signed SPAs for disposals of assets with contract value of €36 million at 31 December 2019, compared to €106 million as at 31 December 2018.

Completion of sale of Cyreit
In November 2018, BOC PCL signed an agreement for the disposal of its entire holding in the investment shares of the Cyreit Variable Capital Investment Company PLC (Cyreit). During the second half of 2019, the Group completed the sale of the Cyreit (21 properties) recognising a loss on disposal of approximate €1 million. The total proceeds, from the disposal of Cyreit were €160 million.

Completion of Project Helix
With the completion of Project Helix, in the second quarter of 2019 properties with carrying value of €109 million, which were included in the portfolio for the NPE sale (Helix), were derecognised as at 30 June 2019. As at 31 December 2018 properties with carrying value of €74 million were included in the portfolio for the NPE sale (Helix) due to adjustments made to the portfolio of assets.

Change in classification of properties which are leased out under operating leases
In the second quarter of 2019 the Group has decided to classify certain leased properties acquired in exchange of debt and leased out under operating leases as 'Investment Properties' instead of 'Stock of property'. This change has been applied retrospectively resulting in the restatement of comparatives.

As a result of the above change in classification, properties with carrying value of €103 million as at 31 December 2018 were reclassified from the stock of properties (measured at the lower of cost and net realisable value under IAS 2) to investment properties (measured at fair value under IAS 40). These properties continue to be managed by REMU.

This change in classification had no material impact on the Group's comparative retained earnings and a cumulative impact of €1 million gain has been recognised under 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' in the income Group's statement for the year ended 31 December 2019.

Assets held by REMU
As at 31 December 2019, assets held by REMU had a carrying value of €1,490 million (comprising properties of €1,378 million classified as 'Stock of property' and €112 million as 'Investment Properties'), compared to €1,530 million as at 31 December 2018 (comprising properties of €1,427 million classified as 'Stock of property' and €103 million as 'Investment Properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €24 million as at 31 December 2019 and as at 31 December 2018, relate to legacy properties held by BOC PCL before the set-up of REMU in January 2016.

Overseas exposure

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

In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the branch in Romania were terminated in January 2019, following the completion of deregistration formalities with respective authorities.

During the third quarter of 2019 the disposal of the overseas exposure in Serbia, comprising loans and properties, with a carrying value of €8 million was completed.

Group financial results on the underlying basis (continued)

Balance Sheet Analysis (continued)

At 31 December 2019 there were overseas exposures of €265 million in Greece relating to both loans and properties (compared to €144 million as at 31 December 2018), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

Income Statement Analysis

Total income

Net interest income (NII) and net interest margin (NIM) for 2019 amounted to €344 million (up by 4% compared to previous year) and 1.90% respectively up by 8 bps compared to prior year. NII and NIM amounted to €331 million and 1.82% respectively for 2018.

An amount of approximately €12 million relating to a one-off charge included in 'Net interest income' under the statutory basis, is presented within 'Loan credit losses' under the underlying basis, which is related to a change in the method of amortising arrangement fees given that this was a non-recurring item.

Reclassifications to comparative information were made for unrecognised interest on previously credit impaired loans which cured during the year ended 31 December 2018, amounting to €33 million. This was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC discussion, which took place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).

Average interest earning assets for 2019 amounted to €18,051 million compared to €18,190 million for 2018 down by 1% compared to last year.

Non-interest income for 2019 amounted to €307 million down by 6% compared to 2018, mainly comprising net fee and commission income of €150 million, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries of €38 million, net insurance income of €58 million, net gains from revaluation and disposal of investment properties and on disposal of stock of properties of €32 million and other income of €29 million.

Net fee and commission income for 2019 amounted to €150 million, down by 8% compared to 2018 fee and commission income of €162 million mainly due to decreased volume of business from the International Business Units (IBUs) in 2019.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €38 million for 2019, comprising net foreign exchange gains of €27 million and net gains on revaluation of financial instruments of €11 million, decreased by 43% compared to 2018 mainly due to one-off gain on disposal of bonds during 2018 amounting to €19 million.

Net insurance income amounted to €58 million for 2019, compared to €53 million for 2018, up by 9%, reflecting increased income and positive investment returns in 2019.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 2019 amounted to €32 million compared to net gains of €18 million for 2018, comprising a net profit from the disposal of stock properties of €30 million (REMU gains), and a profit from disposal of investment property of €2 million.

Total income for 2019 amounted to €651 million, remaining at similar levels to previous year.

Total expenses

Total expenses for 2019 were €410 million compared to €393 million for 2018, 54% of which related to staff costs (€220 million), 40% to other operating expenses (€165 million) and 6% (€25 million) to special levy and contribution to SRF.

Total operating expenses for 2019 were €385 million compared to €368 million for 2018, (increased by 5%).

Group financial results on the underlying basis (continued)

Income Statement Analysis (continued)

Total expenses (continued)

Staff costs of €220 million for 2019 increased by 4% compared to €212 million for 2018 mainly driven by the increase in employer’s social insurance contributions from the beginning of the year and the additional contributions to the new general healthcare system which commenced in March 2019, as well as the effect of the renewal of the annual collective agreement for 2019 within the employees' union.

In October 2019, the Group completed a voluntary staff exit plan ('VEP' or 'the plan') through which approximately 11% of the Group's full time employees were approved to leave at a total cost of €81 million, recorded in the consolidated income statement during the fourth quarter of 2019. Following the completion of the voluntary staff exit plan, the gross annual savings are estimated at approximately €28 million or approximately 13% of staff costs (excluding the approximately 100 persons relating to the Helix transaction). The annual savings net of the impact from the renewal of the collective agreement for 2019 and 2020, are estimated at €23 million or 11% of staff costs.

The Group employed 3,672 persons as at 31 December 2019 (compared to 4,146 persons as at 31 December 2018) including approximately 100 persons relating to the Helix transaction, who were transferred to the buyer upon full migration in January 2020. The staff costs related to these persons are included under ‘Provisions/net (loss)/profit relating to NPE sales’ in the underlying basis.

Other operating expenses for 2019 were €165 million, increased by 6% from 2018, mainly due to higher property related costs and higher depreciation/amortisation resulting from increased capital expenditure following the Digital Transformation Programme.

Special levy and contribution to SRF for 2019 were €25 million (at the same level as the previous year) and comprise the special levy on deposits of credit institutions in Cyprus and the contribution made to the SRF.

As from 1 January 2020 and until 3 July 2024 BOC PCL is subject to contribution to the Deposit Guarantee Fund (DGF) on a semi-annual basis. The contributions are calculated based on the Risk Based Methodology (RBM) as approved by the management committee of the Deposit Guarantee and Resolution of Credit and Other Institutions Schemes (DGS) and is publicly available on the CBC’s website. In line with the RBM, the contributions are broadly calculated on the covered deposits of all authorised institutions and the target level is to reach at 0.8% of these deposits by 3 July 2024. The contribution of BOC PCL has been set at €2.9 million for the first half of 2020 and in line with IFRSs, it will be charged in the first quarter of 2020.

The cost to income ratio excluding special levy and contribution to SRF for 2019 was 59% compared to 56% for 2018, mainly due to the increase in total operating expenses which increased by 5% compared to last year. Cost management remains a key focus going forward.

Profit before tax and non-recurring items
Operating profit for 2019 was €241 million compared to €264 million for 2018, down by 9%, mainly due to increase in total operating expenses.

The loan credit losses for 2019 totalled €146 million compared to €135 million for 2018, up by 8% compared to 2018, reflecting further balance sheet de-risking. An amount of approximate €12 million relating to a one-off charge included in 'Net interest income' under the statutory basis, is presented within 'Loan credit losses' under the underlying basis, which is related to a change in the method of amortising arrangement fees given that this was a non-recurring item.

The loan credit losses charge (cost of risk) for 2019 accounted for 1.12% of gross loans, compared to a loan credit losses charge of 0.99% for 2018 on the same basis, reflecting further de-risking and IFRS 9 model volatility.

At 31 December 2019, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €2,096 million, (compared to €2,254 million at 31 December 2018 pro forma for Helix) and accounted for 16.3% of gross loans, (compared to 17.1% at 31 December 2018 pro forma for Helix).

Group financial results on the underlying basis (continued)

Income Statement Analysis (continued)

Total expenses (continued)

Impairments of other financial and non-financial assets for 2019 amounted to €22 million, compared to €20 million for 2018 (up by 12%).

Provisions for litigation, claims, regulatory and other matters for 2019 totalled €10 million, compared to €23 million for 2018.

Loss after tax (attributable to the owners of the Company)
The tax charge for 2019 is €3 million, compared to a tax credit of €3 million a year earlier (which comprised mainly of reversals of provisions relating to prior years).

Profit after tax and before non-recurring items (attributable to the owners of the Company) for 2019 was €58 million, compared to €88 million for 2018, down by 35%.

Advisory and other restructuring costs - organic for 2019 amounted to €22 million, compared to €42 million for 2018, down by 49% compared to 2018, due to elevated costs in 2018 mainly due to an amount of €11 million relating to fee and commission expense on the amounts deposited in regards to the AT1 issue and also due to lower advisory costs in 2019.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for 2019 amounted to €36 million, compared to €46 million for 2018, down by 22% compared to previous year.

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) amounted to €81 million for 2019.

Provisions/net loss relating to NPE sales for 2019 amounts to €92 million, compared to €83 million for 2018 and includes the net result of the sale of the Helix portfolio (including the interest income, non-interest income, staff costs, other operating expenses and loan credit losses) of a profit of €4 million, as well as the reversal of impairment of €6 million resulting from the sale of the Velocity 2 portfolio. Also, additional loan credit losses of €75 million as a result of the anticipated balance sheet de-risking through further NPE sales in the future were also recorded, as well as restructuring cost related to these projects totalled €25 million for 2019 (2018: €18 million).

Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates totalled €21 million for 2019, comprising a loss on remeasurement of investment in associate upon classification as held for sale of €26 million and a share of profit from associates of €5 million (compared to a share of profit from associates of €9 million in 2018. In October 2019 the Group completed the sale of its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited (CNP) that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013, for a cash consideration of €97.5 million.

The reversal of impairment of DTA and impairment of other tax receivables totalled €88 million for 2019, comprising the net positive impact of €109 million following amendments to the Income Tax legislation in Cyprus adopted in March 2019, and an impairment of €8 million relating to Greek tax receivables adversely impacted from legislative changes. The carrying value of the remaining receivable as at 31 December 2019 was approximately €5 million. The impairment of DTA for 2018 was €79 million resulting from the on-going review of the recoverability of the DTA. This amount together with related impairment recorded in prior periods totalled €115 million and were subsequently reversed in 2019. In addition levy in the form of a guarantee fee of €19 million was recorded in 2019, in relation to the right to convert tax losses into a tax credit. For further information please refer to Capital Base/Legislative amendments for the conversion of DTA to DTC.

Profit from discontinued operations for 2018 amounted to €3 million and relate to the UK operations sold during 2018.

Loss after tax attributable to the owners of the Company for 2019 was €70 million, compared to a loss of €104 million for 2018.

Operating environment

Impact of COVID-19
While Cyprus has had a five-year track record of strong economic recovery in 2015-2019, the COVID-19 pandemic is expected to lead to a deep recession in 2020 before recovery and take shape in 2021. The pandemic has also altered the global economic outlook where earlier favourable forecasts are now being replaced by the prospect of a global recession which may be relatively deep for some countries. The recovery will depend on the speed and effectiveness of policy responses by the fiscal and monetary authorities at both the national and international levels, and on success in containing the virus.

What started as a massive supply shock in China is now morphing into a global demand shock after governments around the world, have imposed quarantines and social distancing to contain the spread of the virus. Governments and central banks are acting proactively and decisively to support consumers and businesses and to limit financial disruptions. The pandemic is having and will continue to have an impact on consumer spending, which is the primary driver of economic growth in most parts of the world. The pandemic is also expected to affect corporate profits causing businesses to cut back further on investment and ultimately to affect the ability of companies to repay their debts. Primary credit markets are essentially frozen, which means that some companies will not be able to roll-over liabilities without increasing their refinancing costs.

The Cypriot economy is also expected to be affected by a protracted lockdown. The economy is heavily export-oriented and thus highly exposed to developments in the European and global economies. Tourism, trade, transport and construction that are most severely being affected by the lockdowns account for about one third of GDP. The prevalence of small and medium-sized enterprises makes the Cypriot economy even more vulnerable to supply disruptions and demand shocks.

Central banks around the world, including the US Federal Reserve and the ECB, are focusing their efforts on providing liquidity and reducing pressures on corporate balance sheets amid declining profitability. Also changes to national fiscal policies are even more critical in the short term at least, to offset falling demand and losses of income. Countries are also offering lending and credit guarantees for businesses along with temporary tax relief and payments to consumers to prevent or mitigate layoffs.

In the US the Federal Reserve has already cut its interest rate to zero and announced it was providing an additional $700 billion in asset purchases, expanding repurchase operations and extending US dollar swap lines with foreign banks. The US Senate has agreed to an emergency fiscal package of $2 trillion or just under 10% of GDP to support companies, consumers and state and local governments.

In the European Union, the European Commission announced a suspension of fiscal and state aid rules paving the way for member states to incur deficits without repercussions. The ECB has launched a new wave of net asset purchases with an initial envelope of €120 billion, followed by a €750 billion Pandemic Emergency Purchase Programme (PEPP). It also provided more favourable terms under its refinancing operations and relaxed collateral standards for accessing central bank liquidity. The ECB's supervisory authority eased capital requirements, providing relief to banks and relaxed its rules around non-performing loans. The PEPP is in addition to the €20 billion-per month-programme launched in November 2019, as well as the €120 billion-package bringing the total to more than €1 trillion for at least the rest of 2020. This means that monthly purchases will exceed the €80 billion spent at the height of the Eurozone debt crisis. The PEPP, with its flexible framework, paves the way for extensive bond-buying this year ensuring funding conditions will remain very favourable for countries facing deterioration in their public finances.

At their meeting on 9 April 2020, the Eurogroup emerged with a deal on a €540 billion rescue package. This included the use of the European Stability Mechanism (ESM) for €240 billion, which is approximately 2% of Eurozone GDP. The only conditionality is that this is required to fund the direct and indirect health care, cure and prevention costs of the COVID-19 crisis. The Eurogroup endorsed the European Commission's €100 billion SURE initiative to support national short-term work schemes. Support will also be provided through the European Investment Bank (EIB) for €200 billion of loan guarantees with a focus on small and medium-sized enterprises. This fiscal stimulus adds to the enormous amount of stimulus in place to fight the COVID-19 outbreak and its consequences.

Operating environment (continued)

In response to the outbreak of COVID-19, the Cyprus Government swiftly implemented restrictions, partially or fully freezing the operations of entire business sectors to contain the spread of the virus. To mitigate the disruption and the costs of the outbreak of COVID-19 and of the measures to contain it, the Government has introduced several measures and policies. The measures are intended to provide liquidity to companies and households and prevent a sharp rise in unemployment. The Government is promoting a government guarantee programme of €2 billion for the provision of low-priced loans to companies and the self-employed. Parliament voted for the suspension of loan repayments for interest and principal for the nine months remaining to the end of the year, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Based on a decision of the Association of Cyprus Banks, whilst interest will continue to accrue for this nine-month period, it will not be compounded. Banks suspended foreclosure procedures for a period of three months until 18 June 2020. The Government also introduced income support schemes for companies to avoid employee layoffs. The Government introduced other liquidity supporting measures such as the temporary suspension of VAT and delayed additional increases of contributions for the national health system.

In an effort to strengthen the liquidity of its finances at a time of uncertainty surrounding the pandemic crisis, and help fund a large expected budget deficit in 2020, the Government proceeded and successfully completed in April 2020, a double issuance of a 7-year bond for €1.25 billion and a 30-year bond for €0.5 billion. The issuance was oversubscribed, and the final yields were 1.55% and 2.34% respectively. Furthermore, the Government proceeded and successfully completed in April 2020 the issuance of 52-week treasury bills for €1.25 billion, bringing the total amount of finance raised from the international and local markets to €3.0 billion.

2019 Macroeconomic performance

In 2019 real GDP increased by 3.2%, following an increase of 4.1% in 2018. From the supply side all sectors made positive contributions in overall growth in the year except for financial services. Construction, manufacturing, trade and tourism from the traditional economy made significant contributions. Information and communications together with the professional services from the higher value-added growth sectors also added significantly to total growth. At the same time, there were positive contributions from public services, education, health and real estate.

Total employment increased by 3.9% on average in 2019 compared with an increase of 5.9% in 2018. The unemployment rate dropped to 7.1% from a yearly average of 8.4% the year before. Consumer price inflation moderated in 2019 to 0.3% following an increase of 1.4% in 2018 (Labour Force survey, Cyprus Statistical Service). This was driven by weaker global energy prices, continued economic slack in the domestic economy and a one-off adjustment to fuel retail prices after a cut in taxes. The current account deficit deteriorated sharply in 2019 rising to 6.6% of GDP from 3.4% of GDP in 2018 excluding special purpose entities (Central Bank of Cyprus). This was due to strong domestic demand driving imports higher, and weaker export growth.

In the banking sector, funding conditions remained favourable and the stock of NPEs continued to decline in 2019, albeit marginally, following the sharp declines of 2018 associated with the resolution of the Cyprus Cooperative Bank and the sale of a package of loans by BOC PCL (Project Helix). Total loans at the end of 2019 were €33.7 billion or 153% of GDP compared to €39.2 billion at the end of 2018. Loans to residents excluding the government were €26.3 billion as at end 2019. The stock of NPEs declined from €20.9 billion at the end of December 2017 to €10.4 billion at the end of December 2018 and to €9.5 billion at the end of November 2019. The ratio to gross loans was 28.6% and the coverage ratio was 54.6% also at end November 2019.

In the public sector, the process of fiscal consolidation that started under the economic adjustment programme reversed the large budget deficits of the period 2009-2013 to sizeable surpluses. The budget surplus was 1.7% of GDP in 2017 and 3.0% of GDP in 2018, excluding the fiscal burden associated with the orderly resolution of the Cyprus Cooperative Bank. Total public debt rose from 93.9% of GDP at the end of 2017 to 100.6% of GDP at the end of 2018. This increase was attributable to the fiscal burden from the resolution of the Cyprus Cooperative Bank. In 2019 the budget surplus was 2.7% of GDP and the total public debt was down to 95.5% of GDP (Cyprus Statistical Service).

Operating environment (continued)

Cyprus macroeconomic outlook

Looking forward to 2020, the outlook is severely affected by the COVID-19 outbreak. According to the IMF's April 2020 World Economic Outlook, the Cypriot economy is expected to contract by 6.5% in the year and to rebound by 5.6% in 2021. In comparison, the IMF forecasts a 7.5% contraction in the Euro Area in 2020 to be followed by a rebound of 4.7% in 2021. Fiscal support measures are expected to limit the contraction of the Cypriot economy, but to lead to a deterioration of the Government's fiscal position. The fiscal balance is expected to turn from a surplus into a sizeable deficit in 2020 and public debt to rise significantly.

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting expectations of a sustained decline in public debt as a ratio to GDP, further declines in non-performing exposures and a more stable price environment following a protracted period of deflation and low inflation. In November 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with stable outlook. In October 2019, Fitch affirmed its rating and upgraded its outlook to positive. In July 2018 Moody's Investors Service upgraded Cyprus' sovereign rating to Ba2 from Ba3 with a stable outlook. In September 2019 Moody's affirmed its rating and upgraded its outlook to positive. S&P Global Ratings maintains an investment grade rating (BBB-) with a stable outlook since September 2018, which was affirmed in March 2020.

In April 2020, Fitch affirmed its rating and revised its outlook to stable, reflecting the significant impact the COVID-19 pandemic might have on the Cypriot economy and fiscal position. Also, in April 2020, Moody's issued an update on their credit opinion for the Cyprus Sovereign and revised their forecasts for the Cypriot economy in view of the COVID-19 outbreak. According to the update, the outbreak will weigh on near term growth and fiscal prospects, but the impact on the credit profile is expected to be temporary.

Business Overview

As the Cypriot operations account for 99% of gross loans and 100% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In June 2019, Moody's Investors Service affirmed BOC PCL's long-term deposit rating of B3 (positive outlook) and in July 2019, Standard and Poor's affirmed their long-term issuer credit rating on BOC PCL of 'B+' (stable outlook). In November 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In April 2020, Fitch Ratings revised their outlook to negative, reflecting the significant impact the outbreak of COVID-19 might have on the Cyprus economy and consequently BOC PCL.

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and local Cypriot economy. On the basis of currently available information, the Group is not in a position to accurately assess the magnitude of the future impact of COVID-19 on the Group's operations and financial results, as this will principally depend on the rate and extent of the spread of the virus, its direct and indirect impact on customers and the effectiveness of the regulatory and fiscal measures taken to support the economy and mitigate the impact of the virus.

In common with other European banks, the persistently low interest rate environment continues to present a challenge to the Group's profitability. As a consequence of the current challenging economic conditions resulting from the COVID-19 outbreak, the Group will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for the first quarter of 2020 as per EBA guidelines, and anticipates that this may result in increased organic provisions in the first quarter of 2020, although the exact quantum of any such increase is as yet unknown. Despite the lower transactional income and lower demand for loans currently observed, the on-going economic uncertainty means that the Group does not have sufficient visibility about the likely future impact of COVID-19 on its operations or financial results, and therefore is currently not in a position to provide guidance for the current financial year. However, the Group's good capital base and strong liquidity, position it to be able to support its customers through this period of extreme volatility.

The Group's medium-term strategic priorities remain clear, with a sustained focus on strengthening its balance sheet, and improving asset quality and efficiency in order to continue to play a vital role in supporting the Cypriot economy.

Business Overview (continued)

In light of the recent outbreak of COVID-19, the Group is taking all appropriate measures, in line with guidelines and recommendations issued by the Ministry of Health, to protect the health of both staff and customers while ensuring the operational resilience of BOC PCL.

Upon the outbreak of COVID-19, the Pandemic Incident Management Plan (PIMP) of the Group was invoked and a dedicated team is monitoring the situation domestically and globally and provide guidance on health and safety measures, travel advice and business continuity for our Group. Local government guidelines are being followed in response to the virus. Also, the potential economic implications for the sectors where the Group is active in are being assessed in order to identify possible mitigating actions.

In accordance with the Pandemic Plan, the Group has adopted a set of measures to ensure minimum disruption to its operations. The measures comprise rules for quarantine for employees who are vulnerable due to health conditions and for those who have returned from epicentres of the infection. The Group has replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. Staff for critical functions has been split into separate locations. In addition, to ensure continuity of business, many employees are working from home and the remote access capability has been updated significantly. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers.

As the leading financial institution in the country, the Group has a good capital position and a significant liquidity surplus of over €3 billion, as it heads into uncertain times, to support its customers and the economy to recover from this shock. BOC PCL has considerable experience in managing challenging circumstances. The Management maintains its relentless focus on asset quality, funding, capital and efficiency to ensure BOC PCL maintains its financial strength, but remains equally flexible to adjust its short term priorities as needed to react to the emerging conditions of these unprecedented times. The Management's investment in the digital transformation programme has strengthened the Group's operational resilience and enabled the full deployment of digital service channels to customers. For further information, please refer to the section 'Digital Transformation' below.

In addition, the package of policy measures announced by the ECB, and the European Commission as well as the unprecedented fiscal and other measures of the Cyprus Government should help reduce the negative impact and support the recovery of the Cypriot economy. For further information please refer to Note 56 'Events after the reporting date' of the Financial Statements for the year ended 31 December 2019.

Tackling the BOC PCL loan portfolio quality is of utmost importance for the Group. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. Following the outbreak of COVID-19 the Group is now focused on arresting any potential asset quality deterioration. Once economic conditions normalise, the Group expects to resume its efforts to improve its asset quality position by seeking solutions, both organic and inorganic, to make BOC PCL a stronger and safer institution, capable of continuing to support the local economy.

The July 2018 foreclosure law amendments have expedited the process and limited options to frustrate execution. In July 2019, the Cyprus Parliament voted through certain changes to the 2018 law which, in the most part, seek to (a) provide additional checks and balances where banks are seeking to foreclose small loans (<€350 thousand) secured by a principal private residence, and (b) extend the foreclosure timetable by extending various notice periods. These amendments have not yet passed into law, as the President of the Republic has referred these to the Supreme Court, based on legal advice from the Attorney General that elements thereof are unconstitutional. Discussions are on-going, including, inter alia, with the Ministry of Finance, the CBC and the Financial Ombudsman, aiming to introduce amendments to the foreclosure and loan restructuring framework that are acceptable to all stakeholders. Following the outbreak of COVID-19, the foreclosure process has been suspended until 18 June 2020, in line with the decision of the Association of Cyprus Banks.

Business Overview (continued)

The strategic focus of the Group on asset quality, funding, capital and efficiency aims to ensure that it maintains its financial strength. During the year ended 31 December 2019, new lending exceeded €2.0 billion, the highest since 2015. To date, growth in new lending in Cyprus has been focused on selected industries more in line with BOC PCL's target risk profile, such as tourism, trade, real estate, professional services, information/communication technologies, energy, education and green projects. The Group has also been exploring ways to grow its new lending, including careful, modest new lending in shipping, syndicated loans, as well as other initiatives.

Following the outbreak of COVID-19, the sectors most adversely affected initially are expected to be tourism, trade, transport and construction. It is expected that tourism will be the most affected sector in Cyprus. The Group has a well-diversified performing loan portfolio. As at 31 December 2019, the Group's performing loan book exposure to tourism was limited to €1.0 billion, out of a total performing loan book of €9.2 billion. Respectively, the Group's performing loan book exposure to trade was also €1.0 billion, whilst construction was limited to €0.5 billion. At the same time, the Group had only a small exposure to the oil and gas industry of less than €45 million.

Aiming at supporting investments by SMEs and mid-caps to boost the Cypriot economy, and create new jobs for young people, BOC PCL continues to provide joint financed schemes. To this end, BOC PCL 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 optimising 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, as such business have been providing a stable, recurring fee income, further diversifying the Group's income streams. The insurance income net of claims and commissions for FY2019 amounted to €58 million, up by 9% compared to 2018 contributing to 19% of non-interest income.

In order to further optimise its funding structure, BOC PCL continues to focus on the shape and cost of deposit franchise, taking advantage of the increased customer confidence towards BOC PCL. The cost of deposits has been reduced by 60 bps to 16 bps over the last 24 months. In addition liquidity fees for specific customer groups have been introduced in March 2020.

A key focus of the Group remains the active management of funding costs and on-going running expenses. The Digital Transformation Programme that started in 2017 has begun to deliver an improved customer experience (see section below), whilst the branch footprint rationalisation continued throughout 2019, further improving the operating model of BPC PCL. The number of branches was reduced by 18% in 2019 and the branch network is now less than half the size it was in 2013. The management remains focused on further improvement in efficiency.

Digital Transformation

As part of its vision to be the leading financial hub in Cyprus, BOC PCL continues its Digital Transformation Programme, which focuses on three strategic pillars: developing digital services and products that enhance the customer experience, streamlining internal processes, and introducing new ways of working to improve the workplace environment.

In recent months, various new features were introduced on the new mobile app, such as managing standing orders and direct debits, login through biometric authentication and viewing own accounts with UK and Cypriot banks. Also, financial management tools have been introduced that allow our customers to use the 1Bank service to better manage their finances. Moreover, Mastercard holders are now able to make secure and fast payments through Apple Pay (iOS) and soon they will also be able to do this through BoC Wallet (Android).

Business Overview (continued)

Digital Transformation (continued)

Moreover, the launch of the new Cards and Payments systems has been completed. This expected to offer customised solutions and improve the customer banking experience. For example, it is expected to offer new features through mobile banking in 2020, such as the ability for the customer to freeze their credit or debit card in the event of a loss (freeze and unfreeze), and the ability to determine a maximum limit for specific transactions.

The adoption of digital products and services continued to grow and gain momentum in 2019. As at the end of 2019, 77% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (compared to 67% two years earlier). Regarding the use of mobile banking, the number of active users increased by 20% in 2019. In 2020, as a result of the COVID-19 restrictive measures, a reduction in cash withdrawals and deposits performed through the branch network has been observed. An increase in the adoption of digital products and services and in digital subscriber penetration has also been observed as more customers have gained access to digital channels and more cards have been issued. As at the end of March 2020, 70% of customers were digitally engaged (up by 10 p.p. from 60% since the digital transformation programme was initiated in September 2017). A further increase is expected in 2Q2020 driven by the increase in the number of subscribers and the number of cards that have been issued. Within this context, the Bank has launched various initiatives aiming to provide better, faster and safer services. Such initiatives include amongst others the issuance of debit cards free of charge until the end of May 2020, as well as the provision of SMS Digipass devices free of charge. Additionally, new customers can open an account via the Bank’s website and receive a debit card free of charge, and new customers can receive free subscription to internet banking.

Furthermore, changes in the workplace, with the introduction of new technologies and tools that will drastically change the employee experience, improving collaboration and knowledge sharing across the organisation, are expected to be seen in 2020.

Within 2020 the Group expects to see changes in the workplace with the introduction of new technologies and tools that will drastically change the employee experience, improving collaboration and knowledge sharing across the organisation.

BOC PCL has been awarded the 'Best Consumer Digital Bank in Cyprus' award for 2019 by Global Finance.

Strategy and Outlook

The strategic objectives for the Group are 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:

- Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions.
- Achieve a lean operating model
- Maintain an appropriate capital position by internally generating capital
- Further optimise the funding structure
- Focus on the core Cyprus market
- Deliver value to shareholders and other stakeholders

Strategy and Outlook (continued)

KEY PILLARS	ACTION TAKEN IN 2019	PLAN OF ACTION
1. Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions	• Please refer to Sections 'Loan Portfolio Quality' and 'Real Estate Management Unit'	• Focus on realising collateral via consensual and non-consensual foreclosures • Real estate management via REMU • Continue to explore alternative measures for accelerating NPE reduction, such as NPE sales, securitisations etc.
2. Achieve a lean operating model	• Please refer to Section '(Loss)/profit after tax (attributable to the owners of the Company)' and 'Total expenses' for further details in relation to the voluntary staff exit plan and Section 'Business Overview'	• Implementation of Digital Transformation Programme underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time • Management remains focused on further improvement in efficiency
3. Maintain an appropriate capital position	• Please refer to Section 'Capital Base'	• Internally generating capital
4. Further optimise the funding structure	• Please refer to Section 'Funding and Liquidity'	• Focus on shape and cost of deposit franchise • Introduction of liquidity fees
5. Focus on core Cyprus market	• Please refer to Sections 'Loans', 'Total income' and 'Business Overview'	• Targeted lending in Cyprus into growing sectors to fund recovery • New loan origination, while maintaining lending yields • Revenue diversification via fee and commission income from international banking, wealth and insurance which provides stable, recurring income
6. Deliver value	• Please refer to Key Balance Sheet figures and ratios, as well as the Capital ratios and risk weighted assets	• Deliver appropriate medium-term risk-adjusted returns

The Group is closely monitoring developments in, and the effects of COVID-19 on both the global and Cypriot economy. On the basis of currently available information, the Group is not in a position to accurately assess the magnitude of the future impact of COVID-19 on the Group's operations and financial results, as this will principally depend on the rate and extent of the spread of the virus, its direct and indirect impact on customers and the effectiveness of the regulatory and fiscal measures taken to support the economy and mitigate the impact of the virus.

Strategy and Outlook (continued)

In common with other European banks, the persistently low interest rate environment continues to present a challenge to the Group's profitability. As a consequence of the current challenging economic conditions resulting from the COVID-19 outbreak, the Group will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for the first quarter of 2020 as per EBA guidelines, and anticipates that this may result in increased organic provisions in the first quarter of 2020, in line with the relevant regulatory guidance although the exact quantum of any such increase is as yet unknown. Despite the lower transactional income and lower demand for loans currently observed, the on-going economic uncertainty means that the Group does not have sufficient visibility about the likely future impact of COVID-19 on its operations or financial results, and therefore is currently not in a position to provide guidance for the current financial year. However, the Group's good capital base and strong liquidity, position it to be able to support its customers through this period of extreme volatility.

The Group's medium-term strategic priorities remain clear, with a sustained focus on strengthening its balance sheet, and improving asset quality and efficiency in order to continue to play a vital role in supporting the Cypriot economy.

Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these 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.

In making this assessment, the Directors considered the significant transactions completed during 2019 which had a positive impact on the capital position of the Group, primarily the sale of non-performing loans (the Helix transaction) and the sale of BOC PCL's 49.9% holding in CNP Cyprus Insurance Holdings Ltd. The Directors have also considered the legislative amendments on the Income Tax Law Amendment 28 (I) of 2019, enacted on 1 March 2019, which allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC), and the developments in the operating environment in Cyprus.

The Group has developed a Financial and Capital Plan which was approved by the Board in February 2019 and was updated and approved by the Board in December 2019 (the 'Plan'). The Plan ensures that the Group has sufficient resources to continue the balance sheet de-risking and deal with the remaining NPEs. Given the COVID-19 outbreak in early 2020, the going concern assessment included consideration of the impact of the COVID-19 outbreak on the Plan and particularly the Group's capital and liquidity position in the context of the emerging developments in the economy, the Cyprus government economic relief measures and the amended regulatory requirements, including the measures taken by the regulators and other authorities following the COVID-19 outbreak, as described below. The Directors have concluded that the Group, the Company and BOC PCL have the ability to continue to operate as a going concern for a period of 12 months from the date of approval of these Financial Statements.

COVID-19 outbreak
The Directors have considered the COVID-19 outbreak and the uncertainties and disruption created. COVID-19 has affected a large number of countries, infecting millions of people worldwide. Given the trend and pace of developments globally, and particularly in the Eurozone, the severity and longevity of the outbreak are still unknown and therefore no reliable estimate of the impact that could materialise can be made at this stage. However, international and multilateral organisations, as well as rating agencies, have revised down their projections for the growth of the European and World economies in 2020/2021. Depending on the length and severity of this disruption, the Group's activity and financial performance and position will be impacted to greater or a lesser extent.

As the situation has arisen after the Group completed its planning process, additional work has been undertaken to examine the potential impact. This included the development of macroeconomic scenarios, base and adverse, which are severe yet plausible scenarios. The current situation is uncertain and while response to COVID-19 involves announced government intervention which is expected to support repayment ability, it is reasonably expected that this will have a negative impact on the credit quality and collateral values. The COVID-19 scenarios developed take into consideration the following drivers and implications:

Going concern (continued)

- Government guidance and policy response to the crisis
- Capital and liquidity relief measures as well as other supervisory actions
- Lost output and productivity as a consequence of travel restrictions and social distancing
- Impact on employment levels and relevant unemployment rates
- Impact on relevant economic variables, the most significant of which include residential and commercial property prices, national output and lending volumes

Among the COVID-19 scenarios considered, there are severe scenarios designed to be extreme but plausible based on the assumption that the impact on the economy is immediate and feeds through rising unemployment levels, declining residential and commercial property prices and slowdown of lending volumes with signs of recovery later than the base scenario.

The assumptions and estimates were based on the latest developments and information available at the time of approval of these financial statements. The scenarios considered the guidance provided by the EBA, ECB, International Accounting Standards Board (IASB) and European Securities & Markets Authority (ESMA) in this respect. The scenarios also considered the response measures taken in order to support the European banking system, including the capital and liquidity requirement relaxations, as well as the measures taken by the Cyprus Government and CBC. These measures are described in Note 56 'Events after the reporting date'.

The potential impact of COVID-19 pandemic on the economy and Group's operations and financial performance is subject to continuous monitoring through the Group's management committees, business continuity team, with appropriate escalation to the Board of Directors and supervisory authorities. Given the evolving nature of the COVID-19 pandemic crisis, the Group will continue to update its macroeconomic scenarios and assess the potential impact on the Group's financial performance and position as well as capital and liquidity position.

Capital
The following items have been considered in relation to the Group's capital adequacy throughout the period of going concern assessment:

- The Common Equity Tier 1 (CET1) ratio and the Total Capital ratio on a transitional basis at 31 December 2019 are higher than the SREP requirements (Note 4.1).
- The Group's capital position which allows further risk reduction and recalibration of the cost base. The Group remains focused to implement the actions contemplated in the Plan submitted to the ECB, albeit over a longer timeframe as a result of the COVID-19 outbreak.
- The capital relief measures announced by the ECB, the EBA, the CBC, the Cyprus Government and the Eurogroup in order to allow the banks to absorb the impact of the COVID-19 outbreak and support the real economy as well as the regulatory forbearance as allowed by the Guidelines issued in April 2020 by the EBA (Note 56).
- The measures taken by the Group to protect its employees and the activation of the Group's Business Continuity Plan ensuring that critical operations are not interrupted.
- The completion of the Helix transaction in June 2019 which, along with organic reduction over the last years, led to a significant decrease of NPEs. The reduction of NPEs has been a regulatory focus for a number of years. The Group has prepared an updated NPE strategy plan for the years 2019-2021 which was submitted to the ECB in June 2019. The Directors believe that the reduction of NPEs is a significant factor with regards to the future viability of the Group as a pillar bank in Cyprus.
- The Group has elected to apply the phasing-in of the total impact on adoption of IFRS 9 of €308,511 thousand and any subsequent increase allowed for phasing in (i.e. increase in Stage 1 and Stage 2 allowance), which will impact the capital ratios over a period of five years.

Funding and liquidity
The following items have been considered in relation to the Group's liquidity position throughout the period of the going concern assessment:

- The Group is monitoring its liquidity position and is considering ways to further reduce the deposits cost.
- The various measures of regulators which aim to mitigate the impact of the COVID-19 outbreak.

Going concern (continued)

- The Group is in compliance with the Liquidity Coverage Ratio (LCR) and is significantly above the minimum requirements (Note 48).

Economic environment

- As the Cypriot operations account for 99% of gross loans and 100% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting expectations of a sustained decline in public debt as a ratio to GDP, further declines in non-performing exposures and a more stable price environment following a protracted period of deflation and low inflation. In October 2019, Fitch affirmed its rating (BBB-) and upgraded its outlook from stable to positive. In September 2019 Moody's affirmed its rating Ba2 and upgraded its outlook to positive. S&P Global Ratings maintains an investment grade rating (BBB-) with a stable outlook since September 2018, which was affirmed in March 2020.
- In April 2020, Fitch affirmed its rating and revised its outlook to stable, reflecting the significant impact the COVID-19 pandemic might have on the Cyprus economy and fiscal position. Also, in April 2020, Moody's issued an update on their credit opinion for the Cyprus Sovereign and revised their forecasts for the Cyprus economy in view of the COVID-19 outbreak. According to the update, the outbreak will weigh on near term growth and fiscal prospects, but the impact on the credit profile is expected to be temporary.
- With respect to the BOC PCL's ratings, in June 2019, Moody's Investors Service affirmed the BOC PCL'S long-term deposit rating of B3 (positive outlook) and in July 2019, Standard and Poor's affirmed their long-term issuer credit rating on BOC PCL of 'B+' (stable outlook). In November 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In April 2020, Fitch Ratings revised their outlook to negative, reflecting the significant impact the outbreak of COVID-19 might have on the Cyprus economy and consequently BOC PCL.
- The global and domestic macroeconomic conditions as a result of the COVID-19 crisis are the primary risk factors for the Cyprus economy and the banking sector in Cyprus. Adverse developments regarding growth, fiscal policy, unemployment and real estate prices, could have a negative impact on the BOC PCL's capital adequacy and liquidity position. The financial implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently. In the context of efforts to relieve individuals and businesses most affected by the coronavirus and its associated restrictive measures, the Cyprus government has announced a package of tax and other relief measures. At the same time, the ECB and the CBC are taking a number of measures to enhance the liquidity of the credit institutions and also facilitate the gradual absorption of the effects on the capital adequacy ratios, as described in Note 56 'Events after the reporting date' of the Consolidated Financial Statements.

Viability statement

In accordance with the requirements of Provision 31 of the UK Corporate Governance Code 2018 (UK Code), the Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the main risks that the Group is facing.

Time horizon
The Directors have selected a three year period for this assessment in arriving at the viability statement, which is also within the usual planning process of the Group.

Planning process and assessment
The Directors have assessed the prospects of the Group through a number of sources, including the latest Financial plan of the Group, the NPE strategy, the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Assessment Process (ILAAP) reports. In addition, the Directors have assessed emerging risks as a result of the COVID-19 outbreak.

The Group's financial plan takes account the Group's strategy, risk appetite and objectives in the context of its operating environment including actual and reasonably expected changes in the Cyprus macroeconomic environment, competitive landscape, margin pressures and capital requirements.

Viability statement (continued)

The Group prepared a detailed NPE Strategy Plan for the 3-year period 2019-2021 as requested by the Single Supervisory Mechanism (SSM). The plan was approved by the Board of Directors of the Company and submitted to the SSM in June 2019. The annual update of the strategy for years 2020-2022 was planned to be submitted to the ECB by the end of June 2020. Due to the COVID-19 developments, the submission of the NPE strategy has been postponed by the ECB to 30 September 2020.

The ICAAP is an annual process that demonstrates whether the Group has all the necessary procedures in place in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile, under both a base case and a stress case. The Group also undertakes a quarterly review of its ICAAP results considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration.

The ICAAP process demonstrates that the Group has sufficient capital, under both the base and stress case scenarios, to support its business and achieve its objectives having regard to its Board approved Risk Appetite and Strategy, and to meet its regulatory capital, leverage and liquidity requirements.

The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both the business as usual and severe stress scenarios and to meet regulatory requirements including the LCR and NSFR.

The Group prepares the ICAAP and ILAAP reports annually. Both reports for year 2018 were approved by the Board of Directors and submitted to the SSM in April 2019. Given completion of the full ICAAP report in April 2019, two quarterly reviews have taken place in the third and fourth quarter of 2019 covering the period up to end of June 2019 and the period up to end of September 2019, respectively.

The current year ICAAP and ILAAP reports are in advanced stages of completion and have been submitted for approval to the Board of Directors through the Assets and Liabilities Committee (ALCO) and will be submitted to the SSM by the end of April 2020. The base case of the ICAAP report is the latest Plan of the Group approved by the Board in December 2019. Due to the timing of the two reports, the business plans and ICAAP and ILAAP stress scenarios have not been updated to reflect the impact of the COVID-19 in line with relevant supervisory communication on this issue; however the COVID-19 preliminary estimated impact on capital and liquidity (as per the scenarios discussed below) have been referenced commented in the ICAAP and ILAAP reports under a separate section. Given the evolving nature of the COVID-19 pandemic crisis, the Group will continue to update its macroeconomic scenarios and assess the potential impact on the Group's capital and liquidity position.

Risk management

The Group identifies, assesses, manages and monitors its risk profile based on the disciplines outlines within the Risk Management Framework. The Group is exposed to a number of risks, the most significant of which are credit risk, liquidity risk, litigation risk, market risk (arising from adverse movements in exchange rates, interest rates and security prices) and risk on changes in the fair value of property. Those risks are monitored, managed and mitigated through various control mechanisms and processes set out in the Principal risks and uncertainties Risk management and mitigation section below.

Further, stress testing is an integral risk management principle used to assess the financial and operational resilience of the Group. Stresses are applied to capital requirements and liquidity and funding mix. The Group carries out the stress testing process through a combination of bottom up and top-down approaches. Scenario and sensitivity analysis follow a bottom up approach, whereas reverse stress testing follows through a top-down approach.

The Group has identified a suite of management actions which can be implemented to manage and mitigate the impact of stress scenarios. Management actions are used to inform capital, liquidity and recovery planning under stress conditions. This enables us to understand, monitor and control the risks identified.

Management believes that the stress testing process considers a range of severe but plausible scenarios. However, stress test should not be assumed to be an exhaustive assessment of all possible hypothetical extreme or remote scenarios.

Viability statement (continued)

Emerging risks-COVID-19
In reaching their assessment of viability the Directors have also considered the impact of the current and rapidly evolving situation of the COVID-19 pandemic as well as the associated government and regulatory fiscal, monetary and other actions taken, on the Group's viability.

The Directors have considered the COVID-19 outbreak and the uncertainties and disruption created. COVID-19 has affected a large number of countries, infecting millions of people worldwide. Given the trend and pace of developments globally, and particularly in the Eurozone, the severity and longevity of the outbreak are still unknown and therefore no reliable estimate of the impact that could materialise can be made at this stage. However, international and multilateral organisations, as well as rating agencies, have revised down their projections for the growth of the European and World economies in 2020/2021. Depending on the length and severity of this disruption, the Group's activity and financial performance and position will be impacted to greater or a lesser extent.

As the situation has arisen after the Group completed its planning process, additional work has been undertaken to examine the potential impact. This included the development of macroeconomic scenarios, base and adverse, which are severe yet plausible scenarios. The current situation is uncertain and while response to COVID-19 involves announced government intervention which is expected to support repayment ability, it is reasonably expected that this will have a negative impact on the credit quality, collateral values and revenue. The COVID-19 scenarios developed take into consideration the following drivers and implications:

- Government guidance and policy response to the crisis.
- Capital and liquidity relief measures as well as other supervisory actions.
- Lost output and productivity as a consequence of travel restrictions and social distancing.
- Impact on employment levels and relevant unemployment rates.
- Impact on relevant economic variables, the most significant of which include residential and commercial property prices, national output and lending volumes.

Among the COVID-19 scenarios considered, there are severe scenarios designed to be extreme but plausible based on the assumption that the impact on the economy is immediate and feeds through rising unemployment levels, declining residential and commercial property prices and slowdown of lending volumes with signs of recovery later than the base scenario.

The assumptions and estimates were based on the latest developments and information available at the time of approval of these financial statements. The scenarios considered the guidance provided by the EBA, ECB, IASB and ESMA in this respect. The scenarios also considered the response measures taken in order to support the European banking system, including the capital and liquidity requirement relaxations, as well as the measures taken by the Cyprus Government and CBC. These measures are described in Note 56 'Events after the reporting date'.

The potential impact of COVID-19 pandemic on the economy and Group's operations and financial performance is subject to continuous monitoring through the Group's management committees, business continuity team, with appropriate escalation to the Board of Directors and supervisory authorities. Given the evolving nature of the COVID-19 pandemic crisis, the Group will continue to update its macroeconomic scenarios and assess the potential impact on the Group's financial performance and position as well as capital and liquidity position.

Conclusion
In reaching their conclusion, in addition to the modelling outlined above, the Directors have also considered a number of factors including but not limited to:

- The Group's capital position - TCR as at 31 December 2019 stands at 18%.
- The Group's strong liquidity position- LCR as at 31 December 2019 at 208%.
- The declining NPE ratio.
- The fact that the Group has continued to operate effectively to date and is well prepared to continue to do so if the current situation with COVID-19 continues.
- The capital and liquidity relief measures by the regulators as well as other supervisory actions.

Viability statement (continued)

The Directors confirm that based on their assessment of the principal risks and the assessment of the Group's current position and prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2022.

Capital base

Equity totalled €2,040 million at 31 December 2019, compared to €2,121 million at 31 December 2018. The CET1 ratio (transitional) stood at 14.8% at 31 December 2019 compared to 12.1% at 31 December 2018. The CET1 ratio was negatively affected by the voluntary staff exit plan, which was completed in October 2019, the phasing in of transitional adjustments, mainly the IFRS 9, the disposal of the associate CNP Cyprus Insurance Holdings Ltd, which was completed in October 2019, the loss for the year and the agreement for the sale of NPEs (Velocity 2 and Helix tail) and was positively affected by the tax legislation amendments relating to the conversion of deferred tax assets into deferred tax credits (DTC) adopted by the Cyprus Parliament on 1 March 2019 and published on the Official Gazette of the Republic on 15 March 2019. The Total Capital ratio (transitional) at 31 December 2019 stood at 18.0% (2018: 14.9%).

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

Share capital

As at 31 December 2019, there were 446,199,933 issued ordinary shares with a nominal value of €0.10 each. Information about the changes on the authorised and issued share capital during 2019 and 2018 is disclosed in Note 36 of the Consolidated Financial Statements.

Share-based payments - share options

Following the incorporation of the Company and its introduction as the new holding company of the Group in January 2017, the Long-Term Incentive Plan (as approved on 24 November 2015 by the Annual General Meeting of BOC PCL) was replaced by the Share Option Plan which operates at the level of the Company. The Share Option Plan is identical to the Long-Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price was set at €5.00 per share. The term of the options was also extended to between 4-10 years after the grant date.

No share options were granted since the date of replacement of the Long-Term Incentive Plan by the Share Option Plan at the level of the Company. Any shares related to the Share Option Plan carry rights with regards to control of the Company that are only exercisable directly by the employee.

Treasury shares of the Company

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

The life insurance subsidiary of the Group, as at 31 December 2019, held a total of 142 thousand ordinary shares of the Company of a nominal value of €0.10 each (2018: 142 thousand ordinary shares of a nominal value of €0.10 each), as part of its financial assets which are invested for the benefit of insurance policyholders (Note 25 of the Consolidated Financial Statements). The cost of acquisition of these shares was €21,463 thousand (2018: €21,463 thousand).

For additional disclosures refer to Note 36 of the Consolidated Financial Statements, which is incorporated by reference in this Directors' Report.

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 2019 and 2018 there were no restrictions on the transfer of the Company's ordinary shares or securities and no restrictions on voting rights 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 generally applicable provisions of the Market Abuse Regulation and the European community (Takeover Bids (Directive 2004/25/EC)) Regulations 2006. From time to time, specific shareholders may have their rights in shares restricted in accordance with sanctions, anti-corruption, anti-money laundering and/or anti-terrorism compliance.

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

There are no agreements between shareholders, known to the Company, which may result in restrictions on the transfer of securities or voting rights.

Rights and obligations of ordinary shares

In accordance with the Company's Constitution, the rights and restrictions attaching to the ordinary shares are as follows:

- subject to the right of the Company to set the record dates for the purposes of determining the identity of members entitled to notice of and/or to vote at a general meeting, the right to attend and speak at any general meeting of the Company and to exercise one vote per ordinary share at any general meeting of the Company;
- the right to participate pro rata in all dividends declared by the Company; and
- the right, in the event of the Company's winding up, to participate pro rata in the total assets of the Company.

Major holders of shares and financial instruments

As at 31 December 2019 and 31 March 2020, the Company has been advised of the following notifiable interests in the share capital of the Company:

31 December 2019	**Number of ordinary shares or Depositary Interests representing Company ordinary shares**	**% held**	**Financial instruments with similar economic effect (Regulation 17(1)(b) of the Transparency (Directive 2004/109/EC) Regulations 2007 of Ireland as amended)**	**% held**
Lamesa Investments Ltd	41,383,699	9.27	-	-
Caius Capital LLP	2,650,878	0.59	25,196,557	5.65
European Bank for Reconstruction and Development	22,401,744	5.02	-	-
Cyprus Popular Bank Public Co Ltd	21,467,719	4.81	-	-
Senvest Management LLC	16,383,514	3.67	-	-
Eaton Vance Management	15,975,880	3.58	-	-
TD Asset Management	15,645,983	3.51	-	-

31 March 2020	**Number of ordinary shares or Depositary Interests representing Company ordinary shares**	**% held**	**Financial instruments with similar economic effect (Regulation 17(1)(b) of the Transparency (Directive 2004/109/EC) Regulations 2007 of Ireland as amended)**	**% held**
Lamesa Investments Ltd	41,383,699	9.27	-	-
Caius Capital LLP	10,007,877	2.24	25,196,557	5.65
Morgan Stanley & Co International plc	23,596,844	5.29	-	-
European Bank for Reconstruction and Development	22,401,744	5.02	-	-
Cyprus Popular Bank Public Co Ltd	21,467,719	4.81	-	-
Senvest Management LLC	16,383,514	3.67	-	-
Eaton Vance Management	15,433,817	3.46	-	-
TD Asset Management	14,891,907	3.34	-	-

Dividends

Based on the SREP decisions of prior years, the Company and BOC PCL were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2019 and 2018.

Following the 2019 SREP decision, the Company and BOC PCL are still under equity dividend distribution prohibition. This prohibition does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company and BOC PCL.

Principal risks and uncertainties - Risk management and mitigation

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 46 to 49 of the Consolidated Financial Statements in the Additional Risk and Capital Management Disclosures which form part of the Annual Report for the year ended 31 December and Pillar III Disclosures for the year ended 31 December 2019.

The Group is also exposed to litigation risk, arising from claims, investigations, regulatory and other matters. Further information is disclosed in Note 40 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 Note 28 to these Consolidated Financial Statements.

The Group activities are mainly in Cyprus therefore the Group performance is impacted by changes in the Cyprus operating environment as described in the 'Operating environment' section of this Directors' Report.

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 these Consolidated Financial statements.

Details of the financial instruments and hedging activities of the Group are set out in Note 22 of these Consolidated Financial Statements.

The spread of COVID-19 is expected to have a significant impact on the global economy, at least in the first half of 2020, and is likely to affect the Group’s financial performance. Specifically, COVID-19 could have an adverse impact across risks including our credit portfolio, operational risk, people, capital, funding and liquidity. The Group is closely monitoring the potential effects of COVID-19 and impact on its operations, businesses and financial performance, including liquidity and capital usage.

Events after the reporting date

Development on the Coronavirus disease (COVID-19) outbreak

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak, the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Governments around the world, including the Republic of Cyprus, have required certain companies to limit or even suspend normal business operations and have implemented restrictions on travelling as well as strict quarantine measures.

The Group is closely monitoring developments and the effects of the impact of COVID-19 on the global and Cyprus economy as well as on the likely effect on the Group’s financial performance and financial position. Specifically, COVID-19 could have an adverse impact across risks including the credit and investment portfolios, operational risk, human resources, capital, funding and liquidity.

Events after the reporting date (continued)

With respect to the Group's credit portfolio, COVID-19 could negatively impact specific portfolios through negative rating migrations, higher than expected loan losses, and through the sensitivity of the credit risk models to macro-parameters. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of economic scenarios that will be used to estimate ECL under IFRS 9 in 2020. The property portfolio of the Group may incur losses due to market fluctuations and volatility in case of significant drops in property prices and the speed of property asset reduction may decrease due to reduced counterparty appetite due to the uncertainties. Following the COVID-19 outbreak and the resultant volatile market and economic environment, the Fair Value Reserve of the FVOCI debt security portfolio of the Group held as at 31 December 2019 has decreased by €39 million on 24 April 2020. This change is recognised directly through OCI. Furthermore, on 24 April 2020, the Group held Cyprus sovereign debt securities of a nominal amount of €772 million, compared to €477 million on 31 December 2019, of which €350 million is held at FVOCI portfolio and €422 million is held at amortised cost portfolio. The increase since year end is mainly due to the Group's participation on the issuance of the Cyprus Government of 52-week treasury bills in April 2020.

The extent of the adverse impact of the pandemic on the global and local economy and markets will depend, in part, on the length and severity of the measures taken to limit the spread of the virus and, in part, on the size and effectiveness of the compensating measures taken by governments (measures taken by the Cyprus Government and various regulators are discussed below). The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. As the situation is rapidly evolving the Group cannot at this stage reliably estimate the potential financial impact of the outbreak on the Group.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

Measures announced by the Cyprus Government
In Cyprus, on 15 March 2020, the Council of Ministers in an extraordinary meeting, announced that it considers that Cyprus is entering a state of emergency considering the uncertain situation as it unfolds daily, the growing spread of COVID-19 outbreak and the World Health Organization's data on the situation. To this end, certain measures have been taken with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

The Cyprus Government announced a 'Support Programme' valued at €700 million to address the financial effects of COVID-19 and support labour population and business in Cyprus. The measures, amongst others include extension of period and suspension of indirect tax payments and suspension of additional contributions to the General Health Scheme for three months.

With respect to the measures for the protection of labour relationships for businesses that have suspended their operations following the relevant decree or businesses that have suffered a more than 25% drop in revenue, these involve the provision of partial subsidy for the compensation for employees, self-employed and single-person enterprises affected by the crisis and at the same time ensuring redundancies are avoided.

In addition, the CBC together with the Government announced the suspension of capital and interest payments until 31 December 2020 for natural persons, self-employed persons and businesses for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Eligible borrowers can apply for the suspension. This was passed through a bill in Parliament on 29 March 2020. Following the Emergency Measures by Financial Institutions and Supervisory Authorities Decree of 2020, dated 30 March 2020, the Group proceeded to announce the procedure through which its clients may apply for the suspension of instalments and interest on their credit facilities. In response to the moratorium the Association of Cyprus Banks also announced the non-capitalisation of interest for the period during which the moratorium is in effect.

Events after the reporting date (continued)

The Cyprus Government has also announced that it intends to provide government guaranteed loans that can be extended to customers impacted from COVID-19. In accordance with the draft government proposal, the maximum amount of the guarantees will be €1.75 billion and the guarantee will cover 70% of the new facilities. Participating banks will provide these loans at prescribed interest rates. The proposed scheme is still being deliberated upon and no final scheme has been approved to date.

Additionally, the ESTIA Scheme period for submission of applications has been extended for 3 months, until 30 June 2020, aiming to allow qualifying applicants to provide the relevant information supporting the application.

On 7 April 2020, Cyprus Government issued 7-year and 30-year bonds totalling €1.75 billion to safeguard the liquidity buffers, to fund the government measures on the one hand and to strengthen state reserves in accordance with the Medium-Term Public Debt Management Strategy.

Measures announced by regulators
The ECB announced on 12 March 2020 the implementation of a package of monetary policy measures in order to secure favourable conditions of financing for the economy with the aim to mitigate the effects of the crisis.

a) Capital Relief measures
On 12 March 2020, the ECB and the EBA announced the following relaxation measures for the minimum capital requirements for banks:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar II Guidance, the Capital Conservation Buffer and the Countercyclical Buffer. The Countercyclical Buffer is 0% for Cypriot Banks.
- Banks are allowed to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET 1; this brings forward a measure that was scheduled to come in effect in January 2021 with the revision of CRD IV.

The CBC has also decided the postponement of the remaining phase-in of the Other Systemically Important Institution (O-SII) buffer by one year.

The above measures increase the Group’s capital base available to absorb potential losses due to the crisis. In addition, the early adoption of CRD V for the composition of Pillar II Requirements provides flexibility regarding the Group’s compliance with the minimum capital requirement of Pillar II.

b) Liquidity relief measures
On 12 March 2020 together with the capital relief measures set out above, ECB announced that it will allow banks to operate temporarily below the liquidity coverage ratio (LCR).

In addition, on 12 March 2020 the ECB decided on additional longer-term refinancing operations (LTROs) through a full-spread fixed-rate auction equal to the average deposit facility interest rate and similarly it was decided that for the TLTRO III operation in June 2020, considerably more favourable terms will be applied during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time.

The Governing Council of the ECB decided on 18 March 2020 to launch a new Pandemic Emergency Purchase Programme (PEPP) for an amount of €750 billion and purchases will be conducted until the end of 2020. Furthermore, it was decided to expand the range of eligible assets under the Corporate Sector Purchase Programme (CSPP) to non-financial commercial paper and to ease the collateral standards by adjusting the main risk parameters of the collateral framework.

c) 2020 EBA EU-wide stress test postponement
Similarly, due to the outbreak of COVID-19 and its global spread, the EBA decided to postpone until 2021 the EU-wide Stress Test Exercise of 2020 to allow banks to focus on and ensure continuity of their core operations. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks’ exposures and asset quality to market participants. The ECB announced that it supports the decision of EBA and will extend the postponement to all banks subject to the 2020 stress test.

Events after the reporting date (continued)

d) Supervisory flexibility regarding prudential treatment of forborne and definition of default and accounting considerations
In the same direction, the EBA in cooperation with the ESMA issued statements on 25 March 2020 to provide guidance to banks for the estimation of the expected impact on their financial figures from COVID-19. Specifically the EBA statement seeks to provide clarity to the EU banking sector on how to handle in a consistent manner, aspects related to (i) the classification of loans in default, (ii) the identification of forborne exposures and (iii) the accounting treatment and similarly ESMA's statement is aiming in promoting consistent application on the accounting implications of IFRS 9 Financial Instruments in the specific context of the COVID-19 outbreak. In particular, the EBA clarified that generalised payment delays due to legislative initiatives and addressed to all borrowers do not lead to any automatic classification in default, forborne or unlikeness to pay. Individual assessments of the likeliness to pay should be prioritized.
On 2 April 2020, EBA issued detailed guidelines aiming to provide clarity on the treatment of legislative and non-legislative moratoria applied before 30 June 2020.

The IASB issued on 27 March 2020 educational material encouraging entities whose regulators have issued guidance on the application of IFRS 9 in the context of the COVID-19 pandemic to consider that guidance.

Other measures at European Union level

- On 23 March 2020, the EU Ministers of Finance agreed with the Commission's proposal to activate the general escape clause of the Stability and Growth Pact (SGP). Member States will be allowed to undertake measures to deal adequately with the crisis, while departing from the budgetary requirements that would normally apply under the European fiscal framework.
- The Commission has issued a specific temporary State-aid framework to expedite public support to companies to mitigate the economic impact of the crisis, while ensuring the necessary level playing field in the Single Market.
- The Commission launched a Coronavirus Response Investment Initiative (CRII) to mobilise cohesion policy to flexibly respond to the rapidly emerging needs in the most exposed sectors, such as healthcare, SMEs and labour markets, and help the most affected territories in Member States and their citizens. The first package adopted on 30 March 2020 involved about €8 billion of immediate liquidity to accelerate up to €37 billion of European public investment, provide flexibility in applying EU spending rules and extend the scope of the EU Solidarity Fund.
- On 9 April 2020 the EU finance ministers reached a comprehensive economic policy response to the COVID-19 pandemic which in addition to the measures announced earlier, the following crisis response instruments were agreed:
    - The Eurogroup proposed to establish a Pandemic Crisis Support, based on the existing Enhanced Conditions Credit Line (ECCL) precautionary credit line, adjusted to meet the current needs and to safeguard the euro area financial stability. Access granted will be 2% of the respective Member's GDP as of end-2019, as a benchmark.
    - Agreed the creation of a dedicated COVID-19 instrument to support the financing of emergency aid, through the provision of grants. In this context the Commission's proposal to re-activate the Emergency Support Instrument in the context of the COVID-19 outbreak which will be used to support the financing of emergency aid, through the provision of grants for an amount of €2.7 billion was welcomed.
    - Agreed with the European Investment Bank's proposal for the creation of a pan-European guarantee fund of €25 billion, which could support €200 billion of financing for companies with a focus on SMEs, throughout the EU, including through national promotional banks.
    - A temporary loan-based instrument labelled SURE (temporary Support to mitigate Unemployment Risks in an Emergency) will be established as soon as possible. In this context, the Commission's proposal of 2 April 2020 to set up a temporary instrument supporting Member States to protect employment in the specific emergency circumstances of the COVID-19 crisis was accepted. This instrument will be used to provide financial assistance, in the form of loans granted on favourable terms from the EU to member states, of up to €100 billion in total.

Events after the reporting date (continued)

Capital reduction through use of the Company's share premium

The Company will proceed (subject to approval by the shareholders, the ECB and the Irish High Court) with a capital reduction process which will result in the reclassification of €700 million of the Company's share premium as distributable reserves. This will increase the distributable reserves of the Company to approximately €1 billion on a pro forma basis (31 December 2019). The capital reduction has been proposed as a special resolution for approval by shareholders at the Company's Annual General Meeting scheduled on 26 May 2020. The capital reduction will not have any impact on regulatory capital or the total equity position of the Company, BOC PCL or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Introduction of contribution to the Deposit Guarantee Fund

As from 1 January 2020 and until 3 July 2024 BOC PCL is subject to contribution to the Deposit Guarantee Fund (DGF) on a semi-annual basis. The contributions are calculated based on the Risk Based Methodology (RBM) as approved by the management committee of the Deposit Guarantee and Resolution of Credit and Other Institutions Schemes (DGS) and is publicly available on the CBC's website. In line with the RBM, the contributions are broadly calculated on the covered deposits of all authorised institutions and the target level is to reach at 0.8% of these deposits by 3 July 2024. The contribution of BOC PCL has been set at €2.9 million for the first half of 2020 and in line with IFRSs, it will be charged in the first quarter of 2020.

Books and significant records

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

The accounting records are maintained at the Company's registered office at 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland and at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O.Box 24884, 1398 Nicosia, Cyprus.

Research and development

The Group did not incur any expenditure in research and development for the year ended 31 December 2019.

Political donations

Political donations are required to be disclosed under the Electoral Act 1997 of Ireland (as amended). The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2019.

Relevant audit information

In the case of persons who are Directors at the time this report is approved in accordance with section 330 of the Companies Act 2014:

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

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.

Where from time to time areas of improvement are identified these become the focus of management's attention in order to resolve them and thus strengthen the procedures that are in place. Areas of improvement may include the formalisation of existing controls and the introduction of new information technology controls, as dependency on information technology is ever increasing.

The Annual Report in advance of 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.

Corporate Governance Statement

In January 2019 the CSE issued the 5th Edition (Updated) of the Corporate Governance Code (the CSE Code). Listed companies have an obligation to include in their Annual Financial Report, a Report by the Board of Directors on Corporate Governance. In the first part of the Report, companies should report whether they comply with the CSE Code and the extent to which they implement its principles. In the second part of the Report, companies should confirm that they have complied with the CSE Code provisions and in the event that they have not, they should give adequate explanation.

The Company has also chosen to comply with the UK Corporate Governance Code 2018 published by the Financial Reporting Council in the UK (the UK Code) following the Listing on the London Stock Exchange. The Directors further consider that the Company has complied with the provisions of the UK code, other than as set out in the Introduction Part B of the Corporate Governance Report.

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

Corporate Governance Statement (continued)

Regarding the second part of the Report, the Company complies with the provisions of the CSE Code. Throughout the Corporate Governance Report for 2019 a narrative statement is provided on how the principles of the CSE Code have been applied.

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

The rules governing the composition of the Board of Directors and the appointment and replacement of its members are set out in Section 1 of the Corporate Governance Report for 2019. The powers of the Board of Directors and committees of the Board with administrative, management and supervisory functions, including any powers of the Directors in relation to the issuing or buying back by the Company of its shares, are also set out in the Corporate Governance Report.

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

A description of the operation of the shareholder meeting, the key powers of the shareholder meeting, shareholders' rights and the exercise of such right is contained in Section 7 of the Corporate Governance Report.

Details of restrictions in voting rights and special control rights in relation to the shares of the Company are set out in the section 'Other information' above. Other information required to be disclosed for the purposes of the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 is contained on page 36.

In accordance with section 167 of the Companies Act 2014, the Directors confirm that a Board Audit Committee is established. Details of the Board Audit Committee's membership and activities are included in Corporate Governance Report for 2019.

The Corporate Governance Report for 2019 is included within this Annual Financial Report on pages 316 to 369 and contains the information required for the purposes of section 1373 of the Companies Act 2014.

The statements and information referred in this Corporate Governance Statement are deemed to be incorporated herein.

Directors' Compliance Statement

As required by section 225 of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in section 225(1)). The Directors further confirm that a compliance policy statement has been drawn up setting out the Company's policies and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

Service agreements termination

The service contract of one of the Executive Directors in office as at 31 December 2019 includes a clause for termination, by service of six months' notice to that effect by either the Executive Director or BOC PCL, without cause and the BOC PCL also maintains the right to pay to the Executive Director six months' salary in lieu of notice for immediate termination. There is an initial locked-in period of three years i.e. until 31 August 2022, during which no such notice may be served either by BOC PCL or the Executive Director, unless there is a change of control of BOC PCL as this is defined in the service agreement whereupon the Executive Director may serve the notice and is further entitled to compensation as this is determined in the service agreement. 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 BOC PCL 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.

Mr Michael Spanos resigned on 21 January 2019.

On 30 August 2019 Mr John Patrick Hourican resigned as Executive Member of the Board of Directors of the Company, following the termination of his employment as Group Chief Executive Officer on the same date.

On 26 August 2019 the ECB approved the appointment of Mr Panicos Nicolaou as the Group Chief Executive Officer and Executive Member of the Board of Directors of the Company and Mr Nicolaou took up his duties on 1 September 2019.

Dr Josef Ackermann stepped down from his position as Chairman of the Board on 14 May 2019.

On 26 February 2019 the Board of Directors decided to appoint Mr Efstratios-Georgios Arapoglou as member of the Board of Directors and on 14 May 2019 he was elected as Chairperson to the Board subject to ECB approval, which was granted on 12 June 2019.

On 14 April 2020 the Board of Directors decided to appoint Mr Nicos Sofianos as member of the Board of Directors subject to ECB approval.

On 14 April 2020 the Board of Directors accepted the resignation of Mrs Anat Bar-Gera as a member of the Board of Directors effective from the next Annual General Meeting date.

The Board would like to thank all Directors who have retired for their contribution to the Group.

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

The remuneration of the Board of Directors is disclosed in Note 51 of the Consolidated financial statements.

Directors' and Secretary's interests

The interest in the share capital of the Company held by each member of the Board of Directors and the Company Secretary at 31 December 2019 is presented in the table below:

	Ordinary shares or Depositary Interests representing Company ordinary shares of €0.10 each at 31 December 2019	**Ordinary shares or Depositary Interests representing Company ordinary shares of €0.10 each at 1 January 2019 or at the date of appointment**
Non-executive directors		
Efstratios-Georgios Arapoglou (appointed on 12 June 2019)	46,500	-
Prof. Dr. Josef Ackermann (resigned on 14 May 2019)	-	150,000
Maksim Goldman	7,192	7,192
Arne Berggren	25,000	25,000
Ioannis Zographakis	3,012	3,012
Paula Hadjisotiriou	7	7
Executive directors		
Panicos Nicolaou (appointed on 1 September 2019)	5,027	5,027
Dr. Christodoulos Patsalides	170	170
Company Secretary		
Katia Santis	4	4
	86,912	**190,412**

Apart from the interests set out above, the Board of Directors and the Company Secretary had no other interests in the shares of the Company or its subsidiaries at 31 December 2019.

Auditors

During 2017 the Company undertook a competitive audit tender process in accordance with the EU Regulation on audit reform of public interest entities and its implications relating to the mandatory rotation of external auditors. On recommendation from the Audit Committee, the Board of Directors of the Company approved the appointment of PricewaterhouseCoopers (PwC) as the external auditors of the Group for accounting periods commencing on 1 January 2019. Shareholders of the Company approved the continuation in office of PwC on an advisory non-binding basis at the 2019 Annual General Meeting.

Non-financial information statement

New regulations on non-financial information, which were transposed into Irish law by the European Union (disclosure of non-financial and diversity information by certain large undertakings and groups) Regulations 2017 (Regulations), require reporting on specific topics such as environmental matters, social and employee matters, respect for human rights, bribery and corruption. Reportable information includes policies, due diligence in implementing these policies and the outcomes of these actions, the principal risks and management of these risks and key performance indicators (KPIs). The Group aims to comply with the Regulations.

The Group plays a key role and contributes to the growth of Cyprus economy with a long presence and tradition. Sustainable development, social progress, and a viable economy are the Group's goals for 2020 and the years that will follow.

Non-financial information statement (continued)

Corporate Responsibility Actions

The Group is strategically investing in corporate responsibility actions, demonstrating its important societal impact. The Group operates with transparency and remains consistent and committed towards all its stakeholders; customers, shareholders, employees and the whole Cypriot society. The Group divides its responsibilities into four pillars; the society, its people, its services and the environment, as detailed in the 2019 Corporate Responsibility Report.

Society
The Group places special emphasis on the protection and support of social partners and society. It undertakes sustainable support actions and shows particular concern for vulnerable social groups, and accordingly participates in efforts to enhance services related to health, education, and social welfare. The Group develops initiatives that aim to preserve local culture and history. The Group undertakes sustainable support actions within the two pillars of Health and Education, as indicated below:

Health pillar main actions

- More than 40,000 patients have been treated at the Bank of Cyprus Oncology Centre since its establishment by BOC PCL and the Cyprus Government, in 1998, while the Group continued offering its strong support, financial and otherwise, towards the centre.
- The Group co-ordinated the 'Fight against Cancer' campaign with the Cyprus Anticancer Society (Christodoula march) for the 21st continuous year, that resulted to fund raising of €530,000 for 2019, through the fundraising campaign.
- The Group repeats its partnering to provide financial and other medical support to families in need through the Nicosia Large Families Association, NGO Fund raising in Limassol and NGO Alkyonides.
- In 2019, approximately €340,000 was offered for the support and enhancement of more than 120 NGOs, charity organizations and associations acting within the Health pillar.

Education pillar main actions

- Over 100,000 pupils have participated in educational programmes on subjects related to art, literature and culture of Cyprus, offered by the Bank of Cyprus Cultural Foundation, since its establishment by BOC PCL in 1985.
- BOC PCL continued its support of start-ups through the IDEA Incubator and continued its successful partnership with the European Youth Parliament (EYP) Cyprus.
- BOC PCL organised with NGO Reaction, debates between students and high-profile personalities. In 2019, more than 500 students participated in this series of debates.
- In 2019, approximately €560,000 were offered for the support and enhancement of more than 180 NGOs, associations, municipalities, schools, sports federations and sports academies, while offering refurbished computers and other office equipment to schools, associations and NGOs from BOC PCL’s old stock.

Employees
The Group’s employees are its most valuable asset. Personal development, career options and employee health, safety and wellness remain the focus of the Group’s efforts to strengthen the relationship between staff and management. The Group aims to attract and retain appropriate number and calibre of staff. Failure to do so would hinder Group’s performance and overall development in a challenging and ever changing banking world. The Group maintains an Internal Transfer Policy through which positions are staffed with the right talent and through its Employee Recognition Policy, outstanding performance is rewarded.

Under the Group's Learning and Development Policy, training programmes during 2019 covered Operating Systems, Technical Aspects, Regulatory Compliance and Personal Development. In 2019 the eLearning culture was further embedded, with eLearning accounting for 33% of total training, with emphasis given on regulatory compliance topics. A total of 1,011 training days were allocated to financial crime issues for all Bank employees.

Non-financial information statement (continued)

The Group considers the health and safety of its employees as a primary concern. All members of staff were trained on health and safety through e-learning sessions. In 2019, the Business Protection, Safety & Health Department addressed 180 members of staff people on 'threat incident situations' through real-life scenarios or through seminars on First Aid and Security in the workplace. The Group conducted evacuation exercises nationwide on the actions to be taken in cases of emergency, including earthquake and fire, in cooperation with the Police and the Fire Brigade.

The Group's employees maintain a long history of volunteerism in the community and they are encouraged to actively participate and engage with the Group's various actions and initiatives. In 2019, approximately 1,000 volunteers/staff members engaged in social outreach activities organised and/or initiated by the Group.

Services
Integrity, transparency, accountability, confidentiality and sustainability are the core principles of every action of the Group and it continually strives to meet social and environmental challenges through:

- Taking into account all factors which affect it, be it risk management or management strategies for alternative investments.
- Introducing new procedures and criteria for the supply chain, ensuring a smooth and transparent process in the selection of suppliers.
- Adopting and upgrading supplier assessment and selection procedures in all areas of cooperation.

The security, protection and privacy of personal data are important to the Group so as to conduct its business fairly and lawfully. Failure to comply with General Data Protection Regulation (GDPR) and other regulations may lead to reputational and conduct risk, including fines. To this respect the Group implements a Group Data Protection Policy that outlines the principles for data privacy and these are fully supported with relevant implementation and monitoring procedures.

Furthermore, the Group recognises the risk of financial crime and has developed processes in order to prevent, identify, assess and monitor this risk. The Group maintains a zero tolerance policy for money laundering and terrorism financial incidents and does not accept excuses for any breaches of the relevant legislation or for breaches of the Group's internal policies, procedures or its compliance framework. The policies and procedures are in place to ensure that the Group fulfils its legal, regulatory and societal obligations to protect the financial system including policies in relation to Antibribery and Corruption, Prevention of money laundering and Terrorism Financing Policy, Group Customer acceptance Policy and Group customer complaints Management Policy. The Group educates staff through Group wide e-training sessions. Indicatively, during 2019 2,760 customer relationships were terminated/suspended, and 1,469 potential new customers were rejected exclusively for compliance reasons.

Environment
Environment related considerations are a developing topic for financial institutions globally. The Group's business could be affected by climate change and climate related risks. The Group is monitoring environmental legislation, including transition to low carbon economy, which may impact customer behaviour.

Being one of the largest organizations in Cyprus, the Group is fully aware of its responsibility to minimize the negative impact of its operations on the environment and aims to conduct business in a responsible and sustainable way. Failure to do so could lead to reputational risk.

To achieve energy saving and carbon emissions reduction, the Group proceeded, amongst others with the:

- Drafting of policies and procedures based on the conclusions of the energy audit completed in 2019 which include energy and environmental & social Policy.
- Installation and connection of 100KW photovoltaics to cover part of the electricity needs of IT building.
- In 2019, 7.4% estimated reduction in energy consumption.

The Group recognises the importance of waste resource management, and for that reason it has for several years a paper recycling program in place. In 2019, 390 thousand kilograms of paper were recycled.

Non-financial information statement (continued)

Diversity Report

The Group's diversity report is contained in the 'Diversity' section of the Corporate Governance Report.

Business Model

The business model of the Group is described in the 'Business Overview' section of this Directors' Report.

Risk Management

A description of the principal risks, their impact on business activity, and the way they are managed is disclosed in Section 'Principal risks and uncertainties-Risk management and mitigation' of this Directors' Report.

The Group is continuing with its Digital Transformation Programme as described in section 'Digital Transformation' of this Directors' Report which focuses on three strategic pillars: developing digital services and products that enhance the customer experience, streamlining internal processes, and introducing new ways of working to improve the workplace environment.

The risks related to the Group's corporate responsibility actions and the actions undertaken by the Group in order to address them are covered within each pillar of responsibility.

Key Performance Indicators

An analysis of KPIs relevant to the Group is disclosed in the 'Financial Results' section of this Directors' Report.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Financial Report and the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs and, in respect of the consolidated financial statements, Article 4 of the International Accounting Standards (IAS) Regulation.

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, to disclose with reasonable accuracy at any time the assets, liabilities and financial position of the Company and enable them to ensure that the financial statements comply with the provisions of the Companies Act 2014 and Article 4 of IAS Regulation. The Directors, through the use of appropriate procedures and systems, have also ensured that measures are in place to secure compliance with the Company's and the Group's obligations to keep adequate accounting records. These accounting records are kept at the Company's registered office at 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland and at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O.Box 24884, 1398 Nicosia, Cyprus.

Statement of Directors' Responsibilities (continued)

In compliance with section 283 of the Companies Act 2014, the information and returns relating to the business dealt with in the accounting records for 2019 has been sent to the registered office of the Company. The Directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Central Bank (Investment Market Conduct) Rules 2019 to include a Directors' report containing a fair review of the development and performance of the business and the position of the Group and a description of the principal risks and uncertainties facing the Group.

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

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

- they have complied with the above requirements in preparing the financial statements;
- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group and the Company and of the profit or loss of the Group and the Company;
- the Directors' report contained in Annual Financial Report 2019 includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Financial Report 2019 and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Efstratios-Georgios Arapoglou
Chairman

Panicos Nicolaou
Chief Executive Officer

28 April 2020

Consolidated Financial Statements

Contents

Consolidated Income Statement
for the year ended 31 December 2019

	Notes	2019 €000	2018 (restated)* €000
Continuing operations			
Turnover	7	**910,576**	1,012,947
Interest income	8	**454,997**	557,065
Income similar to interest income	8	**53,180**	52,054
Interest expense	9	**(93,493)**	(144,024)
Expense similar to interest expense	9	**(48,708)**	(46,042)
Net interest income		**365,976**	419,053
Fee and commission income	10	**171,715**	175,583
Fee and commission expense	10	**(9,821)**	(20,312)
Net foreign exchange gains	11	**26,596**	37,688
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	12	**18,675**	46,670
Insurance income net of claims and commissions	13	**57,660**	52,912
Net gains/(losses) from revaluation and disposal of investment properties		**2,249**	(11,845)
Net gains on disposal of stock of property	28	**25,952**	30,437
Other income	14	**28,938**	25,604
		687,940	755,790
Staff costs	15	**(306,713)**	(216,740)
Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies	16	**(43,609)**	(25,095)
Other operating expenses	16	**(242,622)**	(234,891)
		94,996	279,064
Net gains on derecognition of financial assets measured at amortised cost		**8,187**	27,825
Credit losses to cover credit risk on loans and advances to customers	17	**(232,451)**	(329,083)
Credit losses of other financial instruments	17	**(4,790)**	(1,610)
Impairment of non-financial assets	17	**(26,081)**	(18,651)
Loss before share of profit from associates and remeasurement		**(160,139)**	(42,455)
Remeasurement of investment in associate upon classification as held for sale	54	**(25,943)**	-
Share of profit from associates	54	**5,513**	9,095
Loss before tax from continuing operations		**(180,569)**	(33,360)
Income tax	18	**112,831**	(75,916)
Loss after tax from continuing operations		**(67,738)**	(109,276)
Discontinued operations			
Profit after tax from discontinued operations	7	**-**	7,243
Loss for the year		**(67,738)**	(102,033)
Attributable to:			
Owners of the Company-continuing operations loss		**(70,275)**	(110,764)
Owners of the Company-discontinued operations profit		**-**	7,243
Total loss attributable to the owners of the Company		**(70,275)**	(103,521)
Non-controlling interests-continuing operations profit		**2,537**	1,488
Total profit attributable to non-controlling interests		**2,537**	1,488
Loss for the year		**(67,738)**	(102,033)
Basic and diluted loss per share attributable to the owners of the Company (€ cent)-continuing operations	19	**(15.8)**	(24.8)
Basic and diluted loss per share attributable to the owners of the Company (€ cent)	19	**(15.8)**	(23.2)

* For information on restatement of comparatives refer to Notes 2.2.1 and 2.38.

	Notes	2019 €000	2018 €000
Loss for the year		**(67,738)**	(102,033)
Other comprehensive income (OCI)			
OCI that may be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (debt instruments)			
Net gains/(losses) on investments in debt instruments measured at fair value through OCI (FVOCI)		**15,100**	(9,968)
Transfer to the consolidated income statement on disposal		**-**	(19,484)
		15,100	(29,452)
Foreign currency translation reserve			
(Loss)/profit on translation of net investments in foreign branches and subsidiaries		**(9,743)**	9,938
Profit/(loss) on hedging of net investments in foreign branches and subsidiaries	*22*	**10,927**	(9,760)
Transfer to the consolidated income statement on dissolution/disposal of foreign branches and subsidiaries		**(403)**	(20,125)
		781	(19,947)
Total OCI that may be reclassified in the consolidated income statement in subsequent periods		**15,881**	(49,399)
OCI not to be reclassified in the consolidated income statement in subsequent periods			
Fair value reserve (equity instruments)			
Share of net gains/(losses) from fair value changes of associates		**4,199**	(3,835)
Net (losses)/gains on investments in equity instruments designated at FVOCI		**(670)**	2,720
		3,529	(1,115)
Property revaluation reserve			
Share of net gain from fair value changes of associates		**-**	70
Deferred tax	*18*	**88**	579
		88	649
Actuarial gains on the defined benefit plans			
Remeasurement losses on defined benefit plans	*15*	**(3,353)**	(912)
Total OCI not to be reclassified in the consolidated income statement in subsequent periods		**264**	(1,378)
Other comprehensive income/(loss) for the year net of taxation		**16,145**	(50,777)
Total comprehensive loss for the year		**(51,593)**	(152,810)
Attributable to:			
Owners of the Company		**(54,160)**	(154,284)
Non-controlling interests		**2,567**	1,474
Total comprehensive loss for the year		**(51,593)**	(152,810)

	Notes	2019 €000	2018 (restated) €000	2017 (restated) €000
Assets				
Cash and balances with central banks	20	**5,060,042**	4,610,491	3,393,934
Loans and advances to banks	20	**320,881**	472,532	1,192,633
Derivative financial assets	22	**23,060**	24,754	18,027
Investments	21	**1,682,869**	777,104	830,483
Investments pledged as collateral	21	**222,961**	737,587	290,129
Loans and advances to customers	24	**10,721,841**	10,921,786	14,602,454
Life insurance business assets attributable to policyholders	25	**458,852**	402,565	429,890
Prepayments, accrued income and other assets	29	**243,930**	256,002	226,105
Stock of property	28	**1,377,453**	1,426,857	1,486,979
Deferred tax assets	18	**379,126**	301,778	383,498
Investment properties	23	**136,197**	128,006	174,089
Property and equipment	26	**288,054**	260,723	279,814
Intangible assets	27	**178,946**	170,411	165,952
Investments in associates and joint venture	54	**2,393**	114,637	118,113
Non-current assets and disposal groups held for sale	30	**26,217**	1,470,038	6,500
Total assets		**21,122,822**	22,075,271	23,598,600
Liabilities				
Deposits by banks		**533,404**	431,942	495,308
Funding from central banks	31	**-**	830,000	930,000
Repurchase agreements		**168,129**	248,945	257,322
Derivative financial liabilities	22	**50,593**	38,983	50,892
Customer deposits	32	**16,691,531**	16,843,558	17,849,919
Insurance liabilities	33	**640,013**	591,057	605,448
Accruals, deferred income, other liabilities and other provisions	35	**324,246**	285,483	306,227
Pending litigation, claims, regulatory and other matters	40	**108,094**	116,951	138,375
Subordinated loan stock	34	**272,170**	270,930	302,288
Deferred tax liabilities	18	**46,015**	44,282	46,113
Non-current liabilities and disposal group held for sale	30	**-**	5,812	-
Total liabilities		**18,834,195**	19,707,943	20,981,892
Equity				
Share capital	36	**44,620**	44,620	44,620
Share premium	36	**1,294,358**	1,294,358	2,794,358
Revaluation and other reserves		**210,701**	190,411	273,708
Retained earnings/(accumulated losses)	38	**490,286**	591,941	(527,128)
Equity attributable to the owners of the Company		**2,039,965**	2,121,330	2,585,558
Other equity instruments	36	**220,000**	220,000	-
Total equity excluding non-controlling interests		**2,259,965**	2,341,330	2,585,558
Non-controlling interests		**28,662**	25,998	31,150
Total equity		**2,288,627**	2,367,328	2,616,708
Total liabilities and equity		**21,122,822**	22,075,271	23,598,600

Mr. E.G. Arapoglou Chairman

Mr. P. Nicolaou Chief Executive Officer

Mr. I. Zographakis Director

Mrs. E. Livadiotou Executive Director Finance

	Attributable to shareholders of the Company											
	Share capital (Note 36)	Share premium (Note 36)	Treasury shares (Note 36)	Retained earnings (Note 38)	Property revaluation reserve	Financial instruments fair value reserve	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments (Note 36)	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
1 January 2019	44,620	1,294,358	(21,463)	591,941	79,433	15,289	101,001	16,151	**2,121,330**	220,000	25,998	**2,367,328**
(Loss)/profit for the year	-	-	-	(70,275)	-	-	-	-	**(70,275)**	-	2,537	**(67,738)**
Other comprehensive (loss)/income after tax for the year	-	-	-	(3,353)	81	18,611	-	776	**16,115**	-	30	**16,145**
Total comprehensive (loss)/income after tax for the year	-	-	-	(73,628)	81	18,611	-	776	**(54,160)**	-	2,567	**(51,593)**
Increase in value of in-force life insurance business	-	-	-	(1,200)	-	-	1,200	-	**-**	-	-	**-**
Tax on increase in value of in-force life insurance business	-	-	-	150	-	-	(150)	-	**-**	-	-	**-**
Transfer of realised profits on disposal of properties	-	-	-	228	(228)	-	-	-	**-**	-	-	**-**
Disposal of subsidiary (Note 53.2.2)	-	-	-	-	-	-	-	-	**-**	-	847	**847**
Change of legal status of subsidiary to Undertakings for Collective Investments in Transferable Securities (UCITS) Fund	-	-	-	(6)	-	-	-	-	**(6)**	-	-	**(6)**
Payment of coupon to AT1 holders (Note 36)	-	-	-	(27,199)	-	-	-	-	**(27,199)**	-	-	**(27,199)**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	**-**	-	(750)	**(750)**
31 December 2019	**44,620**	**1,294,358**	**(21,463)**	**490,286**	**79,286**	**33,900**	**102,051**	**16,927**	**2,039,965**	**220,000**	**28,662**	**2,288,627**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Attributable to shareholders of the Company												
	Share capital (Note 36)	Share premium (Note 36)	Treasury shares (Note 36)	Retained earnings/ Accumulated losses (Note 38)	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	**Total**	Other equity instruments (Note 36)	Non-controlling interests	**Total equity**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	€000	**€000**
1 January 2018	44,620	2,794,358	(21,463)	(527,128)	92,878	54,485	6,059	105,651	36,098	**2,585,558**	-	31,150	**2,616,708**
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	(299,150)	-	(8,470)	-	-	-	**(307,620)**	-	-	**(307,620)**
Restated balance at 1 January 2018	**44,620**	**2,794,358**	**(21,463)**	**(826,278)**	**92,878**	**46,015**	**6,059**	**105,651**	**36,098**	**2,277,938**	**-**	**31,150**	**2,309,088**
(Loss)/profit for the year	-	-	-	(103,521)	-	-	-	-	-	**(103,521)**	-	1,488	**(102,033)**
Other comprehensive (loss)/income after tax for the year	-	-	-	(912)	649	(30,553)	-	-	(19,947)	**(50,763)**	-	(14)	**(50,777)**
Total comprehensive (loss)/income for the year	-	-	-	(104,433)	649	(30,553)	-	-	(19,947)	**(154,284)**	-	1,474	**(152,810)**
Decrease in value of in-force life insurance business	-	-	-	5,314	-	-	-	(5,314)	-	**-**	-	-	**-**
Tax on decrease in value of in-force life insurance business	-	-	-	(664)	-	-	-	664	-	**-**	-	-	**-**
Transfer of realised profits on disposal of properties	-	-	-	4,143	(4,143)	-	-	-	-	**-**	-	-	**-**
Transfer of property revaluation reserve and other reserve of subsidiary to retained earnings	-	-	-	14,014	(7,955)	-	(6,059)	-	-	**-**	-	-	**-**
Disposal of subsidiary (Note 53.4.1)	-	-	-	1,996	(1,996)	-	-	-	-	**-**	-	-	**-**
Change of legal status of subsidiary to Undertakings for Collective Investments in Transferable Securities (UCITS) Fund	-	-	-	298	-	-	-	-	-	**298**	-	(5,540)	**(5,242)**
Decrease in non-controlling interests due to change in the shareholding of subsidiary	-	-	-	(164)	-	-	-	-	-	**(164)**	-	164	**-**
Issue of other equity instruments (Note 36)	-	-	-	(2,458)	-	-	-	-	-	**(2,458)**	220,000	-	**217,542**
Elimination of share premium (Note 36)	-	(1,500,000)	-	1,500,000	-	-	-	-	-	**-**	**-**	**-**	**-**
Transfer of gain on disposal of FVOCI equity investments to retained earnings	-	-	-	173	-	(173)	-	-	-	**-**	-	-	**-**
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	**-**	-	(1,250)	**(1,250)**
31 December 2018	**44,620**	**1,294,358**	**(21,463)**	**591,941**	**79,433**	**15,289**	**-**	**101,001**	**16,151**	**2,121,330**	**220,000**	**25,998**	**2,367,328**

	Notes	2019 €000	2018 (restated*) €000
Net cash flow from operating activities	42	**109,747**	797,242
Cash flows from investing activities			
Purchases of debt securities and equity securities		**(428,233)**	(709,101)
Proceeds on disposal/redemption of investments:			
- debt securities		**134,850**	294,494
- equity securities		**-**	5,458
Interest received from debt securities		**33,992**	27,279
Dividend income from equity securities		**361**	547
Dividend income from associates		**5,362**	774
Proceeds on disposal of subsidiaries and associates		**241,467**	64,606
Proceeds on disposal of Helix and Velocity portfolios		**1,154,982**	-
Net proceeds from disposal of UCITS Fund and investment fund units		**-**	16,359
Purchases of property and equipment	26	**(8,660)**	(13,592)
Purchases of intangible assets	27	**(23,684)**	(27,006)
Proceeds on disposals of property and equipment and intangible assets		**386**	1,922
Proceeds on disposals of investment properties and investment properties held for sale		**19,318**	13,600
Net cash from/(used in) investing activities		**1,130,141**	(324,660)
Cash flow from financing activities			
Payment of AT1 coupon		**(27,199)**	-
Net repayment of funding from central banks		**(830,000)**	(100,000)
Net proceeds from the issue of other equity instruments		**-**	217,542
Principle elements of lease payments		**(8,679)**	-
Interest on subordinated loan stock		**(23,325)**	(24,476)
Interest on funding from central banks		**(17,448)**	(14,142)
Dividend paid by subsidiaries to non-controlling interests		**(750)**	(1,250)
Net cash (used in)/from financing activities		**(907,401)**	77,674
Net increase in cash and cash equivalents		**332,487**	550,256
Cash and cash equivalents			
1 January		**4,804,844**	4,280,231
Foreign exchange adjustments		**(6,468)**	(25,643)
Net increase in cash and cash equivalents		**332,487**	550,256
31 December	43	**5,130,863**	4,804,844

Details on the non-cash transactions are presented in Note 42.

* For information on restatement of comparatives refer to Notes 2.2.1 and 2.38.

1. Corporate information

Bank of Cyprus Holdings Public Limited Company (the Company) was incorporated in Ireland on 11 July 2016, as a public limited company under company number 585903 in accordance with the provisions of the Companies Act 2014 of Ireland (Companies Act 2014). Its registered office is 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland.

The Company is the holding company of the Bank of Cyprus Public Company Limited (BOC PCL). The Bank of Cyprus Holdings Group (the Group) comprises the Company, its subsidiary BOC PCL and the subsidiaries of BOC PCL.

The Company is tax resident in Cyprus. The principal activities of BOC PCL and its subsidiary companies (the BOC Group) involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt.

The shares of the Company are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE).

The Consolidated Financial Statements are available at the registered office of Bank of Cyprus Holdings Public Limited Company and on the Group's website www.bankofcyprus.com (Investor Relations).

Consolidated Financial Statements
The Consolidated Financial Statements of the Company for the year ended 31 December 2019 (the Consolidated Financial Statements) were authorised for issue by a resolution of the Board of Directors on 28 April 2020.

The Consolidated Financial Statements have been prepared in both the English and the Greek language. In case of a difference or inconsistency between the two, the English version prevails.

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, investments at fair value through other comprehensive income (FVOCI), financial assets (including loans and advances to customers and investments) at fair value through profit or loss (FVPL) and derivative financial assets and derivative financial liabilities that have been measured at fair value, non-current assets held for sale measured at fair value less costs to sell and stock of property measured at net realisable value where this is lower than cost. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Group elected as a policy choice permitted under IFRS 9 to continue to apply hedge accounting in accordance with IAS 39.

Presentation of the 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 45.

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 with those parts of the Companies Act 2014 applicable to companies reporting under IFRSs.

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. The accounting policies adopted are consistent with those of the previous year, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.2 and the accounting of deferred tax credits arising from deferred tax assets as explained in Note 2.13 and Note 18. In addition, there were changes in the classification of properties which are leased out under operating leases as investment properties as explained in Note 2.2.1 below.

2.2.1 Change in classification of properties which are leased out under operating leases

The Group has decided to classify the long term leased properties with rental yield at market level which are acquired in exchange of debt and are leased out under operating leases as 'Investment Properties' instead of 'Stock of Properties'. The Group previously classified these properties as inventory under IAS 2 and measured them upon on-boarding at cost and subsequently at the lower of cost and net realisable value.

The aforementioned change in classification has been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', resulting in the restatement of financial information for prior periods.

There was no material impact on the Group's retained earnings as of 1 January 2018 and 31 December 2018 as a result of the above described change in classification. The cumulative impact amounted to €1,189 thousand (gain) and has been recognised in the Consolidated Income Statement of the Group for the year ended 31 December 2019. This impact led to a decrease in basic and diluted loss per share of €0.30 for the year ended 31 December 2019.

As a result of the change in classification, the following adjustments were made on the consolidated balance sheet as indicated below:

	2018	2017
	€000	€000
Consolidated balance sheet		
Stock of property		
Before the change in classification	**1,530,388**	1,641,422
Impact of the recognition of leased out property as investment properties	**(103,531)**	(154,443)
After the change in classification	**1,426,857**	1,486,979
Investment properties		
Before the change in classification	**24,475**	19,646
Impact of the recognition of leased out property as investment properties	**103,531**	154,443
After the change in classification	**128,006**	174,089

The gains on disposal of properties for the year 2018 classified as Investment Properties instead of Stock of property amounting to €1,430 thousand are reclassified out of 'Net gains on disposal of stock of property' to 'Net gains/(losses) from revaluation and disposal of investment properties' in the consolidated income statement.

The proceeds on disposal of properties classified as Investment Properties instead of Stock of property amounting to €7,100 thousand are reclassified from 'Net Cash Flow from Operating activities/Proceeds on disposal of stock of property' (Note 42). 'Cash flows from investing activities/Proceeds on disposals of investment properties and investment properties held for sale' in the Consolidated Statement of Cash Flows.

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures (continued)

2.2.2 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 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective except for the Amendments to IFRS 9, IAS 39 and IFRS 7 related to Interest Rate benchmark Reform (the Amendments).

IFRS 16: Leases
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'). IFRS 16 replaced existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Agreement contains a Lease, SIC 15 Operating Leases Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 requires lessees to recognise most leases on their financial statements. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lessees have a single accounting model for all leases (with certain exemptions) and there is no distinction between operating and finance leases.

On initial recognition, a lessee recognises a right of use asset (RoU asset) representing its right to use the underlying asset measured at the amount equal to the lease liabilities and the provision for restoration costs, adjusted for any related prepaid or accrued lease payments previously recognised. Lease liability is recognised based on the present value of remaining lease payments, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, an incremental borrowing rate ('IBR') is used.

Subsequent to the initial recognition, the lessee measures the RoU asset by applying the cost model and depreciation is computed on a straight line basis up to the end of the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of Assets'. The lease liability increases with the accrual of interest throughout the life of the lease and is reduced when payments are made.

Lease liability is remeasured if there is a change in future lease payments or a change in the lease term. When the lease liability is remeasured a corresponding adjustment is made to the RoU asset and / or profit or loss, as appropriate.

The lease term is calculated as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (if reasonably certain to be exercised), or any periods covered by an option to terminate the lease (if reasonably certain not to be exercised). The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised. Judgement is used in calculating the lease term, which is further disclosed in Note 5.13.

There are recognition exemptions for short term leases and leases of low value items, for which the lease payments are recognised as operating expenses on a straight line basis over the lease term.

Lessor accounting remains similar to IAS 17 Leases – i.e. lessors continue to classify leases as finance or operating leases.

The impact on adoption of IFRS16 is disclosed in Note 6 of the Consolidated Financial Statements. The new accounting policy is described in Note 2.27 below and the Group's significant judgement, estimates and assumptions are described in Note 5.13.

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures (continued)

2.2.2 New and amended standards and interpretations (continued)

IFRS 9: Prepayment features with negative compensation (amendment)
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 FVOCI. The amendment did not have an impact on the results and financial position of the Group.

IAS 28: Long-term Interests in Associates and Joint Ventures (amendments)
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 Financial Instruments, 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 amendment did not have an impact on the results and financial position of the Group.

IFRIC Interpretation 23: Uncertainty over Income Tax Treatments
This interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. It 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 did not have an impact on the results and financial position of the Group.

IAS 19: Plan Amendment, Curtailment or Settlement (amendments)
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 amendment did not have an impact on the results and financial position of the Group.

Annual Improvements to 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 improvements did not have an impact on the results and financial position of the Group.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: the amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.
- IAS 23 Borrowing Costs: the amendments clarify that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2. Summary of significant accounting policies (continued)

2.2 Accounting policies and changes in accounting policies and disclosures (continued)

2.2.2 New and amended standards and interpretations (continued)

Amendments to IFRS 9, IAS 39 and IFRS 7 related to Interest Rate benchmark Reform (the Amendments)
The Amendments include a number of temporary reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. The temporary reliefs relate to issues affecting financial reporting in the period before the replacement of an existing IBOR with an alternative interest rate (pre-replacement issues) and have the effect that IBOR reform should not generally cause hedge accounting relationships to terminate. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark based cash flows of the hedged item or the hedging instrument during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk free interest rate (an RFR). This may lead to uncertainty whether a forecast transaction is highly probable and whether prospectively the hedging relationship is expected to be highly effective.

The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

IAS 39 requires that a hedging relationship only qualifies for hedge accounting if the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. The assessment of hedge effectiveness is made prospectively and retrospectively. IBOR reform might cause a hedge to fall outside the required 80–125% range. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this required 80–125% range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. The Group will not discontinue hedge accounting during the period of LIBOR-related uncertainty solely because the retrospective effectiveness falls outside the required 80–125% range. Under the IAS 39 amendments for the prospective effectiveness test, the Group also assumes that the cash flows of the hedged items, hedging instruments or hedged risks are not altered by the IBOR reform.

The Amendments mandatorily take effect from 1 January 2020 but early application is permitted. The amendments were endorsed by the EU in January 2020. The Group has elected to early adopt the interest rate benchmark reform amendments for the year ended 31 December 2019. The adoption did not result in any adjustments to the amounts presented in the financial statements. Required disclosures are provided in (Note 22).

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

Conceptual Framework in IFRS standards
The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group does not expect this framework to have a material impact on its results and financial position.

2. Summary of significant accounting policies (continued)

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

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

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (amendments)
The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. They clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group does not expect these amendments to have a material impact on its results and financial position.

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

IFRS 17: Insurance Contracts
The standard is effective for annual periods beginning on or after 1 January 2023 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In June 2019, the IASB issued an Exposure Draft which proposes some amendments to IFRS 17, including a proposal to defer the mandatory effective date of IFRS 17 by one year so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022. In March 2020 the IASB discussed and voted in favour of the amendment to IFRS 17 to defer its effective date (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. IFRS 17 replaces IFRS 4 and it 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. IFRS 17 divides insurance contracts into groups it will recognise and measure at a risk-adjusted present value of the future cash flows plus an amount representing the unearned profit in the group of contracts (the contractual service margin). It also recognises profit from a group of insurance contracts over the period the entity provides insurance coverage and as the entity is released from risk. If a group of contracts is expected to be onerous over the remaining coverage period, an entity recognises the loss immediately. The standard contains a core measurement approach, the 'general model', as well as an adaptation of the general model, the 'variable fee approach' that should be applied to certain types of contracts with direct participation features. If certain criteria are met, an entity may apply a simplified measurement approach, the 'premium allocation approach', which allows an entity to measure the amount of remaining coverage by allocating the premium over the coverage period (mainly applicable for non-life contracts with up to one-year coverage). The Group is in the process of implementing IFRS 17, has completed the relevant gap analysis and is assessing the impact of the standard on its results and financial position.

IFRS 3: Business Combinations (amendments)
The IASB issued amendments in Definition of a Business (amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. These amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

2. Summary of significant accounting policies (continued)

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

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

Amendments to IAS 1 Presentation of Financial Statements: classification of Liabilities as Current or Non-current
The IASB issued amendments to IAS 1 Presentation of Financial Statements (the amendments) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: (a) what is meant by a right to defer settlement (b) that a right to defer must exist at the end of the reporting period (c) that classification is unaffected by the likelihood that an entity will exercise its deferral right. Terms of a liability that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments do not affect its classification as current or non-current if, the entity classifies the option as an equity instrument, recognising it separately from the liability as an equity component of a compound financial instrument. The amendments are effective for or annual periods beginning on or after 1 January 2022, with earlier application permitted. The Group does not expect these amendments to have a material impact on its results and financial position.

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely, pending the outcome of its research project on the equity method of accounting. The Group does not expect this amendment to have a material impact 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 2019. 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 any contractual arrangements 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.

2. Summary of significant accounting policies (continued)

2.4 Basis of consolidation (continued)

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 consolidated income statement from such transactions. The foreign exchange differences which relate to the share of non-controlling interests being sold/acquired are reclassified between the foreign currency reserve and non-controlling interests.

2.5 Business combinations

Business combinations are accounted for using the 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 is 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.

2. Summary of significant accounting policies (continued)

2.6 Investments in associates and joint ventures (continued)

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 tested for impairment separately.

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.

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 Group applies equity accounting only up to the date an investment in associates or joint ventures meets the criteria for classification as held for sale. From then onwards, the investment in associates or joint venture is measured at the lower of its carrying amount and fair value less costs to sell.

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.

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 on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount 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' 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. Summary of significant accounting policies (continued)

2.7 Foreign currency translation (continued)

2.7.2 Subsidiary companies and branches

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

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

2.8 Segment 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 as presented in the Consolidated Income Statement is analysed in Note 7.

2.10 Revenue from contracts with customers

The Group recognises revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The revenue recognition model applies the following five steps:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

The performance obligation notion in effect represents a promise in a contract with a customer to transfer to the customer either: (a) a good or service (or a bundle of goods or services) that is distinct; or (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

Contract balances
A contract asset is the right to consideration in exchange for services transferred to the customer. If the Group performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Receivables are recorded where the Group provides services to clients, consideration is due immediately upon satisfaction of a point in time service or at the end of a prespecified period for an over time service. It is the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). The initial recognition and subsequent measurement of such receivables is disclosed in Notes 2.15 to 2.19.

Contract liabilities relate to payments received from customers where the Group is yet to satisfy its performance obligation. Contract liabilities are recognised as revenue when the Group performs under the contract.

2. Summary of significant accounting policies (continued)

2.10 Revenue from contracts with customers (continued)

Contract assets and receivables are recorded within 'Prepayments, accrued income and other assets' and contract liabilities within 'Accruals, deferred income, other liabilities and other provisions' in the consolidated balance sheet.

2.10.1 Fee and commission income

The Group earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories:
- fees earned from services that are provided over a certain period of time, such as asset or portfolio management, custody services and certain advisory services and
- fees earned from point in time services such as executing transactions and brokerage fees (e.g. securities and derivative execution and clearing).

Over time services
Fees earned from services that are provided over a certain period of time are recognised pro-rata over the service period provided the fees are not contingent on successfully meeting specified performance criteria that are beyond the control of the Group. Costs to fulfil over time services are recorded in the consolidated income statement immediately because such services are considered to be a series of services that are substantially the same from day to day and have the same pattern of transfer.

Point in time services
Fees earned from providing transaction-type services are recognised when the service has been completed provided such fees are not subject to refund or another contingency beyond the control of the Group. Incremental costs to fulfil services provided at a point in time are typically incurred and recorded at the same time as the performance obligation is satisfied and revenue is earned, and are therefore not recognised as an asset, e.g. brokerage commissions.

Fee and commission income is measured based on consideration specified in a legally enforceable contract with a customer, excluding amounts such as taxes collected on behalf of third parties. Consideration can include both fixed and variable amounts. Variable consideration includes refunds, discounts and other amounts that are contingent on the occurrence or non-occurrence of a future event. Variable consideration that is contingent on an uncertain event can only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue for a contract will not occur.

2.10.2 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'.

2.10.3 Gains from the disposal of investment property

Gains on disposal of investment property are recognised in the consolidated income statement in 'Net gains/(losses) from revaluation and disposal of investment properties' when the buyer accepts delivery and the control of the property is transferred to the buyer.

2.10.4 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 control of the property is transferred to the buyer.

2. Summary of significant accounting policies (continued)

2.11 Recognition of interest income/expense and income/expense similar to interest

The Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount of financial assets, unless the asset is credit-impaired. For financial assets and financial liabilities measured at FVPL which accrue interest, the Group follows the principles of the effective interest method with the only difference being the treatment of fees that are integral to the financial asset/financial liabilities. That is, for financial assets and financial liabilities classified at FVPL the fees are recognised as revenue or expense when the instrument is initially recognised and not as part of the EIR calculation.

When a financial asset becomes credit-impaired and is therefore classified as Stage 3, interest income is calculated by applying the EIR to the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount. In such cases, the Group unwinds the discount on the expected credit losses (ECL) through the 'Credit losses to cover credit risk on loans and advances to customers' line in the Consolidated Income Statement.

Interest income on purchased or originated credit-impaired (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.

Interest income from financial assets at amortised cost and financial assets at FVOCI are presented within the caption ‘Interest income’, with interest income on financial instruments at FVPL presented within the caption ‘Income similar to interest income’ in the consolidated income statement. Interest expense on financial liabilities at amortised cost is presented within the caption ‘Interest expense’, with interest expense on financial instruments at FVPL presented within the caption ‘Expense similar to interest expense’ in the consolidated income statement. All form part of the ‘Net interest income’.

The Group holds loans and advances to banks and central banks with negative interest rates. The Group classifies the interest on these assets within interest expense. Negative interest is disclosed in Note 9.

The effective interest rate method

Interest income and expense are recognised in the consolidated income statement by applying the effective interest rate (EIR) for all financial instruments measured at amortised cost and debt instruments at FVOCI.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of the financial liability.

The EIR, and therefore the amortised cost of the asset, is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of the EIR. Fees and incremental costs that are directly attributable to loans and advances to customers are also deferred and amortised as part of interest income using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the EIR, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

2. Summary of significant accounting policies (continued)

2.12 Retirement benefits

The Group operates both 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.

2.13 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.

2. Summary of significant accounting policies (continued)

2.13 Tax (continued)

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.

The deferred tax assets arising from specific tax losses and are subject to the Income Tax Law Amendment 28 (I) of 2019, and are accounted for on the same basis as other deferred tax assets and can be converted into tax credits. These tax losses are converted into 11 equal annual instalments and each instalment can be claimed as a deductible expense in the determination of the taxable income for the relevant year. Any amount of the annual instalment not utilised is converted into a tax credit and can be utilised in the tax year following the tax year to which this tax credit relates to. Any unutilised tax credit in the relevant year is converted into a receivable from the Cyprus Government. Further details are disclosed in Note 18.

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.

2.14 Financial instruments - initial recognition

2.14.1 Date of recognition

'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. All other 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.

2.14.2 Initial recognition and measurement of financial instruments

The classification of financial assets on initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.15.

All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at FVPL, any directly attributable incremental costs of acquisition or issue.

When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described in Note 2.14.3 below.

2.14.3 Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' caption. In the cases, where the fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2. Summary of significant accounting policies (continued)

2.14 Financial instruments - initial recognition (continued)

2.14.4 Measurement categories of financial assets and liabilities

Financial assets are measured either at amortised cost, FVOCI or FVTPL.

The Group classifies and measures its derivatives and trading portfolios at FVPL. The Group may designate financial instruments at FVPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost or at FVPL when they are held for trading or relate to derivative instruments.

2.15 Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets depends 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)).

Business model assessment
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 and the business model is based on observable factors which include:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Contractual cash flows characteristics test (SPPI assessment)
The Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding at origination (SPPI test).

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

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 applies judgment and considers the terms that could change the contractual cash flows so that they would not meet the condition for SPPI, and be inconsistent to a basic lending arrangement, 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.

2. Summary of significant accounting policies (continued)

2.15 Classification and measurement of financial assets and liabilities (continued)

Where the contractual terms of a financial asset introduce a more than de-minimis exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVPL.

2.15.1 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 and associates' in the case of all other derivatives. Interest income and expense are included in the 'Income similar to interest income' and 'Expense similar to interest expense' captions respectively in the consolidated income statement.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

For hybrid contracts where the host contract is a financial asset within the scope of IFRS 9, the classification and measurement criteria are based on the business model and SPPI assessment as described in the Classification of financial assets section of Note 2.15 and applied to the entire hybrid instrument.

Derivatives embedded in financial liabilities and non-financial host contracts, 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 and associates' in the consolidated income statement. The host contract is accounted for in accordance with the relevant standards.

2.15.2 Financial assets measured at amortised cost

Financial assets are measured at amortised cost if they meet both of the following conditions:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

This classification relates to cash and balances with central banks, loans and advances to banks, loans and advances to customers that pass the SPPI test, debt securities held under the 'Hold to collect' business model and other financial assets.

After their initial recognition, financial instruments measured at amortised cost are measured at amortised cost using the effective interest method, less allowances for expected credit losses (ECL). 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. The losses arising from impairment are recognised in the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers' in the case of loans and advances to customers and in 'Credit losses of other financial instruments' for all other financial instruments.

2. Summary of significant accounting policies (continued)

2.15 Classification and measurement of financial assets and liabilities (continued)

2.15.3 Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they meet both of the following conditions:
- The financial asset is held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

This classification relates to debt securities held under the 'Hold to collect and sell' business model that pass the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses due to changes in fair value recognised directly in other comprehensive income in the 'Net gains/(losses) on investments in debt instruments measured at FVOCI' caption. Upon derecognition of debt instruments, any accumulated balances in other comprehensive income are reclassified to the consolidated income statement and reported within 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' caption. The interest income, foreign exchange differences and ECL are recognised in the consolidated income statement in the respective lines in the same manner as for financial assets at amortised cost.

2.15.4 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 and associates' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' respectively 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.

This classification relates to debt and equity instruments that have been acquired principally for the purposes of selling or repurchase in the near term.

2.15.5 Financial assets or financial liabilities at FVPL

Financial assets and financial liabilities, other than those held for trading, classified in this category are those that are designated by management on initial recognition or are mandatorily required to be measured at fair value under IFRS 9.

Management only designates an instrument at FVPL at initial recognition when one of 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 liabilities are part of a group of financial liabilities or financial assets and financial liabilities 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 liabilities contain 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.

Such designation is determined on an instrument-by-instrument basis.

2. Summary of significant accounting policies (continued)

2.15 Classification and measurement of financial assets and liabilities (continued)

2.15.5 Financial assets or financial liabilities at FVPL (continued)

Financial assets and financial liabilities at FVPL are recorded in the consolidated balance sheet at fair value. Changes in the fair value are recognised in 'Net gains on financial instrument transactions and loss on disposal/dissolution of subsidiaries and associates' in the consolidated income statement. Interest income and expense are included in the captions 'Income similar to interest income' and 'Expense similar to interest expense' respectively in the consolidated income statement according to the terms of the relevant contract. Dividend income is recognised in 'Other income' in the consolidated income statement when the right to receive payment has been established.

In addition assets held under unit-linked insurance contracts and certain non-linked insurance contracts issued by insurance subsidiaries are designated at FVPL.

Financial assets mandatorily classified at FVPL include certain loans and advances to customers, certain investment fund holdings and other securities for which the contractual cash flows do not meet the SPPI test, or the financial assets are part of a portfolio held under a business model that is to manage and whose performance is evaluated on a fair value basis.

2.15.6 Equity instruments measured at FVOCI

At initial recognition, the Group can make an irrevocable election to classify an investment in equity instrument at FVOCI, when that meets the definition of Equity under IAS 32 Financial Instruments: 'Presentation', and is not held for trading. Such classification is determined on an instrument-by-instrument basis.

Fair value gains and losses on these equity instruments are recognised in OCI and are not recycled to profit or loss upon derecognition, but are transferred directly to retained earnings. Dividends on equity investments are recognised in the consolidated income statement and reported within 'Other Income' when the right to receive payment has been established. Equity instruments measured at FVOCI are not subject to an impairment assessment.

2.15.7 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.

2.15.8 Other financial liabilities

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

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. Summary of significant accounting policies (continued)

2.16 Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition apart from exceptional circumstances in which the Group changes its business model for managing financial assets and acquires, disposes of, or terminates a business line. Reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification. Any previously recognised gains, losses or interest are not restated.

Financial liabilities are never reclassified.

2.17 Derecognition of financial assets and financial liabilities

2.17.1 Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the contractual rights to the cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group transfers a financial asset if, and only if, either:
- The Group transfers its contractual rights to receive cash flows from the financial asset; or
- The Group retains the rights to the cash flows, but assumes an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

A transfer only qualifies for derecognition if either:
- The Group transfers substantially all the risks and rewards of the asset; or
- The Group neither transfers nor retains substantially all the risks and rewards of the asset, but it transfers control of the asset.

2.17.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Modifications to, and exchanges of, financial liabilities are treated as extinguishments and derecognised, when the revised terms are substantially different to the original term. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

2.18 Forborne and modified loans

The contractual terms of a financial asset may be modified due to 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. 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, including change in the currency, change in counterparty, introduction of substantial terms such as addition of equity conversion features, changes in the legal framework and other.

2. Summary of significant accounting policies (continued)

2.18 Forborne and modified loans (continued)

Where the modification does not result in derecognition, the Group recognises a modification gain or loss, based on the modified cash flows discounted at the original EIR and the existing gross carrying value of the financial asset. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment. A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired as defined in Note 2.19.2, are no longer present. A modified financial asset will transfer out of Stage 2 when it no longer satisfies relative thresholds set to identify significant increases in credit risk, which are based on changes in its lifetime PD, days past due and other considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

In the case of a new financial asset classified at amortised cost or FVOCI, an assessment is performed on whether it should be classified as Stage 1 or POCI for ECL measurement. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

2.19 Impairment of financial assets

2.19.1 Overview of ECL principle

The Group uses a forward looking ECL model, requiring judgement, estimates and assumptions in determining the level of ECLs. ECLs are recorded for all financial assets measured at amortised cost and FVOCI, lease receivables, loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under IFRS 9.

At initial recognition, impairment 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 POCI. In the event of a significant increase in credit risk since initial recognition, impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 2.19.3.

The Group groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

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

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

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Group defines credit-impaired and default) and lifetime losses are recognised.

POCI: Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses. Changes in lifetime ECLs since initial recognition are recognised.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.1 Overview of ECL principle (continued)

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet. For financial assets measured at FVOCI the carrying value is not reduced, but the accumulated amount of impairment allowance is recognised in OCI. For off-balance sheet instruments, accumulated provisions for ECL are reported in 'Accruals, deferred income, other liabilities and other provisions', except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL for the period is recognised within the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers' for loans and advances to customers and loan commitments and financial guarantees and in 'Credit losses of other financial instruments' for all other financial instruments.

2.19.2 Credit impaired and definition of default

Loans and advances to customers, loan commitments and financial guarantees
The Group considers loans and advances to customers that meet the non-performing exposure (NPE) definition as per the European Banking Authority (EBA) standards to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for credit risk management purposes.

As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (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.

When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is 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 specific part of the exposure is classified as non-performing.

If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due.

The definitions of credit-impaired and default are aligned so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.2 Credit impaired and definition of default (continued)

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).

At the time an account exits Stage 3, the rating at origination is compared to the rating at the reporting date. If the rating at the reporting date is higher than or equal to the rating at the origination date then the loan is transferred to Stage 1, otherwise it is transferred to Stage 2. The reversal of previous unrecognised interest on loans and advances to customers that no longer meet Stage 3 criteria is presented in 'Credit losses to cover credit risk on loans and advances to customers'.

Debt securities, loans and advances to banks and balances with central banks
Debt securities, loans and advances to banks and balances with central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal. Moody’s ratings indicate these exposures with a grade C which is the lowest Moody’s rating category. In addition, a number of other criteria are considered such as adverse changes in business, financial and economic conditions as well as external market indicators (credit spreads, credit default swap (CDS) prices) in determining whether there has been a significant deterioration in the financial position that could lead to unlikeliness to pay.

2.19.3 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.

Significant credit risk increase for loans and advances to customers
Primarily, the Group uses the lifetime probability of default (PDs) as the 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 using an established relative threshold. The Group considers an exposure to have significant increase in credit risk (SICR) by comparing the PD at the reporting date with the PD at initial recognition to compute the relative increase in regards to the corresponding threshold. The threshold has been determined by using statistical analysis on historical information of credit migration exposures on the basis of days past due, for the different segments. The Group applies the thresholds presented in the table below to each portfolio/segment, based on the following characteristics: customer type, product type and rating at origination. The threshold is then assigned to each facility according to the facilities portfolio/segment.

For Retail, SME and Corporate portfolios, the threshold applied varies depending on the original credit quality of the borrower. For instruments with lower default probabilities at inception due to good credit quality of the counterparty, the SICR threshold is set at a higher level than for instruments with higher default probabilities at inception.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.3 Significant increase in credit risk (continued)

The SICR trigger is activated based on the comparison of the ratio of Current Lifetime PD to the remaining Lifetime PD at origination (PD@O) to the pre-established threshold. If the resulting ratio is higher than the pre-established threshold then deterioration is assumed to have occurred and the exposure is transferred to Stage 2. The thresholds calibration is driven by changes in the PD models which are assessed semi-annually.

The table below summarises the quantitative measure of the SICR trigger which varies depending on the credit quality at origination as follows, applied on 31 December 2019 and 2018:

Segment	Rating at origination	PD Deterioration thresholds applied at 31 December 2019	PD Deterioration threshold applied at 31 December 2018
Retail	1-3	2-9 X PD@O	1-29 X PD@O
	4-5	1-6 X PD@O	1-5 X PD@O
	6-7	1-3 X PD@O	1-5 X PD@O
SME	1-3	4-6 X PD@O	3-8 X PD@O
	4-5	2-4 X PD@O	4 X PD@O
	6-7	1-2 X PD@O	4 X PD@O
Corporate	1-7	2 X PD@O	2 X PD@O

The IFRS 9 components, including the thresholds were calibrated during the second quarter of 2019 in order to include additional recent historical observations.

For exposures which are subject to individual impairment assessment, the following qualitative factors in addition to the ones incorporated in the PD calculation, are considered:
- 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.

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 (past due materiality is applied). Loans that meet this condition are classified in Stage 2. In cases where certain exposures are past due for more than 30 days if certain materiality limits are not met (such as arrears equal to €100 and funded balances equal to 1% in the case of retail exposures and arrears equal to €500 and funded balances equal to 1% on all exposures other than retail), then the transfer to Stage 2 does not take place. The materiality levels are set in accordance with the ECB Regulation (EU) 2018/1845.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has transferred to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

Significant credit risk increase for financial instruments other than loans and advances to customers
Low credit risk simplification is adopted for debt security instruments, loans and advances to banks and balances with central banks 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 provides an adjusted credit rating. An adjusted rating which remains investment grade is considered as having low credit risk.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.3 Significant increase in credit risk (continued)

For debt securities, loans and advances to banks and balances with central banks 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. Significant deterioration in credit risk is considered to have occurred when the adjusted rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investments grade to speculative and then to highly speculative or when the PD of the exposure at the origination date compared to the PD at the reporting date has increased by a level greater than the pre-set threshold).

2.19.4 Measurement of ECLs

IFRS 9 ECL reflects an unbiased, probability-weighted estimate based on either loss expectations resulting from default events over a maximum 12-month period from the reporting date or over the remaining life of a financial instrument. The Group calculates lifetime ECLs and 12-month ECLs either on an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group calculates ECLs based on three-weighted scenarios to measure the expected cash flows shortfalls, discounted at an approximation to the EIR as calculated at initial recognition. A cash shortfall is the difference between the cash flows that are due in accordance with the contract and the cash flows expected to be received.

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

EAD
EAD represents the expected exposure in the event of a default during the life of a financial instrument, considering expected repayments, interest payments and accruals. EAD definition is differentiated for the following categories: revolving and non-revolving exposures.

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 case of revolving exposures, the projected EAD is the carrying value plus the credit conversion factor applied on the undrawn amount. The credit conversion factor model is derived based on empirical data from 2014 onwards.

In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date.

Probability of default (PD)
PD represents the probability an exposure defaults and is calculated based on statistical rating models, calculated per segment and taking into consideration each individual's exposure rating as well as forward looking information based on macroeconomic inputs.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.4 Measurement of ECLs (continued)

For each exposure, lifetime PD represents the probability of default within the lifetime horizon and is based on the underlying models of marginal probability of default through the cycle (MPD TTC), MPD individual, MPD point in time, Marginal Probability of Paid-off (MPP) and the NPE overlay. In particular, the first element, MPD TTC is constructed per segment, illustrating the probability of default status depending on number of months since the origination date. The PD for each month since the originated date is calculated under the condition that exposures survived until the prior month. The MPD individual is allocated to linked individual exposures through a scaling factor constructed based on the current individual risk assessment, which is represented by the Group's PD per rating grade. MPD is adjusted to reflect the current and forward looking information based on the macroeconomic inputs. The MPP Component is the curve that shows the probability of full payment of a particular exposure based on specific period in months since the open date of the exposure. MPP is estimated for each particular segment and depends on the contractual terms of the exposure. Finally, the NPE overlay is an add-on factor that adjusts the definition of default of the underlying models, such that it is aligned with the NPE definition. For revolving facilities where there is no contractual survival maturity, one curve per segment is developed. The combination of these models gives rise to a PD value for each month for the lifetime of the exposure.

BOC PCL's internal rating process is summarised in Note 46.

Loss given default (LGD)
LGD represents an estimate of the loss if default occurs at a given time. It is usually expressed as a percentage of the EAD. Two distinct paths are taken into consideration for the LGD parameter. The first one is that of a cured facility where there is a full recovery thus no losses occur. In the second scenario, the facility remains non-performing resulting into BOC PCL proceeding with collateral liquidation actions. To this end, the LGD model considers parameters such as historical loss and/or recovery rates as well as the collateral value which is discounted to the present value determining the amount of the expected shortfall. LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class.

The structure of the LGD model considers the following:
- Curing where the probability of cure model was derived based on historical observations.
- Non-curing including cash recovery or realisation of collaterals either voluntarily i.e. debt for asset swap or through forced sale, auctions and foreclosure and receivership.

A model monitoring process is followed for PD, EAD and LGD models, where model outputs are back-tested against recent data points.

Individually assessed loans
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by Credit Risk Management. A risk based approach is used on the selection criteria of the individually assessed population such as NPE or forborne exposures above a certain amount, decrease of a certain percentage on the yearly credit turnover and decrease of a certain percentage on assigned collaterals.

The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Group's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process).

Collectively assessed loans
All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.5 Scenarios and scenarios weights

The Group uses 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 for three macroeconomic scenarios, baseline, downside and upside and the output is the weighted average ECL based on the assigned probability of each scenario (Note 46).

Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Using statistical analysis, the most significant macro-variables have been selected in order to predict accurately the expected default rates. In regards to the LGD, the forward looking information is incorporated via the property indices for the types of properties (housing, commercial, industrial). In particular, for each collateral a forward looking projection of the realisable value is calculated before discounting back to reporting date to quantify the expected cash shortfall.

Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for a five year period, subsequently reverting to long-run averages. As the forecast horizon increases, the availability of information decreases and judgement increases.

In regards to the weights, these are determined/computed for each scenario by using the Cumulative Density Function (CDF) derived from past historical data (1980-2019) and severity analysis. All possible scenarios are depicted on the CDF with the 0th percentile scenario being the worst case and the 100th percentile scenario being the best case. The favourable scenario is defined as the 80th percentile and 20% probability. The baseline scenario is defined as the 50th percentile and 60% probability. The adverse scenario is defined as the 20th percentile and 20% probability. The final weights constitute the probabilities that the respective set of macroeconomic conditions will occur and represent best estimate of the relative likelihood of the range of outcomes that each scenario represents. Scenario weights are determined by the Economic Research Department of BOC PCL and take into account historical frequency, are updated on a quarterly basis, are proposed by the CRO and are endorsed by the Provisions Committee.

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) which is complemented by economic expert judgement.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date. Overlays performed are set out in Note 5.2.

2.19.6 ECL measurement period

The period for which expected credit losses are determined (either for 12-month or lifetime ECL) is based on the stage classification of the facility and its contractual life. For non-revolving exposures the expected lifetime is the period from the reporting date to the termination date of the facility. For irrevocable loan commitments and financial guarantee contracts, the measurement period is determined similar to the period of the revolving facilities.

For revolving facilities, credit cards and corporate and retail overdrafts BOC PCL has the right to cancel and/or reduce the facilities with two months’ notice. BOC PCL does not limit its exposure to credit losses to the contractual notice period, but instead the next review date is used for determining the expected lifetime, which is annual for corporate exposures and every two to three years for retail exposures.

2. Summary of significant accounting policies (continued)

2.19 Impairment of financial assets (continued)

2.19.7 Purchased or originated credit impaired financial assets (POCI)

POCI financial assets are recorded at fair value on initial recognition. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. For POCI financial assets, the Group only recognises the cumulative changes in lifetime ECL since initial recognition in the loss allowance. POCI remain a separate category until derecognition.

2.20 Write-offs

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. Write-offs and partial write-offs represent derecognition/partial derecognition events.

If the amount of write-offs is greater than the amount of accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Recoveries, in part or in full, of amounts previously written-off are credited to the consolidated income statement in 'Credit losses to cover credit risk on loans and advances to customers'.

2.21 Financial guarantees, letters of credits and undrawn loan commitments

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and acceptances. Financial guarantees are initially recognised at fair value, and presented on the consolidated balance sheet within 'Accruals, deferred income, other liabilities and other provisions'. 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 amount of ECL provision.

ECL resulting from financial guarantees is recorded in 'Credit losses to cover credit risk on loans and advances to customers'. 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.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment the Group is required to provide a loan with pre-specified terms to the customer. Corresponding ECL are presented within 'Accruals, deferred income, other liabilities and other provisions' on the Group's balance sheet except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL relating to these other loan commitments is recorded in 'Credit losses to cover credit risk on loans and advances to customers' in the consolidated income statement.

When a customer draws on a commitment, the resulting loan is presented within (i) financial assets at fair value held for trading, consistent with the associated derivative loan commitment, (ii) financial assets at fair value not held for trading, following loan commitments designated at FVPL or (iii) loans and advances to customers, when the associated loan commitment is not fair valued through profit or loss.

2.22 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of either party.

2. Summary of significant accounting policies (continued)

2.23 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 implements the amended IFRS 7 hedge disclosure requirements.

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

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

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

The Group has early adopted the Amendments to IFRS 9, IAS 39 and IFRS 7 related to Interest Rate benchmark Reform. Further information is disclosed in Notes 2.2.2 and 22.

2.23.1 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 and associates'. 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 and associates'.

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.

2.23.2 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 and associates' 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. Summary of significant accounting policies (continued)

2.23 Hedge accounting (continued)

2.23.3 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 the 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates.

2.24 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 and are repayable within three months of the date of their acquisition.

2.25 Insurance business

The Group undertakes both life insurance and non-life 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.

2.25.1 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.

2.25.2 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. Summary of significant accounting policies (continued)

2.25 Insurance business (continued)

2.25.3 Non-life 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.

2.25.4 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.

2.25.5 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.

2.26 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.

2. Summary of significant accounting policies (continued)

2.27 Leases - The Group as lessee

The Group recognises RoU assets and lease liabilities for contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has the right to direct the use of an identified asset throughout the period of use when it has the right to direct how and for what purpose the asset is used and has the right to change the purpose, throughout the period of use (i.e. the decision-making rights that most significantly affect the economic benefits that can be derived from the use of the underlying asset). Essentially, this right permits the Group to change its decisions throughout the contract term without approval from the lessor.

The lease liabilities are initially measured at the present value of the future lease payments discounted at the lessee’s incremental borrowing rate (IBR) given that the interest rate implicit in the lease cannot be readily determined. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications. Interest is computed by unwinding the present value of the lease liability and charged to the consolidated income statement within 'Interest expense'.

The cost of the RoU asset comprises the amount of the initial measurement of the lease liability, initial direct costs and the provision for restoration costs, adjusted for any related prepaid or accrued lease payments previously recognised. Depreciation is computed on a straight line basis up to the end of the lease term, and recorded to the consolidated income statement within 'Other operating expenses'.

The Group accounts for the lease and non-lease components (such as cleaning costs, maintenance costs) of a contract as a single lease component, after electing the relevant practical expedient.

The Group elected to use the recognition exemption for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short term leases’), and lease contracts for which the underlying asset is of low value (‘low value assets’). Payments associated with short term leases and leases of low value assets are recognised on a straight line basis as an expense in the consolidated income statement.

Leases are monitored for significant changes that could trigger a change in the lease term and at the end of each reporting period and the impact on the lease liability and the RoU asset is reassessed.

The lease term is calculated as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease (if reasonably certain to be exercised), or any periods covered by an option to terminate the lease (if reasonably certain not to be exercised). The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised. Judgement is used in calculating the lease term, which is further disclosed in Note 5.13.

Lease payments generally include fixed payments and variable payments that depend on an index (such as an inflation index).

Variable lease payments that are determined by reference to an index or a rate are taken into account in the lease liability only when there is a change in the cash flows resulting from a change in the reference index or rate. In cases where the lease contract includes a term relating to increase in the lease payment based on variable lease payments, this increase is applied on the lease when it becomes effective (when the actual cash outflow occurs). The assessment is performed at each reporting date. In cases where the lease contract includes a term with fixed increments in the lease payments, the increase is accounted for in the initial recognition of lease liability.

When a lease contains an extension or termination option that the Group considers reasonably certain to be exercised, the expected lease payments or costs of termination are included within the lease payments in determining the lease liability.

2. Summary of significant accounting policies (continued)

2.27.1 Operating leases (policy applicable before 1 January 2019)

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'.

2.28 Leases - The Group as lessor

2.28.1 Finance leases

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.

2.28.2 Operating leases

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

2.29 Property and equipment

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

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

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 'Retained earnings'.

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.

RoU assets recognised as property are measured at cost less accumulated depreciation and adjusted for certain re measurements of lease liabilities. Depreciation of the recognised RoU assets is calculated on a straight line basis over the lease term.

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. Summary of significant accounting policies (continued)

2.30 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. Additionally, leased properties which are acquired in exchange for debt and are leased out under operating leases are also usually classified as 'Investment properties'. Further information is disclosed in Note 23.

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 gains/(losses) from revaluation and disposal of investment properties' in the consolidated income statement. Valuations are carried out by independent, qualified valuers.

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 2.29 '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.

2.31 Stock of property

The Group in its normal course of business acquires properties in exchange of debt, which are held either directly by BOC PCL 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 assets' in the consolidated income statement.

2.32 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.

2. Summary of significant accounting policies (continued)

2.32 Non-current assets held for sale and discontinued operations (continued)

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 consolidated 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.

2.33 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 2.25.2.

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.

2.34 Share capital

Ordinary shares are classified as equity.

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

2. Summary of significant accounting policies (continued)

2.35 Other equity instruments

An instrument is an equity instrument if the instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

Other equity instruments are recorded at their residual amount and are not subject to any re-measurement after initial recognition. The cost incurred attributable to the issue of other equity instruments is deducted from retained earnings. Any subsequent write-down or write-up results to a credit or debit in retained earnings respectively. Coupon payments are recorded directly in retained earnings.

2.36 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.

2.37 Provisions for pending litigation, claims, regulatory and other 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.

2.38 Comparative information

Comparative information was restated as follows:

- Certain properties which are leased out under operating leases are reclassified from 'Stock of property' to 'Investment properties' as disclosed in Note 2.2.1.
- Segmental analysis (Note 7) customer deposits (Note 32), and credit risk disclosures (Note 46) were restated due to the reorganizational and reporting change in BOC PCL and the set-up of Global corporate as a new business line, as from October 2019, except where otherwise stated, specifically Notes 46.6 and 46.9 due to impracticability of extracting the information in the manner required for disclosure in the relevant note.
- Turnover was restated due to changes in the definition of turnover as disclosed in Note 7.
- Fair value hierarchy information was restated as detailed in Notes 23 and 25.
- Expected maturities and remaining contractual maturities were restated as detailed in Notes 45 and 48.
- Credit quality information on investment in debt securities was restated as disclosed in Note 46.13.
- Fee and commission income and expense is restated as detailed in Note 10.

The changes did not have an impact on the results for the year or the equity of the Group.

The Group has not restated comparative information for 2018 for lease arrangements within the scope of IFRS 16 where the Group acts as a lessee, as the Group has used the modified retrospective approach as explained in Note 6.1.

3. Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these 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.

3. Going concern (continued)

In making this assessment, the Directors considered the significant transactions completed during 2019 which had a positive impact on the capital position of the Group, primarily the sale of non-performing loans (the Helix transaction) and the sale of BOC PCL's 49.9% holding in CNP Cyprus Insurance Holdings Ltd. The Directors have also considered the legislative amendments on the Income Tax Law Amendment 28 (I) of 2019, enacted on 1 March 2019, which allow for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC), and the developments in the operating environment in Cyprus.

The Group has developed a Financial and Capital Plan which was approved by the Board in February 2019 and was updated and approved by the Board in December 2019 (the 'Plan'). The Plan ensures that the Group has sufficient resources to continue the balance sheet de-risking and deal with the remaining NPEs. Given the COVID-19 outbreak in early 2020, the going concern assessment included consideration of the impact of the COVID-19 outbreak on the Plan and particularly the Group's capital and liquidity position in the context of the emerging developments in the economy, the Cyprus government economic relief measures and the amended regulatory requirements, including the measures taken by the regulators and other authorities following the COVID-19 outbreak, as described below. The Directors have concluded that the Group, the Company and BOC PCL have the ability to continue to operate as a going concern for a period of 12 months from the date of approval of these Financial Statements.

COVID-19 outbreak
The Directors have considered the COVID-19 outbreak and the uncertainties and disruption created. COVID-19 has affected a large number of countries, infecting millions of people worldwide. Given the trend and pace of developments globally, and particularly in the Eurozone, the severity and longevity of the outbreak are still unknown and therefore no reliable estimate of the impact that could materialise can be made at this stage. However, international and multilateral organisations, as well as rating agencies, have revised down their projections for the growth of the European and World economies in 2020/2021. Depending on the length and severity of this disruption, the Group's activity and financial performance and position will be impacted to greater or a lesser extent.

As the situation has arisen after the Group completed its planning process, additional work has been undertaken to examine the potential impact. This included the development of macroeconomic scenarios, base and adverse, which are severe yet plausible scenarios. The current situation is uncertain and while response to COVID-19 involves announced government intervention which is expected to support repayment ability, it is reasonably expected that this will have a negative impact on the credit quality and collateral values. The COVID-19 scenarios developed take into consideration the following drivers and implications:

- Government guidance and policy response to the crisis
- Capital and liquidity relief measures as well as other supervisory actions
- Lost output and productivity as a consequence of travel restrictions and social distancing
- Impact on employment levels and relevant unemployment rates
- Impact on relevant economic variables, the most significant of which include residential and commercial property prices, national output and lending volumes

Among the COVID-19 scenarios considered, there are severe scenarios designed to be extreme but plausible based on the assumption that the impact on the economy is immediate and feeds through rising unemployment levels, declining residential and commercial property prices and slowdown of lending volumes with signs of recovery later than the base scenario.

The assumptions and estimates were based on the latest developments and information available at the time of approval of these financial statements. The scenarios considered the guidance provided by the EBA, ECB, International Accounting Standards Board (IASB) and European Securities & Markets Authority (ESMA) in this respect. The scenarios also considered the response measures taken in order to support the European banking system, including the capital and liquidity requirement relaxations, as well as the measures taken by the Cyprus Government and CBC. These measures are described in Note 56 'Events after the reporting date'.

3. Going concern (continued)

The potential impact of COVID-19 pandemic on the economy and Group's operations and financial performance is subject to continuous monitoring through the Group's management committees, business continuity team, with appropriate escalation to the Board of Directors and supervisory authorities. Given the evolving nature of the COVID-19 pandemic crisis, the Group will continue to update its macroeconomic scenarios and assess the potential impact on the Group's financial performance and position as well as capital and liquidity position.

Capital
The following items have been considered in relation to the Group's capital adequacy throughout the period of going concern assessment:

- The Common Equity Tier 1 (CET1) ratio and the Total Capital ratio on a transitional basis at 31 December 2019 are higher than the SREP requirements (Note 4.1).
- The Group's capital position which allows further risk reduction and recalibration of the cost base. The Group remains focused to implement the actions contemplated in the Plan submitted to the ECB, albeit over a longer timeframe as a result of the COVID-19 outbreak.
- The capital relief measures announced by the ECB, the EBA, the CBC, the Cyprus Government and the Eurogroup in order to allow the banks to absorb the impact of the COVID-19 outbreak and support the real economy as well as the regulatory forbearance as allowed by the Guidelines issued in April 2020 by the EBA (Note 56).
- The measures taken by the Group to protect its employees and the activation of the Group's Business Continuity Plan ensuring that critical operations are not interrupted.
- The completion of the Helix transaction in June 2019 which, along with organic reduction over the last years, led to a significant decrease of NPEs. The reduction of NPEs has been a regulatory focus for a number of years. The Group has prepared an updated NPE strategy plan for the years 2019-2021 which was submitted to the ECB in June 2019. The Directors believe that the reduction of NPEs is a significant factor with regards to the future viability of the Group as a pillar bank in Cyprus.
- The Group has elected to apply the phasing-in of the total impact on adoption of IFRS 9 of €308,511 thousand and any subsequent increase allowed for phasing in (i.e. increase in Stage 1 and Stage 2 allowance), which will impact the capital ratios over a period of five years.

Funding and liquidity
The following items have been considered in relation to the Group's liquidity position throughout the period of the going concern assessment:

- The Group is monitoring its liquidity position and is considering ways to further reduce the deposits cost.
- The various measures of regulators which aim to mitigate the impact of the COVID-19 outbreak.
- The Group is in compliance with the Liquidity Coverage Ratio (LCR) and is significantly above the minimum requirements (Note 48).

Economic environment

- As the Cypriot operations account for 99% of gross loans and 100% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting expectations of a sustained decline in public debt as a ratio to GDP, further declines in non-performing exposures and a more stable price environment following a protracted period of deflation and low inflation. In October 2019, Fitch affirmed its rating (BBB-) and upgraded its outlook from stable to positive. In September 2019 Moody's affirmed its rating Ba2 and upgraded its outlook to positive. S&P Global Ratings maintains an investment grade rating (BBB-) with a stable outlook since September 2018, which was affirmed in March 2020.
- In April 2020, Fitch affirmed its rating and revised its outlook to stable, reflecting the significant impact the COVID-19 pandemic might have on the Cyprus economy and fiscal position. Also, in April 2020, Moody's issued an update on their credit opinion for the Cyprus Sovereign and revised their forecasts for the Cyprus economy in view of the COVID-19 outbreak. According to the update, the outbreak will weigh on near term growth and fiscal prospects, but the impact on the credit profile is expected to be temporary.

3. Going concern (continued)

- With respect to the BOC PCL's ratings, in June 2019, Moody's Investors Service affirmed the BOC PCL'S long-term deposit rating of B3 (positive outlook) and in July 2019, Standard and Poor's affirmed their long-term issuer credit rating on BOC PCL of 'B+' (stable outlook). In November 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In April 2020, Fitch Ratings revised their outlook to negative, reflecting the significant impact the outbreak of COVID-19 might have on the Cyprus economy and consequently BOC PCL.
- The global and domestic macroeconomic conditions as a result of the COVID-19 crisis are the primary risk factors for the Cyprus economy and the banking sector in Cyprus. Adverse developments regarding growth, fiscal policy, unemployment and real estate prices, could have a negative impact on the BOC PCL's capital adequacy and liquidity position. The financial implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently. In the context of efforts to relieve individuals and businesses most affected by the coronavirus and its associated restrictive measures, the Cyprus government has announced a package of tax and other relief measures. At the same time, the ECB and the CBC are taking a number of measures to enhance the liquidity of the credit institutions and also facilitate the gradual absorption of the effects on the capital adequacy ratios, as described in Note 56 'Events after the reporting date'.

4. Operating environment

4.1 Regulatory capital ratios

The Group's minimum phased in CET1 capital ratio requirement for 2019 was 10.5% (2018: 9.375%), comprising of a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer (CCB) of 2.5% (2018: (1.875%) and the Other Systemically Important Institution O-SII Buffer of 0.5% (2018: Nil). The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. The Group's Total capital ratio requirement for 2019 was 14.0% (2018: 12.875%), comprising of an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% (2018: 1.875%) and the O-SII Buffer of 0.5% (2018: Nil).

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). However, the Pillar II add on capital requirements are a point in time assessment and therefore are subject to change over time.

Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 and based on the final 2019 ECB decision received on 4 December 2019, effective as of 1 January 2020, the Group's minimum phased in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing in of the O-SII Buffer. In addition, the EBA final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar I, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice. In line with the final 2019 SREP decision, these new provisions are effective from 1 January 2020.

On 1 January 2020 the Group's minimum phased-in CET1 requirement increased to 11.0%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the CCB of 2.5% (fully phased in as of 1 January 2019) and the O-SII of 1.0%. The Group's Total Capital requirement increased to 14.5%, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the CCB of 2.5% and the O-SII of 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. The final 2019 SREP decision is effective from 1 January 2020.

4. Operating environment (continued)

4.1 Regulatory capital ratios (continued)

In March 2020, as part of the measures announced by the ECB in order to mitigate the COVID-19 impact, banks are allowed to operate temporarily below the capital level defined by the Pillar II Guidance and the Capital Conservation Buffer. In addition, the ECB frontloaded the rules on the composition of Pillar II Requirements (P2R), originally scheduled to come into force in January 2021 with CRD V, which allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet the Pillar II Requirements. In April 2020 the CBC announced that the phasing-in of the O-SII buffer of 1 January 2021 will delay by one year. The O-SII buffer will fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set. In April 2020 the ECB has temporarily reduced banks capital requirements for market risk. This measure will be reviewed by the ECB after six months.

In April 2020, BOC PCL received a decision from the ECB amending the composition of the Pillar II additional own funds requirement, compared to the 2019 final SREP decision received in December 2019 (Note 56) which requested Pillar II Requirements to be met in full with CET1. This decision is effective as from 12 March 2020. As a result the minimum phased-in CET1 requirement decreased to 9.7%, comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the CCB of 2.5% (fully phased in as of 1 January 2019) and the O-SII buffer of 1.0%. There is no change on the Total Capital requirement.

The above minimum ratios apply for both, BOC PCL and the Group. BOC PCL is 100% subsidiary of the Company and its principal activities are the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

4.2 Asset quality

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.

The Group has prepared an updated NPE strategy plan for the years 2019-2021 which was submitted to the ECB in June 2019.

4.3 Liquidity

Group customer deposits totalled €16,692 million at 31 December 2019, compared to €16,844 million at 31 December 2018. At 31 December 2019 and 2018 all deposits were in Cyprus. As at 31 December 2019 Group customer deposits accounted for 79% of total assets (2018: 76%) and 89% of total liabilities (2018: 85%).

As at 31 December 2019 and 2018, the Group was in compliance with all regulatory liquidity requirements. As at 31 December 2019 the LCR was in compliance with the minimum regulatory requirements of 100% applicable as from 1 January 2018. In addition the Group monitor the NSFR which will become a regulatory indicator when CRR II is enforced with the limit set at 100%.

4.4 Pending litigation, claims, regulatory and other matters

The management has considered the potential impact of pending litigation and claims, investigations, regulatory and other matters against the Group which include the bail-in of depositors and the absorption of losses by the holders of equity and debt instrument of BOC PCL. The Group has obtained legal advice in respect of these claims.

Despite the fact that the Group has not dealt with claims of such nature in the past, on the basis of information available at present and on the basis of the law as it currently stands, management does not expect these to have a material adverse impact on the financial position and capital adequacy of the Group. For additional information on pending litigation, claims, regulatory and other matters as well as the judgement exercised in concluding on the impact of these matters refer to Notes 5.4 and 40.

5. Significant and other judgements, estimates and assumptions

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

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

The most significant judgements, estimates and assumptions relate to classification of financial instruments and calculation of expected credit losses (ECL), estimation of the net realisable value of stock of property and provisions which are presented in Notes 5.1 to 5.4 below. Other judgements, estimates and assumptions are disclosed further below in Notes 5.5 to 5.13.

5.1 Classification of financial assets

The Group exercises judgement upon determining the classification of its financial assets, which relate to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. In general, the assessment for the classification of financial assets into the business models is performed at the level of each business line. Further, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rate could significantly affect future cash flows. Furthermore, judgement is required when assessing whether compensation paid or received on early termination of lending arrangements results in cash flows that are not SPPI.

5.2 Calculation of expected credit losses

The calculation of ECL requires management to apply significant judgement and make estimates and assumptions, involving significant uncertainty at the time these are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies.

Elements of ECL models that are considered accounting judgements and estimates include:

Assessment of significant increase of credit risk
IFRS 9 does not include a definition of significant increase in credit risk. The Group assesses whether significant increase in credit risk has occurred since initial recognition using predominantly quantitative and in certain cases qualitative information. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, is based on statistical metrics and could be subject to management judgement. The relevant thresholds are set, monitored and updated on a yearly basis by the Risk Management division and endorsed by the Group Provisions Committee.

Determining the probability of default (PD) at initial recognition requires management estimates. In the case of exposures existing prior to the adoption of IFRS 9, a retrospective calculation of the PD is made in order to quantify the risk of each exposure at the time of the initial recognition. In certain cases estimates about the date of initial recognition might be required.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

For the retail portfolio, the Group uses a PD at origination incorporating behavioural information (score cards) whereas, for the corporate portfolio, the Group uses the internal credit rating information. In determining the relevant PDs, management estimates are required with respect to the life-time of revolving facilities. For revolving facilities, the origination date is the date when a credit review has taken place instead of the contractual date.

Scenarios and macroeconomic factors
The Group determines the ECL, which is a probability-weighted amount, by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Macroeconomic inputs and weights per scenario are monitored by the Economic Research Unit and are based on external market data supplemented by expert judgement.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted, if considered necessary, by the Risk Management Division and endorsed by the Group Provisions Committee. Qualitative adjustments or overlays made as at the reporting date relate to the positive future property value cap to 0% for all scenarios.

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 ECL 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 Group uses three different economic scenarios.

The table below indicates the most significant macroeconomic variables as well as the scenarios used by the Group as at 31 December 2019 and 2018 respectively. The Group has used the 30-50-20 probability structure for the adverse, base and favourable scenarios respectively compared to the 20-60-20 structure derived using the method described in Note 2.19.5. This reflects the management's view of specific characteristics of the Cyprus economy that render it more vulnerable to external and internal shocks. The data set used to calculate scenario weights (GDP growth over 1980-2019) is heterogeneous, involving significant breaks deriving from the changing nature of the Cyprus economy and responses to shocks. The economy continues to face high public and private indebtedness and a high level of NPEs that together raise the degree of vulnerability of the economy and limit its reaction space thus sustaining conditions; which can lead to deeper recession in response to shocks than under normal times. Furthermore, the economy presents a significant structure risk given a very large external sector, making it especially vulnerable to the external environment. The heightened uncertainties in 2020 and beyond relating to Brexit, trade disputes between the US and the China and between the US and the EU, and economic fragility in southern Europe, entail a higher risk of a global recession and financial instability. These factors, render the economy more susceptible to external shocks and weaken its resilience, and may, in management's view not be fully captured in the weights as calculated using the method described in Note 2.19.5. Hence the management has decided to increase the weight of the adverse scenario to 30%, and correspondingly reduce the weight of the base scenario to 50%.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

31 December 2019

Year	Scenario	Weight %	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2020	Adverse	30.0	-0.9	8.2	-0.9	1.9
	Baseline	50.0	3.0	5.8	1.1	4.1
	Favourable	20.0	4.4	5.4	1.8	4.7
2021	Adverse	30.0	-3.1	10.3	0.3	-0.7
	Baseline	50.0	2.5	5.4	1.7	3.1
	Favourable	20.0	4.0	4.9	2.5	5.1
2022	Adverse	30.0	0.9	10.7	2.2	2.3
	Baseline	50.0	2.2	5.2	2.0	3.3
	Favourable	20.0	2.8	4.7	2.1	4.3
2023	Adverse	30.0	4.0	9.6	2.5	3.2
	Baseline	50.0	2.2	5.1	2.1	3.2
	Favourable	20.0	2.3	4.6	2.1	3.2
2024	Adverse	30.0	4.2	9.8	2.6	3.1
	Baseline	50.0	2.0	5.1	2.2	3.1
	Favourable	20.0	1.9	4.6	2.2	3.1

31 December 2018

Year	Scenario	Weight %	Real GDP (% change)	Unemployment rate (% of labour force)	Consumer Price Index (average % change)	RICS House Price Index (average % change)
2019	Adverse	30.0	-1.3	10.0	-0.2	1.4
	Baseline	50.0	3.1	7.6	1.7	4.4
	Favourable	20.0	4.3	7.2	2.5	5.5
2020	Adverse	30.0	-1.3	12.2	0.3	-1.7
	Baseline	50.0	2.6	7.3	1.7	2.7
	Favourable	20.0	3.4	6.8	2.6	4.1
2021	Adverse	30.0	3.0	12.4	2.1	0.7
	Baseline	50.0	2.4	6.9	2.0	2.9
	Favourable	20.0	2.6	6.5	2.4	3.6
2022	Adverse	30.0	4.1	11.1	2.4	3.1
	Baseline	50.0	2.5	6.5	2.0	3.1
	Favourable	20.0	2.6	6.1	2.6	3.7
2023	Adverse	30.0	3.9	10.0	2.5	4.7
	Baseline	50.0	2.3	6.3	2.1	3.8
	Favourable	20.0	2.3	5.8	2.6	4.0

The adverse scenarios may outpace the base and favourable scenarios after the initial shock has been adjusted to and the economy starts to expand from a lower base. Thus in the adverse scenario GDP will follow a growth trajectory that will ultimately equal and surpass the baseline before converging. Property prices are primarily determined by GDP growth but with a lag. Thus property prices will initially adjust less steeply than GDP, and will start to accelerate after the recovery in GDP has been entrenched. After this point, property prices will accelerate and will match and surpass the pace in the baseline scenario, before finally converging.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Since 1 January 2018, the Group has reassessed the key economic indicators used in the ECL models and using actual performance ratios of the economy as occasionally revised by the Cyprus statistical service (the latest revision of October 2019 for the period 2010-2017) and the latest forecasts by the International Monetary Fund (IMF) and the European Commission.

The RICS indices, which are considered for the purposes of determining the real estate collateral value on realisation date are capped at the reporting date value, in case of any projected increase, whereas any projected decrease is taken into account. As a result the indexed value for all collaterals is less or equal to their corresponding open market value as of the reporting date.

For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios: base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario, whereas under the favourable scenario applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures.

For collectively assessed customers the calculation is the weighted average of three scenarios: base, adverse and favourable.

Expected lifetime of revolving facilities
Judgement is exercised on the measurement period of expected lifetime for revolving facilities. The determination of the expected life for the revolving portfolio is sensitive to changes in contractual maturities resulting from business decisions. The Group exercises judgement in determining the period over which ECL should be computed.

Assessment of loss given default
A factor for the estimation of loss given default (LGD) 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 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.

At 31 December 2019 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation for loans and advances to customers excluding those classified as held for sale is c.32% under the baseline scenario (2018: c.32%).

The timing of recovery from real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario (2018: average of seven years), excluding those classified as held for sale.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. For specific cases judgement may also be exercised over staging during the individual assessment including cases where no specific model has been developed.

5. Significant and other judgements, estimates and assumptions (continued)

5.2 Calculation of expected credit losses (continued)

Any positive cumulative average future change in property values forecasted was capped to zero for the year ended 31 December 2019 and 2018. This applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue the Group 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 the 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 credit losses of loans and advances.

Modelling adjustments
Forward looking models have been developed for ECL parameters PD, EAD, LGD for all portfolios and segments sharing similar characteristics. Model validation is performed by the independent validation unit within the Risk Management Division on an annual basis and involves several statistical tests that assess the stability and performance of the models. In certain cases, judgement could be exercised in the form of management overlay by applying adjustments on the modelled parameters. Governance of these models lies with the Risk Management Division. Any management overlays are approved by the Risk Management Division and endorsed by the Provisions Committee.

ECL allowances also include 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. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated using the Credit Conversion Factor (CCF) model.

Portfolio segmentation
The individual assessment is performed not only for individually significant assets but also for other exposures meeting specific criteria determined by management. The selection criteria for the individually assessed exposures are based on management judgement and are reviewed on a quarterly basis by the Risk Management Division and are adjusted or enhanced, if deemed necessary.

In addition to individually assessed assets the Group also assesses assets collectively. The collectively assessed portfolio includes all loans which are not individually assessed. The Group categorises the exposures into sufficiently granular portfolios segments with shared risk characteristics. The granularity for the IFRS 9 segments is aligned with the Internal Rating Based (IRB) segmentation.

Further details on impairment allowances and related credit information are set out in Note 46.

5.3 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 uncertainty due to the relatively low level of market activity.

More details on the stock of property are presented in Note 28.

5. Significant and other judgements, estimates and assumptions (continued)

5.4 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, regulatory and other 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, regulatory and other matters refer to Note 40.

5.5 Tax

The Group, other than Cyprus, is subject to tax in the countries that it has run-down operations mainly in Greece, Russia and Romania. 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
In the absence of a specific accounting standard dedicated to the accounting of the asset that arose upon the reversal of deferred tax asset impairment recognised in previous years (Note 18), BOC PCL had exercised judgement in applying the guidance of IAS 12 in accounting for this asset item as the most relevant available standard. On the basis of this guidance, BOC PCL had determined that this asset should be accounted for on the basis of IAS 12 principles relating to deferred tax assets.

For changes during 2019 relating to the deferred tax credit legislation refer to Note 18.

5.6 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.

5. Significant and other judgements, estimates and assumptions (continued)

5.6 Fair value of investments and derivatives (continued)

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 23.

5.7 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 15.

5.8 Non-life insurance business

The Group is engaged in the provision of non-life 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 non-life insurance business is disclosed in Note 13.

5. Significant and other judgements, estimates and assumptions (continued)

5.9 Life insurance business

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

Further information on life insurance business is disclosed in Note 13.

5.9.1 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 2019, are set out in Note 25.

5.9.2 Insurance liabilities

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

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

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

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

Mortality and morbidity rates
Assumptions are based on standard international 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 expected 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.

5. Significant and other judgements, estimates and assumptions (continued)

5.9 Life insurance business (continued)

5.9.2 Insurance liabilities (continued)

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 33.

5.10 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.

5.11 Classification of properties

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

- Investment properties comprise land and buildings that are not occupied for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business. Additionally they comprise leased properties which are acquired in exchange of debt and are leased out under operating leases.
- Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps and properties acquired through the acquisition of certain operations of Laiki Bank in 2013 (except from those that are leased out and are classified as investment properties).

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

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

In arriving at their estimates of the fair values of properties, the valuers used their market knowledge and professional judgement and did not rely solely on historical transactional comparable, 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.

5. Significant and other judgements, estimates and assumptions (continued)

5.12 Fair value of properties held for own use and investment properties (continued)

Further information on inputs used is disclosed in Note 23.

5.13 Leases

Incremental Borrowing Rate (IBR)
The determination of an IBR term structure which is used in the measurement of the present value of the future lease payments as described in Note 2.27, inherently involves significant judgements. The IBR used as of 1 January 2019 was based on the Cyprus Government yield curve, with no further adjustment, as a fair proxy for the Group's secured borrowing cost, for a time horizon in accordance to the lease term. The sensitivity analysis on the yield curve performed by BOC PCL showed that the value of the lease liability and corresponding RoU assets is relatively insensitive to changes in the IBR.

Lease term
In determining the lease term, management considers all facts and circumstances that could make a contract enforceable, such as the economics of the contract. The following assumptions were made for the duration of lease term depending on the contract terms:

- For cancellable leases, an assessment was made at the initial application of the standard based on the horizon used in the Group's business plan. The medium term business plan assessment is for a duration of 3 years. The lease term was therefore based on an assessment of either 3 years (being the medium time horizon) or 6 years (being an assessment of longer time horizon).
- For non-cancellable leases, the lease term has been assessed to be the non-cancellable period.
- For leases with an option for renewal, the Group's past practice regarding the period over which it has typically used properties (whether leased or owned), and its economic reasons for doing so, provide information that is helpful in assessing whether the lessee is reasonably certain to exercise, or not to exercise, an option.

Low value assets
The Group has exercised judgement in determining the threshold of low value asset which was set at €5,000.

Further details on the leases are disclosed in Note 44.

6. Transition disclosures

6.1 Transition to IFRS 16: Transition method adopted and Use of practical expedients

The Group adopted IFRS 16 'Leases' on a retrospective basis, but took advantage of the option not to restate comparative periods (and the cumulative effect of initially applying the standard was recognised at the date of initial application), by applying the modified retrospective approach. The IFRS 16 implementation project was led by Finance with representations from relevant departments. The Group established its accounting policy and applied the following transition options available under the modified retrospective approach:

- Application of a single discount rate to each portfolio of leases with reasonably similar characteristics (such as leases with similar remaining lease term for similar class of underlying assets in a similar economic environment).
- Application of the accounting for short-term leases with a term not exceeding 12 months of the date of initial application. Hence, RoU assets and lease liabilities do not include the impact of such short term leases.
- Use of hindsight in determining the lease term if the contract contains options to extend or terminate the lease.
- Exclusion of the initial direct costs from the measurement of the RoU asset.
- Election to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application of 1 January 2019.
- To initially measure the RoU asset of an amount equal to lease liabilities.

6.2 Impact on adoption of IFRS 16

The implementation of IFRS 16 led to the recognition of the RoU assets at an equal amount as lease liabilities and restoration liability with no effect on equity or retained earnings of the Group as at 1 January 2019.

The table below shows the impact on initial implementation of IFRS 16:

	1 January 2019 €000
Assets	
RoU assets (disclosed within 'Property, plant and equipment') (Note 44)	**37,474**
Liabilities	
Lease liabilities (disclosed separately within 'Accruals, deferred income, other liabilities and other provisions)	**36,164**
Restoration liabilities (disclosed within other liabilities within 'Accruals, deferred income, other liabilities and other provisions')	**1,310**
	37,474

6. Transition disclosures (continued)

6.3 Reconciliation of balance sheet amounts from IAS 17 to IFRS 16

The lease liabilities as at 1 January 2019 are reconciled to the operating lease commitments as disclosed in the consolidated financial statements for the year ended 31 December 2018 as follows:

	1 January 2019
	€000
Operating lease commitments as at 31 December 2018 (non-cancellable) (Note 44)	4,453
Weighted average incremental borrowing rate as at 1 January 2019	1.05%
Discounted operating lease commitment as at 1 January 2019	4,226
Add:	
Payments in optional extension periods for cancellable leases not recognised as at 31 December 2018 (Note 5.13)	31,938
Lease liabilities as at 1 January 2019	**36,164**

7. Segmental analysis

Following the sale in 2018 of its 100% subsidiaries, Bank of Cyprus UK Limited and Bank of Cyprus Financial Services Ltd, the Group's activities are mainly concentrated in Cyprus. Cyprus operations are organised into operating segments based on the line of business. As from October 2019 and following the reorganisation of BOC PCL, a new operating segment was formed, namely Global corporate. Certain identified areas and business products have been classified out of the previously existing reporting lines corporate and Wealth management and included under the umbrella of the newly established Global corporate, targeting to further diversify the loan portfolio and to pursue revenue streams both locally and abroad. Comparative information in analysis by business lines, analysis of total revenue, analysis of assets and liabilities, and analysis of turnover were restated to account for this change (Note 2.38).

The operating segments are analysed below:

- 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 46).
- The newly set up Global corporate is managing loans and advances to customers within the large corporate section, the Shipping centre, the International Corporate Lending, the International Syndicate and Project Finance.
- 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 private banking and wealth management, Market execution and Custody along with Asset Management and Investment Banking.
- The 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.
- Treasury is responsible for liquidity management and for overseeing operations to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability.
- The Insurance business line is involved in both life and non-life insurance business.
- The business line 'Other' includes head office functions such as finance, risk management, compliance, legal, corporate affairs and human resources. Head office functions provide services to the operating segments.

7. Segmental analysis (continued)

- Overseas activities include Greece, Romania and Russia which 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 'Overseas'.

Current year and comparative information is presented in order to reflect the performance after the reorganisation.

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.

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, 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 re-allocated from the head office function to the business lines. 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.

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 country where they are managed.

7. **Segmental analysis** (continued)

Analysis by business line

2019	Corporate	Global corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Net interest income/(expense)	63,294	54,317	36,385	144,480	52,896	33,541	3,709	(12,823)	57	1,299	(2,428)	**374,727**	(8,751)	**365,976**
Net fee and commission income/(expense)	10,759	6,083	9,374	44,602	21,281	49,540	2,129	(8)	(6,486)	1,934	22,519	**161,727**	167	**161,894**
Net foreign exchange gains/(losses)	580	347	658	2,775	204	7,382	3,291	-	-	14,667	(1,787)	**28,117**	(1,521)	**26,596**
Net (losses)/gains on financial instrument transactions and on disposal/dissolution of subsidiaries and associates	-	(466)	-	-	3,357	-	-	-	1,237	5,653	8,730	**18,511**	164	**18,675**
Insurance income net of claims and commissions	-	-	-	-	-	-	-	-	56,257	-	-	**56,257**	1,403	**57,660**
Net gains/(losses) from revaluation and disposal of investment properties	-	-	-	-	-	-	-	3,019	(39)	-	443	**3,423**	(1,174)	**2,249**
Net gains on disposal of stock of property	-	-	-	-	-	-	-	24,383	-	-	894	**25,277**	675	**25,952**
Total other income	8	2	12	120	196	2	1	6,242	27	72	20,119	**26,801**	2,137	**28,938**
	74,641	60,283	46,429	191,977	77,934	90,465	9,130	20,813	51,053	23,625	48,490	**694,840**	(6,900)	**687,940**
Staff costs	(5,985)	(2,906)	(5,771)	(73,591)	(25,285)	(15,467)	(3,386)	(2,795)	(13,495)	(1,654)	(74,399)	**(224,734)**	(813)	**(225,547)**
Staff costs–voluntary exit plan and other termination benefits	(2,970)	(1,406)	(2,317)	(42,842)	(15,398)	(7,351)	(1,943)	(1,752)	(3,490)	(663)	(1,034)	**(81,166)**	-	**(81,166)**
Special levy on deposits on credit institutions, contribution to SRF and other levies	-	-	-	-	-	-	-	-	-	-	(43,609)	**(43,609)**	-	**(43,609)**
Other operating (expenses)/income (excluding advisory and other restructuring costs)	(16,120)	(9,701)	(17,228)	(97,891)	(35,571)	(21,504)	(3,865)	(5,871)	(10,223)	(8,066)	38,528	**(187,512)**	(8,453)	**(195,965)**
Other operating (expenses)/income - advisory and other restructuring costs	(312)	(130)	(311)	(2,762)	(38,782)	(633)	(134)	(3,864)	-	(102)	373	**(46,657)**	-	**(46,657)**
	49,254	46,140	20,802	(25,109)	(37,102)	45,510	(198)	6,531	23,845	13,140	(31,651)	**111,162**	(16,166)	**94,996**
Net gains on derecognition of financial assets measured at amortised cost	3,423	1,086	368	251	897	326	117	-	-	-	1,667	**8,135**	52	**8,187**
Credit gains/(losses) to cover credit risk on loans and advances to customers	12,473	20,291	9,418	(4,860)	(272,592)	1,213	328	-	-	-	119	**(233,610)**	1,159	**(232,451)**
Credit (losses)/gains of other financial instruments	-	-	-	-	-	-	-	(911)	(63)	4,411	(31)	**3,406**	(8,196)	**(4,790)**
Impairment of non-financial assets	-	-	-	-	-	-	-	(18,530)	-	-	-	**(18,530)**	(7,551)	**(26,081)**
Remeasurement of investment in associate upon classification as held for sale	-	-	-	-	-	-	-	-	-	-	(25,943)	**(25,943)**	-	**(25,943)**
Share of profit from associates	-	-	-	-	-	-	-	-	-	-	5,513	**5,513**	-	**5,513**
Profit/(loss) before tax	65,150	67,517	30,588	(29,718)	(308,797)	47,049	247	(12,910)	23,782	17,551	(50,326)	**(149,867)**	(30,702)	**(180,569)**
Income tax	(8,144)	(8,440)	(3,824)	3,715	38,600	(5,881)	(31)	1,614	(2,983)	(2,194)	101,090	**113,522**	(691)	**112,831**
Profit/(loss) after tax	57,006	59,077	26,764	(26,003)	(270,197)	41,168	216	(11,296)	20,799	15,357	50,764	**(36,345)**	(31,393)	**(67,738)**
Non-controlling interests-profit	-	-	-	-	-	-	-	-	-	-	(2,537)	**(2,537)**	-	**(2,537)**
Profit/(loss) after tax attributable to the owners of the Company	**57,006**	**59,077**	**26,764**	**(26,003)**	**(270,197)**	**41,168**	**216**	**(11,296)**	**20,799**	**15,357**	**48,227**	**(38,882)**	**(31,393)**	**(70,275)**

7. **Segmental analysis** (continued)

Continuing operations

2018 (restated)	Corporate	Global corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total continuing operations**
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Net interest income/(expense)	61,237	40,368	38,932	181,335	57,708	50,634	6,144	(16,741)	208	19,514	(11,602)	**427,737**	(8,684)	**419,053**
Net fee and commission income/(expense)	10,060	4,957	9,833	46,102	13,309	62,982	2,311	-	(6,134)	1,763	9,731	**154,914**	357	**155,271**
Net foreign exchange gains	591	301	649	3,427	274	7,515	3,250	-	-	17,353	3,192	**36,552**	1,136	**37,688**
Net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	-	2,380	-	-	13,745	-	70	-	(469)	21,755	41,000	**78,481**	(31,811)	**46,670**
Insurance income net of claims and commissions	-	-	-	-	-	-	-	-	51,101	-	-	**51,101**	1,811	**52,912**
Net (losses)/gains from revaluation and disposal of investment properties	-	-	-	-	-	-	-	(14,122)	35	-	3,875	**(10,212)**	(1,633)	**(11,845)**
Net gains on disposal of stock of property	-	-	-	-	-	-	-	29,605	-	-	62	**29,667**	770	**30,437**
Other income	67	-	12	117	19	4	64	16,418	718	-	6,503	**23,922**	1,682	**25,604**
	71,955	48,006	49,426	230,981	85,055	121,135	11,839	15,160	45,459	60,385	52,761	**792,162**	(36,372)	**755,790**
Staff costs	(6,372)	(1,962)	(5,641)	(69,949)	(23,857)	(15,501)	(3,329)	(2,033)	(9,709)	(1,581)	(75,821)	**(215,755)**	(985)	**(216,740)**
Special levy on deposits on credit institutions and contribution to Single Resolution Fund and other levies	-	-	-	-	-	-	-	-	-	-	(25,095)	**(25,095)**	-	**(25,095)**
Other operating (expenses)/income (excluding advisory and other restructuring costs)	(14,920)	(9,059)	(14,161)	(104,749)	(41,134)	(27,709)	(2,924)	(4,149)	(9,058)	(7,677)	67,975	**(167,565)**	(16,273)	**(183,838)**
Other operating expenses - advisory and other restructuring costs	(4)	(28)	(6)	(59)	(39,192)	(13)	(6)	(3,792)	-	-	(7,389)	**(50,489)**	(564)	**(51,053)**
	50,659	36,957	29,618	56,224	(19,128)	77,912	5,580	5,186	26,692	51,127	12,431	**333,258**	(54,194)	**279,064**
Net gains on derecognition of financial assets measured at amortised cost	2,923	4,778	2,305	9,835	6,913	901	26	-	-	90	-	**27,771**	54	**27,825**
Credit (losses)/gains to cover credit risk on loans and advances to customers	(1,874)	(2,401)	436	(12,498)	(308,856)	(22,350)	(395)	-	-	-	2,896	**(345,042)**	15,959	**(329,083)**
Credit (losses)/gains of other financial instruments	-	-	-	-	-	-	-	-	(330)	4,988	(2,139)	**2,519**	(4,129)	**(1,610)**
Impairment of non-financial assets	-	-	-	-	-	-	-	(11,457)	-	-	(1,379)	**(12,836)**	(5,815)	**(18,651)**
Share of profit from associates	-	-	-	-	-	-	-	-	-	-	9,095	**9,095**	-	**9,095**
Profit/(loss) before tax	51,708	39,334	32,359	53,561	(321,071)	56,463	5,211	(6,271)	26,362	56,205	20,904	**14,765**	(48,125)	**(33,360)**
Income tax	(6,464)	(4,917)	(4,045)	(6,695)	40,134	(7,058)	(651)	782	(3,295)	(7,026)	(80,578)	**(79,813)**	3,897	**(75,916)**
Profit/(loss) after tax	45,244	34,417	28,314	46,866	(280,937)	49,405	4,560	(5,489)	23,067	49,179	(59,674)	**(65,048)**	(44,228)	**(109,276)**
Non-controlling interests-profit	-	-	-	-	-	-	-	-	-	-	(1,488)	**(1,488)**	-	**(1,488)**
Profit/(loss) after tax attributable to the owners of the Company	**45,244**	**34,417**	**28,314**	**46,866**	**(280,937)**	**49,405**	**4,560**	**(5,489)**	**23,067**	**49,179**	**(61,162)**	**(66,536)**	**(44,228)**	**(110,764)**

7. **Segmental analysis** (continued)

Profit before tax under the business line 'Global corporate' as restated includes €38,370 thousand profit before tax from 'Corporate' and €964 thousand profit before tax from 'Wealth Management'.

Within the REMU business line, the gains on disposal of properties classified as Investment Properties instead of Stock of property amounting to €1,430 thousand are restated out of 'Net gains on disposal of stock of property' to 'Net gains/(losses) from revaluation and disposal of investment properties'. Further information is disclosed in Notes 2.2.1 and 2.38.

Discontinued operations

	2018
	€000
Net interest income	**34,764**
Net fee and commission income	**5,063**
Net foreign exchange gains	**250**
Net losses on financial instrument transactions	**(57)**
	40,020
Staff costs	**(17,624)**
Other operating expenses	**(14,094)**
	8,302
Credit gains to cover credit risk on loans and advances to customers	**624**
Profit before tax	**8,926**
Income tax	**(1,683)**
Profit after tax	**7,243**

The above information on discontinued operations relates to the disposal of the Group's subsidiary bank in the UK, Bank of Cyprus UK Limited and its subsidiary Bank of Cyprus Financial Services Limited, details of which are disclosed in Note 53.4.1.

7. **Segmental analysis** (continued)

Analysis of total revenue

Total revenue includes net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions, insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties, net gains/(losses) on disposal of stock of property and other income. There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of Group revenue.

Continuing operations

	Corporate	Global corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total**
2019	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Revenue from third parties	79,926	69,971	47,047	127,837	163,351	57,262	4,410	33,636	56,562	1,718	42,239	**683,959**	3,981	**687,940**
Inter-segment (expense)/revenue	(5,285)	(9,688)	(618)	64,140	(85,417)	33,203	4,720	(12,823)	(5,509)	21,907	(4,630)	**-**	-	**-**
Revenue between Cyprus and other countries	-	-	-	-	-	-	-	-	-	-	10,881	**10,881**	(10,881)	**-**
Total revenue	**74,641**	**60,283**	**46,429**	**191,977**	**77,934**	**90,465**	**9,130**	**20,813**	**51,053**	**23,625**	**48,490**	**694,840**	**(6,900)**	**687,940**
2018 (restated)														
Total revenue from third parties	79,300	61,259	53,669	116,012	233,260	68,574	2,031	31,901	50,561	39,760	47,233	**783,560**	(27,770)	**755,790**
Inter-segment (expense)/revenue	(7,345)	(13,253)	(4,243)	114,969	(148,205)	52,561	9,808	(16,741)	(5,102)	20,625	(3,074)	**-**	-	**-**
Revenue between Cyprus and other countries	-	-	-	-	-	-	-	-	-	-	8,602	**8,602**	(8,602)	**-**
Total revenue	**71,955**	**48,006**	**49,426**	**230,981**	**85,055**	**121,135**	**11,839**	**15,160**	**45,459**	**60,385**	**52,761**	**792,162**	**(36,372)**	**755,790**

Total revenue under the business line 'Global corporate' as restated includes €46,025 thousand total revenue from 'Corporate' and €1,981 thousand total revenue from 'Wealth management'.

The revenue from 'Overseas segment' mainly relates to banking and financial services for 2019 and 2018.

7. Segmental analysis (continued)

Analysis of assets and liabilities

	Corporate	Global corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total**
2019	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Assets														
Assets	1,937,813	2,107,543	1,092,937	3,638,880	1,786,170	130,720	29,516	1,382,907	880,721	7,097,866	1,398,349	**21,483,422**	161,378	**21,644,800**
Inter-segment assets	-	-	-	-	-	-	-	-	(32,448)	-	(57,862)	**(90,310)**	-	**(90,310)**
	1,937,813	**2,107,543**	**1,092,937**	**3,638,880**	**1,786,170**	**130,720**	**29,516**	**1,382,907**	**848,273**	**7,097,866**	**1,340,487**	**21,393,112**	**161,378**	**21,554,490**
Assets between Cyprus and overseas operations														**(431,668)**
Total assets														**21,122,822**
2018 (restated)														
Assets														
Assets	2,197,406	1,446,824	1,150,604	3,699,394	2,176,917	178,627	31,301	1,658,982	816,336	6,396,620	2,581,386	**22,334,397**	254,988	**22,589,385**
Inter-segment assets	-	-	-	-	-	-	-	-	(39,642)	-	(59,133)	**(98,775)**	-	**(98,775)**
	2,197,406	**1,446,824**	**1,150,604**	**3,699,394**	**2,176,917**	**178,627**	**31,301**	**1,658,982**	**776,694**	**6,396,620**	**2,522,253**	**22,235,622**	**254,988**	**22,490,610**
Assets between Cyprus and overseas operations														**(415,339)**
Total assets														**22,075,271**

Total assets under the business line 'Global corporate' as restated includes €1,327,006 thousand total assets from 'Corporate', €52,229 thousand assets from 'Restructuring and recoveries', €67,550 thousand assets from 'Wealth Management', €36 thousand assets from Small and medium- sized enterprises and €3 thousand assets from Retail Note 46.

7. **Segmental analysis** (continued)

	Corporate	Global corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Treasury	Other	**Total Cyprus**	Overseas	**Total**
2019	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	**€000**	€000	**€000**
Liabilities													
Liabilities	1,117,222	691,550	770,655	10,140,920	97,290	3,543,315	330,579	696,033	1,062,156	457,414	**18,907,134**	450,164	**19,357,298**
Inter-segment liabilities	-	-	-	-	-	-	-	-	(90,310)	-	**(90,310)**	-	**(90,310)**
	1,117,222	**691,550**	**770,655**	**10,140,920**	**97,290**	**3,543,315**	**330,579**	**696,033**	**971,846**	**457,414**	**18,816,824**	**450,164**	**19,266,988**
Liabilities between Cyprus and overseas operations													**(432,793)**
Total liabilities													**18,834,195**
2018 (restated)													
Liabilities													
Liabilities	1,122,465	628,052	800,671	10,032,047	121,744	3,707,713	430,866	632,308	1,877,549	452,708	**19,806,123**	417,159	**20,223,282**
Inter-segment liabilities	-	-	-	-	-	-	-	-	(98,775)	-	**(98,775)**	-	**(98,775)**
	1,122,465	**628,052**	**800,671**	**10,032,047**	**121,744**	**3,707,713**	**430,866**	**632,308**	**1,778,774**	**452,708**	**19,707,348**	**417,159**	**20,124,507**
Liabilities between Cyprus and overseas operations													**(416,564)**
Total liabilities													**19,707,943**

Total liabilities under business line 'Global corporate' as restated include €628,052 thousand total liabilities from 'Corporate'.

Segmental analysis of customer deposits and loans and advances to customers is presented in Notes 32 and 46.2 and 46.6 respectively.

7. Segmental analysis (continued)

Analysis of turnover

	2019	2018 (restated)
	€000	€000
Interest income and income similar to interest income	508,177	609,119
Fees and commission income	171,715	175,583
Foreign exchange gains	26,596	37,688
Gross insurance premiums (Note 13)	172,243	163,633
Gains of investment properties and stock of properties	2,907	1,320
Other income	28,938	25,604
	910,576	1,012,947

The analysis of 'Gains of investment properties and stock of properties' is provided in the table below:

	2019	2018 (restated)
	€000	€000
Net gains/(losses) from revaluation and disposal of investment properties	2,249	(11,845)
Net gains on disposal of stock of property	25,952	30,437
Impairment of stock of property (Note 17)	(25,294)	(17,272)
	2,907	1,320

Comparative information for turnover analysis was restated to include 'Net gains on disposal of stock of property' in the turnover analysis, the effect of the change in the classification of properties which are leased out under operating leases, as disclosed in Note 2.2.1 and the effect of change in the presentation of fee and commission income as disclosed in Notes 2.38 and 10.

8. Interest income and income similar to interest income

Interest income

	2019	2018
	€000	€000
Financial assets at amortised cost:		
- Loans and advances to customers	416,410	526,468
- Loans and advances to banks and central banks	5,412	5,179
- Debt securities	12,120	5,445
Debt securities at FVOCI	21,055	19,973
	454,997	557,065

Income similar to interest income

	2019	2018
	€000	€000
Loans and advances to customers at FVPL	15,690	16,562
Derivative financial instruments	37,490	35,478
Investments mandatorily classified at FVPL	-	14
	53,180	52,054

9. Interest expense and expense similar to interest expense

Interest expense

	2019	2018
Financial liabilities at amortised cost:	**€000**	€000
Customer deposits	**40,395**	93,457
Funding from central banks and deposits by banks	**2,542**	2,902
Subordinated loan stock	**23,325**	23,325
Repurchase agreements	**9,397**	10,198
Negative interest on loans and advances to banks and central banks	**17,448**	14,142
Interest expense on lease liabilities	**386**	-
	93,493	144,024

Expense similar to interest expense

	2019	2018
	€000	€000
Derivative financial instruments	**48,708**	46,042

10. Fee and commission income and expense

Fee and commission income

	2019	2018 (restated)
	€000	€000
Credit-related fees and commissions	**50,647**	53,618
Other banking commissions	**81,706**	97,705
Fees on servicing loans disposed of under Project Helix	**11,933**	-
Mutual funds and asset management fees	**3,111**	2,934
Brokerage commissions	**926**	757
Other commissions	**23,392**	20,569
	171,715	175,583

Mutual funds and asset management fees relate to fiduciary and other similar activities.

Credit related fees and commissions include commissions from credit card arrangements amounting to €27,323 thousand (2018: €31,983 thousand). Other banking commissions include commissions from payment orders amounting to €29,764 thousand (2018: €30,405 thousand) and account maintenance fees of €21,144 thousand (2018: €32,276 thousand).

10. Fee and commission income and expense (continued)

Fee and commission expense

	2019 €000	2018 (restated) €000
Banking commissions	**9,277**	8,675
Fee in relation to AT1 issue (Note 36)	**-**	11,215
Mutual funds and asset management fees	**314**	283
Brokerage commissions	**230**	139
	9,821	20,312

'Fee and commission income' and 'Fee and commission expense' as restated, include elimination of intragroup amounts between 'Fee and commission income/ other commissions' and 'Fee and commission expense/banking commissions' amounting to €3,324 thousand. Additionally 'Fee and commission income/ other commissions' as restated includes €4,610 thousand fee and commission income previously classified as 'Fee and commission income/ credit related fees and commission'.

11. Net foreign exchange gains

Net foreign exchange gains comprise the conversion of monetary assets and liabilities 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.

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

	2019 €000	2018 €000
Trading portfolio:		
- derivative financial instruments	**215**	115
Other investments at FVPL:		
- debt securities	**11,418**	359
- equity securities	**1,652**	1,872
Net gains on disposal of FVOCI debt securities	**-**	19,484
Net gains on loans and advances to customers at FVPL	**2,891**	16,125
Revaluation of financial instruments designated as fair value hedges:		
- hedging instruments (Note 22)	**(4,588)**	(10,028)
- hedged items (Note 22)	**3,696**	11,103
Net (losses)/gains on financial liabilities at FVPL	**(495)**	1,435
Gain on disposal/dissolution of subsidiaries and associates	**3,886**	6,205
	18,675	46,670

The gain on disposal/dissolution of subsidiaries for 2019 relates to gain on disposal of Nicosia Mall Holdings (NMH) Ltd Group (Note 53.2.2). The gain on disposal/dissolution of subsidiaries for 2018 primarily relates to gain on disposal of Bank of Cyprus UK Limited (Note 53.4.1), gain on dissolution of the branch in Romania and gain on disposal of subsidiaries whose activity is the ownership and management of immovable property.

13. Insurance income net of claims and commissions

	2019			2018		
	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	**138,139**	**(105,509)**	**32,630**	65,824	(37,404)	28,420
Non-life insurance business	**51,522**	**(26,492)**	**25,030**	48,875	(24,383)	24,492
	189,661	**(132,001)**	**57,660**	114,699	(61,787)	52,912

	2019		2018	
	Life insurance	**Non-life insurance**	Life insurance	Non-life insurance
Income	**€000**	**€000**	€000	€000
Gross premiums	**96,168**	**76,075**	90,721	72,912
Reinsurance premiums	**(15,382)**	**(34,362)**	(14,917)	(32,128)
Net premiums	**80,786**	**41,713**	75,804	40,784
Change in provision for unearned premiums	**-**	**(441)**	-	(1,215)
Total net earned premiums	**80,786**	**41,272**	75,804	39,569
Investment income and other income/(expense)	**49,286**	**23**	(11,302)	12
Commissions from reinsurers and other income	**6,867**	**10,227**	6,636	9,294
	136,939	**51,522**	71,138	48,875
Change in value of in-force business before tax (Note 27)	**1,200**	**-**	(5,314)	-
	138,139	**51,522**	65,824	48,875

	2019		2018	
	Life insurance	**Non-life insurance**	Life insurance	Non-life insurance
Claims and commissions	**€000**	**€000**	€000	€000
Gross payments to policyholders	**(53,269)**	**(33,922)**	(47,030)	(34,516)
Reinsurers' share of payments to policyholders	**5,551**	**13,799**	5,158	14,735
Gross change in insurance contract liabilities	**(47,464)**	**(774)**	15,221	935
Reinsurers' share of gross change in insurance contract liabilities	**1,023**	**984**	(7)	(241)
Commissions paid to agents and other direct selling costs	**(11,350)**	**(6,579)**	(10,746)	(5,316)
Changes in equalisation reserve	**-**	**-**	-	20
	(105,509)	**(26,492)**	(37,404)	(24,383)

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

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

	2019		2018	
	Life insurance	**Non-life insurance**	Life insurance	Non-life insurance
	€000	**€000**	€000	€000
Net expense from non-linked insurance business assets	**(121)**	**(13)**	(71)	(90)
Net (losses)/profit on financial instrument transactions and other non-linked insurance business income	**(277)**	**1,695**	(505)	(737)
Staff costs	**(5,407)**	**(4,787)**	(5,385)	(4,509)
Staff costs – restructuring costs	**(1,379)**	**(2,111)**	-	-
Other operating expenses	**(7,959)**	**(2,821)**	(6,177)	(5,761)

14. Other income

	2019	2018
	€000	€000
Dividend income	**361**	547
(Loss)/profit on sale and write-off of property and equipment and intangible assets	**(99)**	99
Rental income from investment properties	**8,255**	10,883
Rental income from stock of property	**1,427**	2,625
Income from hotel, golf and leisure activities	**13,673**	5,727
Other income	**5,321**	5,723
	28,938	25,604

The income from hotel, golf and leisure activities primarily relates to activities of subsidiaries acquired in debt satisfaction as part of loan restructuring activity.

15. Staff costs

Staff costs

	2019	2018
	€000	€000
Salaries	**182,053**	176,624
Employer's contributions to state social insurance	**28,432**	24,610
Retirement benefit plan costs	**15,062**	15,506
	225,547	216,740
Restructuring costs - voluntary exit plans and other termination benefits	**81,166**	-
	306,713	216,740

The number of persons employed by the Group as at 31 December 2019 was 3,672 and includes 100 persons relating to the Helix transaction, whose transfer to the buyer was concluded in January 2020 (2018: 4,146).

In October 2019 the Group proceeded with a voluntary exit plan for its employees in Cyprus, with a cost amounting to €81,166 thousand. In total, 464 employees accepted the voluntary exit plan and left the Group in 2019 and early 2020.

15. Staff costs (continued)

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

	2019	2018
Cyprus	**4,029**	4,116
United Kingdom	**1**	196
Other countries	**23**	29
	4,053	4,341

The following table shows the business line analysis of average employees in Cyprus for 2019 and 2018 and the Group's other geographical locations as follows:

	2019	2018
Corporate	**120**	123
Global Corporate	**43**	34
Small and medium-sized enterprises	**109**	110
Retail	**1,408**	1,510
Restructuring and recoveries	**435**	441
International banking services	**322**	334
Wealth management	**53**	55
Treasury	**26**	36
REMU	**54**	40
Insurance	**203**	208
Other (primarily head office functions)	**1,256**	1,225
Total Cyprus	**4,029**	4,116
United Kingdom	**1**	196
Other countries	**23**	29
	4,053	4,341

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:

	2019	2018
	€000	€000
Defined benefit plans	**115**	824
Defined contribution plans	**14,947**	14,682
	15,062	15,506

15. Staff costs (continued)

Retirement benefit plan costs (continued)

Cyprus
The main retirement plan for the Group's permanent employees in Cyprus (88% of total Group employees) is a defined contribution plan. This plan provides for employer contributions of 9% (2018: 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
Following the disposal of the Greek operations in March 2013, a small number of employees of the Group's Greek Branch, who left the Group's employment before March 2013, continued to be members of the defined benefit plans until June 2019, where these employees were paid out. As at 31 December 2019 the remaining retirement benefit obligation in Greece related to Group subsidiaries.

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.

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	**2019 €000**	2018
Liabilities (Note 35)	**9,212**	8,777

One of the plans has a funded status surplus of €2,927 thousand (2018: €7,694 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:

15. Staff costs (continued)

Retirement benefit plan costs (continued)

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/ as set ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
1 January 2019	76,449	(75,366)	1,083	7,694	**8,777**
Current service cost	467	-	467	-	**467**
Gain on curtailment and settlement	(402)	-	(402)	-	**(402)**
Net interest expense/(income)	2,068	(2,018)	50	-	**50**
Total amount recognised in the consolidated income statement	2,133	(2,018)	115	-	**115**
Remeasurements:					
Return on plan assets, excluding amounts included in net interest expense	-	(7,426)	(7,426)	-	**(7,426)**
Actuarial loss from changes in financial assumptions	10,837	-	10,837	-	**10,837**
Demographic assumptions	(915)	-	(915)	-	**(915)**
Experience adjustments	624	-	624	-	**624**
Change in asset ceiling	-	-	-	(4,767)	**(4,767)**
Asset adjustment	-	5,000	5,000	-	**5,000**
Total amount recognised in the consolidated OCI	10,546	(2,426)	8,120	(4,767)	**3,353**
Exchange differences	3,350	(3,017)	333	-	**333**
Contributions:					
Employer	-	(2,962)	(2,962)	-	**(2,962)**
Plan participants	195	(195)	-	-	**-**
Benefits paid from the plans	(2,543)	2,543	-	-	**-**
Benefits paid directly by the employer	(404)	-	(404)	-	**(404)**
31 December 2019	**89,726**	**(83,441)**	**6,285**	**2,927**	**9,212**

15. Staff costs (continued)

Retirement benefit plan costs (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 2018	82,900	(86,677)	(3,777)	13,814	**10,037**
Current service cost	429	-	429	-	**429**
Loss on curtailment and settlement	48	-	48	-	**48**
Net interest expense/(income)	1,941	(1,948)	(7)	-	**(7)**
Past service cost arising over last year	354	-	354	-	**354**
Total amount recognised in the consolidated income statement	2,772	(1,948)	824	-	**824**
Remeasurements:					
Return on plan assets, excluding amounts included in net interest expense	-	6,732	6,732	-	**6,732**
Actuarial gain from changes in financial assumptions	(4,523)	-	(4,523)	-	**(4,523)**
Demographic assumptions	(560)	-	(560)	-	**(560)**
Experience adjustments	383	-	383	-	**383**
Change in asset ceiling	-	-	-	(6,120)	**(6,120)**
Asset adjustment	-	5,000	5,000	-	**5,000**
Total amount recognised in the consolidated OCI	(4,700)	11,732	7,032	(6,120)	**912**
Exchange differences	(713)	629	(84)	-	**(84)**
Contributions:					
Employer	-	(2,912)	(2,912)	-	**(2,912)**
Plan participants	185	(185)	-	-	**-**
Benefits paid from the plans	(3,995)	3,995	-	-	**-**
31 December 2018	**76,449**	**(75,366)**	**1,083**	**7,694**	**8,777**

15. Staff costs (continued)

Retirement benefit plan costs (continued)

The actual return on plan assets for year 2019 was a gain of €9,444 thousand (2018: loss of €4,784 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:

	2019	2018
Equity securities	**48%**	47%
Debt securities	**45%**	43%
Loans and advances to banks	**7%**	10%
	100%	100%

The assets held by the funded plans include equity securities issued by the Company, the fair value of which is as at 31 December 2019 €67 thousand (2018: €1,347 thousand).

The Group expects to make additional contributions to defined benefit plans of €3,191 thousand during 2020.

At the end of the reporting period, the average duration of the defined benefit obligation was 19.0 years (2018: 17.4 years).

15. 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 2019 and 2018 are set out below:

2019	**Cyprus**	**Greece**	**UK**
Discount rate	**0.93%-1.11%**	**1.30%**	**2.05%**
Inflation rate	**1.75%**	**1.75%**	**2.80%**
Future salary increases	**2.25%**	**2.00%**	**n/a**
Rate of pension increase	**2.00%**	**n/a**	**2.70%**
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**	**22.5 years M 24.9 years F**
2018			
Discount rate	1.79%-1.98%	1.40%-2.10%	2.90%
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	3.05%
Life expectancy for pensioners at age 60	23.5 years M 29.6 years F	n/a	n/a
Life expectancy for pensioners at age 65	n/a	n/a	22.7 years M 25.3 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 18% 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 82% 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.

15. Staff costs (continued)

Retirement benefit plan costs (continued)

The impact of significant assumptions' fluctuations on the defined benefit obligation as at 31 December 2019 and 2018 is presented below:

Variable	**2019**		2018	
	Change +0.5%	**Change -0.5%**	Change +0.5%	Change -0.5%
Discount rate	**-9.2%**	**9.9%**	-8.2%	8.9%
Inflation growth rate	**6.3%**	**-5.7%**	4.7%	-4.6%
Salary growth rate	**1.2%**	**-1.1%**	1.2%	-1.1%
Pension growth rate	**0.1%**	**-0.1%**	0.1%	-0.1%
	Plus 1 year	**Minus 1 year**	Plus 1 year	Minus 1 year
Life expectancy	**2.7%**	**-2.7%**	4.3%	-4.3%

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.

16. Other operating expenses

	2019	2018
	€000	€000
Repairs and maintenance of property and equipment	**29,763**	23,513
Other property-related costs	**17,735**	13,802
Operating lease rentals for property and equipment	**-**	9,833
Consultancy and other professional services fees	**16,832**	18,542
Insurance	**6,803**	7,043
Advertising and marketing	**11,531**	15,355
Depreciation of property and equipment (Note 26)	**20,118**	11,112
Amortisation of intangible assets (Note 27)	**16,161**	13,217
Communication expenses	**8,486**	8,832
Provisions for pending litigations, claims, regulatory and other matters (Note 40.3)	**28,851**	26,370
Printing and stationery	**2,905**	2,204
Local cash transfer expenses	**3,038**	2,991
Other operating expenses	**33,742**	31,024
	195,965	183,838
Advisory and other restructuring costs	**46,657**	51,053
	242,622	234,891

Advisory and other restructuring costs comprise mainly fees of external advisors in relation to: (i) customer loan restructuring activities which are not part of the effective interest rate and (ii) disposal of operations and non-core assets.

16. Other operating expenses (continued)

Following the adoption of IFRS 16 as of 1 January 2019, the Group, during the year ended 31 December 2019, recognised €358 thousand relating to rent expense for short term leases, included within 'Other property related costs' and €8,839 thousand relating to the depreciation of RoU assets, included within 'Depreciation of property and equipment' (Note 44). Furthermore, as a result of the adoption of IFRS 16 the line item 'Operating lease rentals for property and equipment' is nil for the current period.

Within the total other operating expenses an amount of €1,152 thousand (2018: €1,803 thousand) relates to investment property that generated rental income.

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. The Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund amounted to €24,854 thousand (2018: €25,095 thousand) and is presented on the face of the consolidated income statement, together with the guaranteed fee on annual tax credit amounting to €18,755 thousand (2018: nil) (Note 18).

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:

	2019	2018 (restated)
	€000	€000
Audit of the financial statements of the Group and its subsidiaries	**1,745**	1,766
Other assurance services	**732**	930
Tax compliance and advisory services	**225**	474
Other non-audit services	**338**	647
	3,040	3,817
Continuing operations	**3,040**	3,780
Discontinued operations	**-**	37
	3,040	3,817

Other assurance services include fees related to the interim review.

17. Credit losses of financial instruments and impairment of non-financial assets

	2019 €000	2018 €000
Credit losses to cover credit risk on loans and advances to customers		
Impairment loss net of reversals on loans and advances to customers (Note 46.9)	**260,114**	512,956
Recoveries of loans and advances to customers previously written off	**(25,627)**	(140,735)
Changes in expected cash flows	**3,537**	(37,756)
Financial guarantees and commitments (Notes 46.8.1 and 46.8.2)	**(5,573)**	(5,382)
	232,451	329,083

Credit losses of other financial instruments		
Amortised cost debt securities (Note 21)	**(36)**	(1,011)
FVOCI debt securities (Note 21)	**101**	(274)
Loans and advances to banks (Note 20)	**(659)**	711
Balances with central banks (Note 20)	**-**	(5,872)
Other financial assets (Note 29)	**5,384**	8,056
	4,790	1,610

Impairment of non-financial assets		
Stock of property (Note 28)	**25,294**	17,272
Equipment (Note 26)	**-**	11
Other non-financial assets	**787**	1,368
	26,081	18,651

18. Income tax

	2019 €000	2018 €000
Current tax:		
- Cyprus	**5,045**	3,488
- Overseas	**143**	399
Cyprus special defence contribution	**318**	347
Deferred tax (credit)/charge	**(113,436)**	81,436
Prior years' tax adjustments	**(4,909)**	(7,076)
Other tax charges/(credits)	**8**	(2,678)
	(112,831)	75,916

The Group's share of income tax from associates for 2019 amounts to €703 thousand (2018: €1,170 thousand).

18. Income tax (continued)

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

	2019 €000	2018 €000
Loss before tax from continuing operations	**(180,569)**	(33,360)
Income tax at the normal tax rates in Cyprus	**(22,253)**	(3,822)
Income tax effect of:		
- expenses not deductible for income tax purposes	**30,788**	8,503
- income not subject to income tax	**(25,759)**	(15,343)
- differences between overseas income tax rates and Cyprus income tax rates	**2,890**	8,207
- reversal of previously recognised deferred tax	**(113,610)**	81,720
- losses on which deferred tax was not recognised	**20,014**	6,405
	(107,930)	85,670
Prior years' tax adjustments	**(4,909)**	(7,076)
Other tax charges/(credit)	**8**	(2,678)
	(112,831)	75,916

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2018: 12.5%).

For life insurance business there is a minimum income tax charge of 1.5% on gross premiums. Special defence contribution is payable on rental income at a rate of 3% (2018: 3%) and on interest income from activities outside the ordinary course of business at a rate of 30% (2018: 30%).

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for 2019 were: Greece 28% (2018: 29%), Romania 16% (2018: 16%), Russia 20% (2018: 20%) and UK 19% (2018: 19%).

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

18. **Income tax** (continued)

Deferred tax

The net deferred tax assets arise from:

	2019	2018
	€000	€000
Difference between capital allowances and depreciation	**(10,371)**	(8,728)
Property revaluation	**(15,975)**	(16,063)
Investment revaluation and stock of property	**(2,847)**	(2,847)
Unutilised income tax losses carried forward (guaranteed deferred tax asset)	**379,091**	301,772
Value of in-force life insurance business	**(14,579)**	(14,429)
Other temporary differences	**(2,208)**	(2,209)
Net deferred tax assets	**333,111**	257,496

The net deferred tax assets comprise of:

	2019	2018
	€000	€000
Deferred tax assets	**379,126**	301,778
Deferred tax liabilities	**(46,015)**	(44,282)
Net deferred tax assets	**333,111**	257,496

The deferred tax assets relate to Cyprus operations.

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

	2019	2018
	€000	€000
1 January	**257,496**	337,385
Deferred tax recognised in the consolidated income statement - continuing operations	**113,436**	(81,436)
Deferred tax recognised in the consolidated statement of comprehensive income	**88**	579
Disposal of subsidiary	**-**	967
Tranfer to current tax receivables following conversion into tax credit	**(37,909)**	-
Foreign exchange adjustments	**-**	1
31 December	**333,111**	257,496

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.

18. **Income tax** (continued)

The analysis of the net deferred tax (credit)/charge recognised in the consolidated income statement is set out below:

	2019	2018
	€000	€000
Difference between capital allowances and depreciation	**1,643**	855
Write-back of deferred tax assets	**(115,228)**	-
Reversal of previously recognised deferred tax assets	**-**	81,720
Value of in-force life insurance business	**150**	(664)
Investment revaluation and stock of property	**-**	(960)
Other temporary differences	**(1)**	485
	(113,436)	81,436

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

	2019	2018
	€000	€000
Timing differences on property revaluation - income	**88**	579

Income Tax Law Amendment 28 (I) of 2019
On 1 March 2019 the Cyprus Parliament adopted legislative amendments to the Income Tax Law (the 'Law') which were published in the Official Gazette of the Republic on 15 March 2019 ('the amendments').

The main provisions of the legislation are set out below:

- The amendments allow for the conversion of specific tax losses into tax credits.
- The Law applies only to tax losses transferred following resolution of a credit institution within the framework of 'The Resolution of Credit and Other Institutions Law'.
- The losses are capped to the amount of Deferred Tax Assets (DTA) recognised on the balance sheet of the audited financial statements of the acquiring credit institution in the year of acquisition. Tax losses in excess of the capped amount can only be utilised in cases involving transfers of tax losses in relation to tax reorganisations, completed before 1 October 2019. Post 1 October 2019, any excess tax losses expire.
- Acquired tax losses are converted into 15 equal annual instalments for credit institutions that will enter into resolution in the future or into 11 equal annual instalments for credit institutions which were in resolution pre 31 December 2017.
- Each annual instalment can be claimed as a deductible expense in the determination of the taxable income for the relevant year. Annual instalments are capped and cannot create additional losses for the credit institution.
- Any amount of annual instalment not utilised is converted into a tax credit (with reference to the applicable tax rate enacted at the time of the conversion) and it can be utilised in the tax year following the tax year to which this tax credit relates to. Any unutilised tax credit in the relevant year is converted into a receivable from the Cyprus Government.
- The tax credit can be used against a tax liability (Corporate Income Tax Law, VAT Law or Bank levy Law) of the credit institution or any other eligible subsidiary for group relief. Any unutilised tax credits in the relevant year are converted into a receivable from the Cyprus Government.
- In financial years where a credit institution has accounting losses the amount of the annual instalment is recalculated. Upon recalculation, the mechanics outlined above remain unchanged.
- In case a credit institution in scope goes into liquidation the total amount of unused annual instalments are converted to tax credits and immediately become a receivable from the Government.
- A guarantee fee of 1.5% on annual tax credit is payable annually by the credit institution to the Government.

18. Income tax (continued)

BOC PCL has DTA that meets the requirements of the Law relating to income tax losses transferred to BOC PCL as a result of the acquisition of certain operations of Laiki Bank, on 29 March 2013, under 'The Resolution of Credit and Other Institutions Law'. The DTA recognised following the acquisition of certain operations of Laiki in 2013 amounted to €417 million for which BOC PCL paid a consideration as part of the respective acquisition. Under the Law, BOC PCL can convert up to an amount of €3.3 billion tax losses to tax credits (which led to the creation of DTA amounting to €417 million), with the conversion being based on the tax rate applicable at the time of conversion. Upon the adoption of the Law a reversal of previously recognised DTA impairment of €115 million was recognised in the current year. Following the amendment of the Law, the period of utilisation of the tax losses which may be converted into tax credits remains unchanged (i.e. by end of 2028).

During the year ended 31 December 2019, an amount of €37,909 thousand has been reclassified from the DTA to current tax receivables, being the first annual tax credit.

As a result of the above amendments in the Income Tax Law the Group had deferred tax assets amounting to €379,091 thousand as at 31 December 2019 that meet the requirements under this Law. Accordingly the recovery of this amount is guaranteed.

The DTA subject to the Law is accounted for on the same basis, as described in Note 2.13.

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, potentially including requirements for an additional annual fee over and above the 1.5% annual guarantee fee referred to above to maintain the conversion of such DTAs into tax credits. In anticipation of such modifications the Group has recorded an additional amount of €12,500 thousand by way of an estimated additional fee (for the years 2018 and 2019), bringing the total guarantee fee recognised in these Consolidated Financial Statements to €18,755 thousand (Note 16).

18. Income tax (continued)

Accumulated income tax losses

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

2019	Total income tax losses €000	Income tax losses for which a deferred tax asset was recognised €000	Income tax losses for which no deferred tax asset was recognised €000
Expiring within 5 years	**520,988**	**-**	**520,988**
Utilisation in annual instalments up to 2028	**3,032,727**	**3,032,727**	**-**
	3,553,715	**3,032,727**	**520,988**
2018			
Expiring within 5 years	950,084	-	950,084
Expiring by the end of 2028	7,378,801	2,414,176	4,964,625
	8,328,885	2,414,176	5,914,709

In relation to the tax losses that were transferred to BOC PCL in 2013, the income tax authorities in Cyprus issued their tax assessments in March and April 2019. On the basis of these assessments the quantum of Laiki Bank tax losses were c.€5 billion and lower than the initial amount of €7.4 billion estimated in 2013.

The tax losses in excess of the €3.3 billion transferred from Laiki Bank to BOC PCL in March 2013 cannot be utilised by BOC PCL, in line with the March 2019 Law amendments, except in cases where there are transfers arising due to reorganisations made prior to 1 October 2019.

Deferred tax assets prior to the Income Tax Law Amendment 28(I) of 2019
Prior to the Income Tax Law Amendment 28 (I) of 2019 as per the Resolution of Credit and Other Institutions Law the accumulated tax losses of the transferring credit institutions at the time of the transfer, were transferred to the required credit institution and might be used by it for a period of up to 15 years from the end of the year during which the transfer took place. In the case of the BOC PCL's acquisition of certain operations of Laiki Bank, these tax losses could be utilised up to 2028. The deferred tax asset recognised on these specific losses could be set off against the future profits of BOC PCL by 2028 at the applicable income tax rate, at 12.5%.

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

The assessment of the recognition of a deferred tax asset in general was a critical judgement, given the inherent uncertainties associated with projecting profitability over a long time period. The Group has been using projections for various exercises run for a number of years and it has become an established and robust process within the Group. The tools and techniques used by the Group make use of all available information and data, both at macro and micro level, hence identifying and addressing sources of uncertainty.

18. Income tax (continued)

The Group performed its assessment for the recoverability of its deferred tax asset as at 31 December 2018 taking into account a range of both positive and negative evidence, including the Group's actual and historic performance, the key objectives of the Group's strategy as well as the macroeconomic environment in Cyprus, the impact of tax legislations enacted as at the reporting date and the detailed financial business and capital plan, approved by the Board, up to the end of 2022 and projections which had been prepared beyond 2022 until the tax losses expiry date end of 2028. The projections were subject to similar significant levels of review, consideration and governance as the procedure followed for the preparation of the financial business and capital plan up to the end of 2022. Macro forecasts available from external resources were also considered in determining the assumptions.

The positive evidence, among others, included:
- BOC PCL's strong branch network in Cyprus.
- The continuous improvement of the Cyprus economy and sovereign rating.

The negative evidence, among others, included:
- The absolute level of the DTA compared to the Group's equity (approximately 13%) and the level of future profitability required for its utilisation.
- The level of forecasting over the remaining 10 years of the tax losses expiry date.
- Impact of Brexit and instability in the Eurozone.
- Legislative changes and the likelihood of future developments and their impact on profitability.

The financial projections had taken into account the key objectives of the Group's strategy which are set out below:
- Materially reduce the level of NPEs loans
- Further improve the funding structure
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

The key assumptions and factors taken into consideration, amongst others, included the following:
- Reduction of NPEs.
- Increase in new loan originations and loan repayments.
- Improvement in net interest income, mainly driven by the increase of loans to deposits ratio, reduction in the deposits cost, management of liquidity surplus and evolution of interest rate curves/forecasts.
- Diversified income streams mainly due to increase in fee and commission income which is an area that the Group is intensifying its efforts.
- Reduction in the level of operating expenses mainly due to the implementation of digital transformation program underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time.
- Decrease in the cost of risk, supported by the asset quality improvement and the recovery of the economy.

The above assumptions were based on both internal and external information for attributing a value to each key assumption in the deferred tax asset forecasts.

The internal key variables included, amongst others, BOC PCL's strategy, plans and planned actions for (i) expansion of certain business lines and other income streams, (ii) capital and liquidity management, (iii) cost management, (iv) loan restructuring activity and NPE portfolio sales, (v) cost of funding and (vi) pricing of deposits and loans.

18. Income tax (continued)

External key variables mainly included the interest rate evolution which impacted the local and international business activity of the Group, the Eurozone and Cypriot macroeconomic performance unemployment levels, tourist industry and the changes in the regulatory framework. The Group took a view on long term growth prospects for the Cyprus economy. Real GDP growth was linked to a variety of growth determinants including demographics, economic policy, institutional quality, the external environment and ultimately the quality of labour and capital inputs. Guidance on the Company's understanding of long-term growth dynamics was provided by third party forecast exercises, and specifically the IMF and the European Commission for medium term forecasts for up to five years, and the time intervals provided by the Economist Intelligence Unit for population growth, labour force, and productivity growth for a thirty-year horizon. Long-term real GDP growth was the sum of employment growth and growth of real labour productivity. Employment growth was calculated based on population growth using the available forecast from Eurostat. Total population was distinguished from working age population to take into account the factor of population aging. The labour force and the employment levels were calculated using declining working age population in total population and increasing labour force participation and employment rates. Productivity growth is linked to historical averages. Ultimately, assumptions were made about the future evolution of productivity based on technological innovation.

The recoverability assessment performed at 31 December 2018 resulted in an impairment of €79,000 thousand. For the remaining amount of the deferred tax asset of €301,772 thousand as at 31 December 2018, management had concluded that it was probable that there would be sufficient taxable profits in the future to recover the deferred tax asset by the end of 2028.

The Group's financial and capital plan used for the purposes of the 2018 recoverability assessment had been conservatively prepared and various assumptions and variables used had already been stressed. The use of alternative assumptions/sensitivity analysis representing reasonably possible alternative outcomes, could impact the recognition of the deferred tax asset of the Group and the recovery period.

The Group had performed sensitivity analysis on the following key assumptions of DTA recoverability assessment for years 2019-2028 as at 31 December 2018. The table below shows the impact on DTA carrying value:

	Increase/ (decrease) of DTA carrying value
	2018
Key assumption	€million
Reduction of yield on customer loans and advances by 10 bps	(14)
Increase in cost of customer deposits by 10 bps	(18)
Increase of ECL cost by 10 bps on gross loans	(11)
Increase of yield on customer loans and advances by 10 bps	13
Lower new loan origination by 10% of the forecasted growth	(12)
Slower pace of NPE decrease by 5% of the forecasted drop	(28)
Higher net commission income by 5% on average than the forecasted growth	10
Higher average Cost/Income ratio by 100 bps than the forecasted ratio	(8)

Additionally, the Group had performed supplementary sensitivity analysis on the projections extrapolated beyond 2022 until the tax losses expiry date end of 2028. The supplementary sensitivity analysis seeks to align the new lending growth rates with the macroeconomic projections of the Group for GDP growth. This analysis also incorporates the adoption of a market observable curve to validate the forward interest rate assumptions and replaces the Company's internally generated assumptions, which were more conservative. The rate changes reflected in the supplementary sensitivity calculations, affected both the yields on customer loans, as well as the cost of customer deposits.

The table below shows the impact on DTA carrying value:

18. Income tax (continued)

	Increase/ (decrease) of DTA carrying value
	2018
Key assumption	€million
Bloomberg forecasts for Euribor/ECB rates used for the interest rates changes	6
Bloomberg forecasts for Euribor/ECB rates used for the interest rates changes and macroeconomic growth based on GDP projections used for the volume changes	(18)

For year-end 2018, the sensitivity results that indicated a decrease in the carrying value of the DTA would not result in any increase in the recoverable period as the loss expiry date is 31 December 2028, which was the considered recoverable period. At the same time, the sensitivity results that indicated an increase in the carrying value of the DTA were not individually significant enough to either significantly increase the recoverable amount or reduce the recoverable period.

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

19. Earnings per share

Basic and diluted loss per share attributable to the owners of the Company	**2019**	2018
Loss for the year attributable to the owners of the Company (€ thousand)	**(70,275)**	(103,521)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**446,058**	446,058
Basic and diluted loss per share (€ cent)	**(15.8)**	(23.2)

Basic and diluted loss per share attributable to the owners of the Company-continuing operations		
Loss for the year attributable to the owners of the Company-continuing operations (€ thousand)	**(70,275)**	(110,764)
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**446,058**	446,058
Basic and diluted loss per share-continuing operations (€ cent)	**(15.8)**	(24.8)

Basic and diluted earnings per share attributable to the owners of the Company-discontinued operations		
Profit for the year attributable to the owners of the Company-discontinued operations (€ thousand)	**n/a**	7,243
Weighted average number of shares in issue during the year, excluding treasury shares (thousand)	**446,058**	446,058
Basic and diluted earnings per share-discontinued operations (€ cent)	**n/a**	1.6

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

	2019	2018
	€000	€000
Cash	**151,555**	153,723
Balances with central banks	**4,908,487**	4,456,768
	5,060,042	4,610,491

	2019	2018
	€000	€000
Loans and advances to banks	**320,953**	473,263
Allowance for expected credit losses	**(72)**	(731)
	320,881	472,532

An analysis of the movement of the gross carrying amount and ECL of balances with central banks is presented in the table below:

	2019		2018	
	Gross carrying amount	**ECL**	Gross carrying amount	ECL
	Stage 1	**Stage 1**	Stage 1	Stage 1
	€000	**€000**	€000	€000
1 January	**4,456,768**	-	3,250,029	(5,872)
Net increase	**451,719**	-	1,483,635	-
Changes to models and inputs used for ECL calculation (Note 17)	**-**	-	-	5,872
Disposal of subsidiary	**-**	-	(277,811)	-
Foreign exchange adjustments	**-**	-	915	-
31 December	**4,908,487**	**-**	4,456,768	**-**

There was no ECL allowance on balances with central banks for the year 2019.

An analysis of the movement of the gross carrying amount of loans and advances to banks is presented in the table below:

	2019		2018		
	Gross carrying amount	**Total**	Gross carrying amount	Gross carrying amount	Total
	Stage 1		Stage 1	Stage 3	
	€000	**€000**	€000	€000	€000
1 January	**473,263**	**473,263**	1,159,629	58,002	1,217,631
Net decrease	**(149,899)**	**(149,899)**	(642,995)	(58,002)	(700,997)
Disposal/dissolution of subsidiaries	**(2,825)**	**(2,825)**	(42,974)	-	(42,974)
Foreign exchange adjustments	**414**	**414**	(397)	-	(397)
31 December	**320,953**	**320,953**	473,263	-	473,263

20. Cash, balances with central banks and loans and advances to banks (continued)

An analysis of the movement of the change on the ECL of the loans and advances to banks is presented in the table below:

	2019		2018		
	Stage 1	**Total**	Stage 1	Stage 3	Total
	€000	**€000**	€000	€000	€000
1 January	**(731)**	**(731)**	-	(24,998)	(24,998)
Impact of adopting IFRS 9 at 1 January 2018	**-**	**-**	(20)	-	(20)
Restated balance at 1 January	**(731)**	**(731)**	(20)	(24,998)	(25,018)
Changes to models and inputs used for ECL calculation (Note 17)	**659**	**659**	(711)	-	(711)
Net decrease	**-**	**-**	-	24,998	24,998
31 December	**(72)**	**(72)**	(731)	-	(731)

Balances with central banks include obligatory deposits for liquidity purposes as at 31 December 2019 which amount to €160,048 thousand (2018: €162,675 thousand) (Note 43).

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 46.13.

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

21. Investments

Investments	**2019 €000**	2018 €000
Investments mandatorily measured at FVPL	**176,106**	152,473
Investments at FVOCI	**701,704**	231,548
Investments at amortised cost	**805,059**	393,083
	1,682,869	777,104

During 2019, the Group has proceeded to invest in debt securities, as part of its investing strategy.

21. Investments (continued)

The amounts pledged as collateral are shown below:

Investments pledged as collateral	**2019 €000**	2018 €000
Investments at FVOCI	**199,916**	600,291
Investments at amortised cost	**23,045**	137,296
	222,961	737,587

The decrease in investments pledged as collateral during 2019 related to the change in the type of collateral pledged by the Group. Encumbered assets are disclosed in Note 48.

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 46.1 and the debt securities price risk sensitivity analysis is disclosed in Note 47.

There were no reclassifications of investments during the year.

The credit rating analysis of investments is disclosed in Note 46.13.

21. Investments (continued)

Investments at fair value through profit or loss

	Investments mandatorily measured at FVPL	
	2019	2018
	€000	€000
Debt securities	**24,093**	14,616
Equity securities	**2,484**	3,775
Mutual funds	**149,529**	134,082
	176,106	152,473

Debt securities		
Cyprus government	**-**	547
Banks and other corporations	**24,093**	14,069
	24,093	14,616
Listed on other stock exchanges	**-**	547
Unlisted	**24,093**	14,069
	24,093	14,616

Equity securities		
Listed on the Cyprus Stock Exchange	**1,607**	2,294
Listed on other stock exchanges	**777**	972
Unlisted	**100**	509
	2,484	3,775

Mutual funds		
Listed on other stock exchanges	**108,760**	94,679
Unlisted	**40,769**	39,403
	149,529	134,082

The debt securities which are measured at FVPL are mandatorily classified, because they failed to meet the SPPI criteria.

The majority of the unlisted mutual funds relate to investments whose underlying assets are listed on stock exchanges and are therefore presented in Level 2 hierarchy in Note 23.

Investments at FVOCI

	2019	2018
	€000	€000
Debt securities	**885,810**	819,748
Equity securities (including preference shares)	**15,202**	11,534
Mutual funds	**608**	557
	901,620	831,839

21. **Investments** (continued)

Debt securities	**2019 €000**	2018 €000
Cyprus government	**398,404**	322,021
Other governments	**228,838**	299,876
Banks and other corporations	**258,568**	197,851
	885,810	819,748
Listed on the Cyprus Stock Exchange	**3,922**	5,977
Listed on other stock exchanges	**881,888**	813,771
	885,810	819,748
Geographic dispersion by country of issuer		
Cyprus	**398,404**	322,021
France	**232,662**	282,691
Other European Union countries	**105,694**	83,085
Supranational organisations	**10,743**	20,049
Other countries	**138,307**	111,902
	885,810	819,748

Equity securities		
Listed on the Cyprus Stock Exchange	**1,451**	1,498
Listed on other stock exchanges	**137**	167
Unlisted	**13,614**	9,869
	15,202	11,534

An analysis of the movement of debt instruments before ECL and the changes on the ECL are presented in the table below:

	2019		2018	
	Gross debt securities	**ECL**	Gross debt securities	ECL
	€000	€000	€000	€000
1 January	820,346	(598)	916,129	(872)
New assets acquired in the year	135,042	-	186,605	-
Assets derecognised and redeemed in the year	(89,707)	-	(251,498)	-
Interest accrued	(1,841)	-	(4,428)	-
Foreign exchange adjustments	3,250	-	7,765	-
Changes to models and input used for ECL calculations (Note 17)	-	(101)	-	274
Change in fair value	19,419	-	(34,227)	-
31 December	**886,509**	**(699)**	820,346	(598)

All debt securities are classified as Stage 1.

21. Investments (continued)

The Group irrevocably made the election to classify its equity investments as equity investments at FVOCI on the basis that these are not held for trading. Their carrying value amounts to €15,202 thousand at 31 December 2019 and is equal to their fair value (2018: €11,534 thousand).

Equity investments at FVOCI comprise mainly investments in private Cyprus registered companies, acquired through loan restructuring activity and specifically through debt for equity swaps.

Dividend income amounting to €306 thousand has been received and recognised for 2019 in other income (2018: €197 thousand).

During 2019 no equity investments measured at FVOCI have been disposed of (2018: €5,458 thousand). The cumulative gain transferred to retained earnings during the year 2018 amounted to €173 thousand. There were no other transfers from OCI to retained earnings during the year.

The fair value of the financial assets that have been reclassified out of FVPL to FVOCI on transition to IFRS 9, amounts to €12,098 thousand at 31 December 2019 (2018: €14,934 thousand). The fair value gain that would have been recognised in the consolidated income statement if these financial assets had not been reclassified as part of the transition to IFRS 9, amounts to €158 thousand (2018: loss of €186 thousand). The effective interest rate of these instruments is 1.6%-5.0% per annum (2018: 1.6%-5.0%) and the respective interest income during the year 2019 amounts to €346 thousand (2018: €398 thousand).

Investments at amortised cost

	2019	2018
	€000	€000
Debt securities	**828,104**	530,379
Cyprus government	**143,644**	119,189
Other governments	**161,090**	123,799
Banks and other corporations	**333,313**	103,457
European Financial Stability Facility and European Investment Fund	**190,057**	183,934
	828,104	530,379
Listed on the Cyprus Stock Exchange	**48,654**	48,292
Listed on other stock exchanges	**779,450**	482,087
	828,104	530,379
Geographic dispersion by country of issuer		
Cyprus	**143,644**	119,189
Germany	**51,846**	64,184
UK	**38,349**	13,068
France	**30,082**	-
Other European Union countries	**271,587**	69,814
Other countries	**107,012**	80,190
Supranational organisations	**185,584**	183,934
	828,104	530,379

21. Investments (continued)

An analysis of changes in the gross carrying amount (before ECL) is presented in the table below:

	2019			2018		
	Stage 1	**Stage 2**	**Total**	Stage 1	Stage 2	Total
	€000	**€000**	**€000**	€000	€000	€000
1 January	482,229	48,982	**531,211**	-	48,658	48,658
New assets acquired in the year	318,187	-	**318,187**	522,398	-	522,398
Assets derecognised and redeemed in the year	(25,143)	-	**(25,143)**	(43,000)	-	(43,000)
Fair value due to hedging relationship	1,038	182	**1,220**	58	530	588
Accrued interest	1,062	(33)	**1,029**	2,773	(206)	2,567
Foreign exchange adjustments	2,397	(1)	**2,396**	-	-	-
31 December	**779,770**	**49,130**	**828,900**	**482,229**	**48,982**	**531,211**

An analysis of changes on the ECL is presented in the table below:

	2019			2018		
	Stage 1	**Stage 2**	**Total**	Stage 1	Stage 2	Total
2019	**€000**	**€000**	**€000**	€000	€000	€000
1 January	(142)	(690)	(832)	-	(1,843)	(1,843)
Change to models and inputs used for ECL calculation (Note 17)	(178)	214	36	(142)	1,153	1,011
31 December	**(320)**	**(476)**	**(796)**	**(142)**	**(690)**	**(832)**

22. Derivative financial instruments

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

	2019			2018		
		Fair value			Fair value	
	Contract amount	**Assets**	**Liabilities**	Contract amount	Assets	Liabilities
	€000	**€000**	**€000**	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	**21,939**	**165**	**111**	17,114	240	192
Currency swaps	**1,170,915**	**775**	**5,897**	1,219,749	3,405	6,342
Interest rate swaps	**263,159**	**315**	**551**	57,652	471	422
Currency options	**1,800**	**10**	**296**	12,704	8	382
Interest rate caps/floors	**1,684,871**	**772**	**-**	1,650,000	462	-
	3,142,684	**2,037**	**6,855**	2,957,219	4,586	7,338
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	**1,068,926**	**19,542**	**43,727**	1,016,083	20,137	29,029
Net investments - forward exchange rate contracts and currency swaps	**96,821**	**1,481**	**11**	74,973	31	2,616
	1,165,747	**21,023**	**43,738**	1,091,056	20,168	31,645
Total	**4,308,431**	**23,060**	**50,593**	4,048,275	24,754	38,983

22. Derivative financial instruments (continued)

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.

Credit risk for derivatives arises from the possibility of the counterparty's failure to meet the terms of any contract. In the case of derivatives, credit losses are a small portion of the derivatives' notional amount (positive market value of the derivative contract) compared to the total notional amount of the derivative contracts. In order to manage credit risk, the Group sets derivative limits based on the creditworthiness of the involved counterparties and uses credit mitigation techniques such as netting and collateralisation.

Interest rate risk is explained in Note 47. The interest rate risk is managed through the use of own balance sheet solutions plain vanilla interest rate swaps and interest rate options. In fair value hedges of interest rate risk, the Group converts fixed rate assets/liabilities to floating. In cash flow hedging of interest rate risk, the Group converts floating rate assets/liabilities to fixed.

Currency risk is explained in Note 47. In order to eliminate the risk, the Group hedges its open position by entering into foreign exchange deals such as: foreign exchange spot, foreign exchange forwards, foreign exchange swaps or foreign exchange options. The foreign currency risk mainly arises from customer-driven transactions on deposits and loans and advances.

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.

Currency and equity options provide the buyer with the right but not the obligation, to either buy 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.

22. Derivative financial instruments (continued)

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 implements the amended IFRS 7 hedge disclosure requirements.

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 debt securities measured at FVOCI 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 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 forward exchange rate contracts.

As at 31 December 2019, deposits, and forward and swap exchange rate contracts amounting to €10,667 thousand and €96,821 thousand respectively (2018: €9,843 thousand and €74,973 thousand respectively) have been designated as hedging instruments and have given rise to a gain of €10,927 thousand (2018: loss of €9,760 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 other foreign operations.

	Gains/(losses) attributable to hedged risk		Hedged in-effectiveness
2019	**Hedged items**	**Hedging instrument**	
Derivatives qualifying for hedge accounting	**€000**	**€000**	**€000**
Fair value hedges			
-interest rate swaps	3,696	(4,588)	892
Net investments			
-forward exchange rate contracts	(11,462)	11,462	-
Total	**(7,766)**	**6,874**	**892**

2018			
Derivatives qualifying for hedge accounting			
Fair value hedges			
-interest rate swaps	11,103	(10,028)	(1,075)
Net investments			
-forward exchange rate contracts	9,775	(9,775)	-
Total	**20,878**	**(19,803)**	**(1,075)**

The accumulated fair value adjustment arising from the hedging relationships is presented in the table below:

22. Derivative financial instruments (continued)

	Carrying amount of hedged items		Accumulated amount of fair value hedging adjustments gains/(losses) on the hedged item	
2019	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives qualifying for hedge accounting	**€000**	**€000**	**€000**	**€000**
Fair value hedges - interest rate swaps				
interest rate swaps				
-debt securities	909,868	-	16,331	-
-subordinated loan stock	-	272,170	-	(1,596)
Net investments - forward and swap exchange rate contracts				
Net assets	2,472	94,349	(2)	1,472
Total	**912,340**	**366,519**	**16,329**	**(124)**

2018				
Derivatives qualifying for hedge accounting				
Fair value hedges - interest rate swaps				
-debt securities	770,768	-	11,657	-
-subordinated loan stock	-	270,930	-	(555)
Net investments - forward and swap exchange rate contracts				
Net assets	5,630	69,343	-	2,585
Total	**776,398**	**340,273**	**11,657**	**2,030**

For assets hedged using fair value hedges the fixed rate is 2.76% and the floating rate is 1.4% (2018: 3.08% and 1.65% respectively). For liabilities hedged using fair value hedges, the fixed rate is 9.25% and the floating rate 8.95% (2018: 9.25% and 8.86% respectively).

The maturity of the Group's contract amount of the derivatives is presented in the table below:

22. Derivative financial instruments (continued)

2019	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 contract amount
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	10,899	10,369	671	-	-	**21,939**
Currency swaps	1,170,672	20	223	-	-	**1,170,915**
Interest rate swaps	-	-	146,228	116,931	-	**263,159**
Currency options	600	1,200	-	-	-	**1,800**
Interest rate caps/floors	-	-	1,650,000	34,871	-	**1,684,871**
	1,182,171	**11,589**	**1,797,122**	**151,802**	**-**	**3,142,684**
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	-	-	188,505	646,921	233,500	**1,068,926**
Net investments - forward exchange rate contracts and currency swaps	96,821	-	-	-	-	**96,821**
	96,821	**-**	**188,505**	**646,921**	**233,500**	**1,165,747**
Total	**1,278,992**	**11,589**	**1,985,627**	**798,723**	**233,500**	**4,308,431**

22. Derivative financial instruments (continued)

2018	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 contract amount
	€000	€000	€000	€000	€000	€000
Trading derivatives						
Forward exchange rate contracts	6,405	10,263	446	-	-	**17,114**
Currency swaps	1,179,201	40,102	446	-	-	**1,219,749**
Interest rate swaps	-	-	-	57,652	-	**57,652**
Currency options	12,704	-	-	-	-	**12,704**
Interest rate caps/floors	-	-	-	1,650,000	-	**1,650,000**
	1,198,310	**50,365**	**892**	**1,707,652**	**-**	**2,957,219**
Derivatives qualifying for hedge accounting						
Fair value hedges - interest rate swaps	-	-	77,619	729,702	208,762	**1,016,083**
Net investments - forward exchange rate contracts and currency swaps	74,973	-	-	-	-	**74,973**
	74,973	**-**	**77,619**	**729,702**	**208,762**	**1,091,056**
Total	**1,273,283**	**50,365**	**78,511**	**2,437,354**	**208,762**	**4,048,275**

22. Derivative financial instruments (continued)

Interest rate benchmark reform
The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR) and other rates and indices which are deemed to be 'benchmarks' are the subject of recent international, national and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently from the past or cease to exist entirely or have other consequences that cannot be predicted. The Group will continue to monitor and address matters arising from any transition to new reference rates.

BOC PCL has established a project to manage the transition to alternative interest rate benchmarks whereby the Director Treasury is the project owner. The main divisions involved in the project at the highest level are the Legal Department, Treasury, Risk Management, Finance, Information Technology (IT) and Operations. Assets and Liabilities Committee (ALCO) monitors the project on a monthly basis.

As at 31 December 2019 the interest rate benchmarks to which BOC PCL's hedge relationships are exposed to are Euribor and US Dollar Libor for the cash flows of the hedging instruments. As Euribor has been reformed and complies with the EU Benchmarks Regulation under a new hybrid methodology, the Group expects Euribor to continue as a benchmark interest rate for the foreseeable future and, therefore, does not consider interest rate hedge relationships of Euribor to be directly affected by IBOR reform as at 31 December 2019. Regarding USD Libor reform, the ICE Benchmark Administration (IBA) announced that there is no guarantee that Libor will continue to be published after year-end 2021 and that it will be replaced by SOFR.

The Group has applied judgement in relation to market expectations regarding hedging instruments. The key judgement is that the cash flows for contracts currently indexing IBOR are currently expected to be broadly equivalent to the cash flows when those contracts transition to IBOR replacement rates.

The table below indicates the nominal amount of derivatives in hedging relationships that will be subject to the IBOR reform, analysed by interest rate basis. The derivative hedging instruments provide a close approximation to the extent of the risk exposure BOC PCL manages through hedging relationships.

Interest Rate Swaps	2019 €000
Euribor (3 months)	**865,431**
Libor USD (3 months)	**203,495**
Total	**1,068,926**

23. Fair value measurement

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

	2019		2018	
	Carrying value	**Fair value**	Carrying value	Fair value
Financial assets	**€000**	**€000**	€000	€000
Cash and balances with central banks	**5,060,042**	**5,060,042**	4,610,491	4,610,491
Loans and advances to banks	**320,881**	**319,852**	472,532	467,026
Investments mandatorily measured at FVPL	**176,106**	**176,106**	152,473	152,473
Investments at FVOCI	**901,620**	**901,620**	831,839	831,839
Investments at amortised cost	**828,104**	**844,795**	530,379	538,631
Derivative financial assets	**23,060**	**23,060**	24,754	24,754
Loans and advances to customers	**10,721,841**	**10,720,292**	10,921,786	10,788,446
Life insurance business assets attributable to policyholders	**447,172**	**447,172**	388,745	388,745
Financial assets classified as held for sale	**25,929**	**25,929**	1,154,108	1,154,108
Other financial assets	**146,596**	**146,596**	144,381	144,381
	18,651,351	**18,665,464**	19,231,488	19,100,894
Financial liabilities				
Obligations to central banks and deposits by banks	**533,404**	**475,792**	1,261,942	1,261,942
Repurchase agreements	**168,129**	**170,816**	248,945	263,511
Derivative financial liabilities	**50,593**	**50,593**	38,983	38,983
Customer deposits	**16,691,531**	**16,692,463**	16,843,558	16,849,222
Subordinated loan stock	**272,170**	**293,623**	270,930	276,527
Other financial liabilities	**255,210**	**255,210**	188,512	188,512
	17,971,037	**17,938,497**	18,852,870	18,878,697

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.

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 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.

23. Fair value measurement (continued)

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 BOC PCL'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 at FVPL, investments at FVOCI and investments at amortised cost
Investments 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 BOC PCL. 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 takes into account the time value of money.

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

23. Fair value measurement (continued)

Deposits by banks
Deposits by 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 mainly approximated by the carrying value.

Subordinated loan stock
The current issue of BOC PCL 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. 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. 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.

23. Fair value measurement (continued)

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

2019	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Assets measured at fair value				
Investment properties				
Residential	-	-	19,841	**19,841**
Offices and other commercial properties	-	-	59,052	**59,052**
Manufacturing and industrial properties	-	-	36,894	**36,894**
Hotels	-	-	1,701	**1,701**
Land (fields and plots)	-	-	18,709	**18,709**
	-	-	136,197	**136,197**
Freehold property				
Offices and other commercial properties	-	-	235,277	**235,277**
Loans and advances to customers measured at FVPL	-	-	369,293	**369,293**
Trading derivatives				
Forward exchange rate contracts	-	165	-	**165**
Currency swaps	-	775	-	**775**
Interest rate swaps	-	315	-	**315**
Currency options	-	10	-	**10**
Interest rate caps/floors	-	772	-	**772**
	-	2,037	-	**2,037**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	19,542	-	**19,542**
Net investments-forward exchange rate contracts and currency swaps	-	1,481	-	**1,481**
	-	21,023	-	**21,023**
Investments mandatorily measured at FVPL	100,270	51,243	24,593	**176,106**
Investments at FVOCI	886,680	1,026	13,914	**901,620**
	986,950	**75,329**	**779,274**	**1,841,553**
Other financial assets not measured at fair value				
Loans and advances to banks	-	319,852	-	**319,852**
Investments at amortised cost	751,326	53,523	39,946	**844,795**
Loans and advances to customers	-	-	10,350,999	**10,350,999**
	751,326	**373,375**	**10,390,945**	**11,515,646**

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €5,696 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €1,549 thousand in their fair value.

For one investment included in debt securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 (Note 21) with a carrying amount of €23,593 thousand as of 31 December 2019, a change in the conversion factor by 10% would result in a change in the value of the debt securities by €2,359 thousand.

23. Fair value measurement (continued)

For additional disclosures on sensitivity analysis of equity securities refer to Note 47.

The fair value measurement hierarchy for life insurance business assets attributable to policy holders is disclosed in Note 25.

2019	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	111	-	**111**
Currency swaps	-	5,897	-	**5,897**
Interest rate swaps	-	551	-	**551**
Currency options	-	296	-	**296**
	-	6,855	-	**6,855**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	43,727	-	**43,727**
Net investments-forward exchange rate contracts and currency swaps	-	11	-	**11**
	-	43,738	-	**43,738**
	-	**50,593**	**-**	**50,593**
Other financial liabilities not measured at fair value				
Deposits by banks	-	475,792	-	**475,792**
Repurchase agreements	-	170,816	-	**170,816**
Customer deposits	-	-	16,692,463	**16,692,463**
Subordinated loan stock	293,623	-	-	**293,623**
	293,623	**646,608**	**16,692,463**	**17,632,694**

23. Fair value measurement (continued)

2018 (restated)	Level 1 €000	Level 2 €000	Level 3 €000	**Total €000**
Assets measured at fair value				
Investment properties				
Residential	-	-	18,606	**18,606**
Offices and other commercial properties	-	-	60,243	**60,243**
Manufacturing and industrial properties	-	-	28,177	**28,177**
Hotels	-	-	2,465	**2,465**
Land (fields and plots)	-	-	18,515	**18,515**
	-	-	128,006	**128,006**
Investment properties held for sale				
Offices and other commercial properties	-	-	152,348	**152,348**
	-	-	152,348	**152,348**
Freehold property				
Offices and other commercial properties	-	-	236,405	**236,405**
Freehold property held for sale	-	-	-	**-**
Offices and other commercial properties	-	-	88,022	**88,022**
Loans and advances to customers measured at FVPL	-	-	395,572	**395,572**
Trading derivatives				
Forward exchange rate contracts	-	240	-	**240**
Currency swaps	-	3,405	-	**3,405**
Interest rate swaps	-	471	-	**471**
Currency options	-	8	-	**8**
Interest rate caps/floors	-	462	-	**462**
	-	4,586	-	**4,586**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	20,137	-	**20,137**
Net investments-forward exchange rate contracts and currency swaps	-	31	-	**31**
	-	20,168	-	**20,168**
Investments mandatorily measured at FVPL	90,069	47,418	14,986	**152,473**
Investments at FVOCI	822,628	1,051	8,160	**831,839**
	912,697	**73,223**	**1,023,499**	**2,009,419**
Other financial assets not measured at fair value				
Loans and advances to banks	-	467,026	-	**467,026**
Investments at amortised cost	484,417	54,214	-	**538,631**
Loans and advances to customers	-	-	10,392,874	**10,392,874**
	484,417	**521,240**	**10,392,874**	**11,398,531**

Investment properties by type were restated following the classification of the long term leased properties with rental yield at market level which were acquired in exchange of debt and are leased at under operating leases as 'Investment properties' instead of 'Stock of property'.

23. Fair value measurement (continued)

Investment mandatorily measured at FVPL amounting to €47,024 thousand were reclassified out of level 1 to level 2 since they are valued using models with inputs whose effect on fair value is market observable (Note 2.38).

During the year 2019 and 2018 there were no other significant transfers between Level 1 and Level 2.

For loans and advances to customers measured at FVPL categorised as Level 3, an increase in the discount factor by 10% would result in a decrease of €12,134 thousand in their fair value and a decrease in the discount factor by 10% would result in an increase of €5,263 thousand in their fair value.

For one investment included in debt securities mandatorily measured at FVPL as a result of the SPPI assessment and categorised as Level 3 (Note 21) with a carrying amount of €13,569 thousand as at 31 December 2018, a change in the conversion factor by 10% would result in a change in the value of the debt securities by €1,357 thousand.

2018	Level 1 €000	Level 2 €000	Level 3 €000	**Total** **€000**
Liabilities measured at fair value				
Trading derivatives				
Forward exchange rate contracts	-	192	-	**192**
Currency swaps	-	6,342	-	**6,342**
Interest rate swaps	-	422	-	**422**
Currency options	-	382	-	**382**
	-	7,338	-	**7,338**
Derivatives qualifying for hedge accounting				
Fair value hedges-interest rate swaps	-	29,029	-	**29,029**
Net investments-forward exchange rate contracts and currency swaps	-	2,616	-	**2,616**
	-	31,645	-	**31,645**
	-	38,983	**-**	**38,983**
Other financial liabilities not measured at fair value				
Deposits by banks	-	431,942	-	**431,942**
Repurchase agreements	-	263,511	-	**263,511**
Customer deposits	-	-	16,849,222	**16,849,222**
Subordinated loan stock	276,527	-	-	**276,527**
	276,527	695,453	16,849,222	**17,821,202**

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. The carrying value of other financial assets and other financial liabilities and assets classified as held for sale is a close approximation of their fair value and they are categorised as Level 3.

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

Movements in Level 3 assets 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:

	2019						2018					
	Investment properties	**Investment properties held for sale**	**Own use properties**	**Own use properties held for sale**	**Loans and advances to customers**	**Financial instruments**	Investment properties (restated)	Investment properties held for sale	Own use properties	Own use properties held for sale	Loans and advances to customers	Financial instruments
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	€000	€000	€000	€000	€000	€000
1 January	**128,006**	**152,348**	**236,405**	**88,022**	**395,572**	**23,146**	174,089	6,500	239,559	-	389,862	22,621
Additions	**20,669**	**-**	**1,719**	**-**	**-**	**6,529**	125,852	-	2,739	-	35,601	-
Disposals	**(13,909)**	**(152,348)**	**-**	**(88,022)**	**-**	**(473)**	(5,670)	(6,500)	-	-	-	-
Transfers from/(to) stock of property (Note 28)	**1,006**	**-**	**(234)**	**-**	**-**	**-**	-	-	84,744	-	-	-
Transfers (to)/from non-current assets and disposal group held for sale	**-**	**-**	**-**	**-**	**-**	**-**	(152,298)	152,298	(88,022)	88,022	-	-
Transfers to Level 2	**-**	**-**	**-**	**-**	**-**	**(22)**	-	-	-	-	-	-
Net gains from fair value changes recognised in the consolidated statement of other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-	525
Depreciation charge for the year	**-**	**-**	**(2,613)**	**-**	**-**	**-**	-	-	(2,614)	-	-	-
Fair value (losses)/gains	**(302)**	**-**	**-**	**-**	**-**	**9,327**	(13,325)	50	-	-	-	-
Net gains on loans and advances to customers measured at FVPL (Note 12)	**-**	**-**	**-**	**-**	**2,891**	**-**	-	-	-	-	16,125	-
Repayments of loans	**-**	**-**	**-**	**-**	**(44,860)**	**-**	-	-	-	-	(62,809)	-
Interest on loans	**-**	**-**	**-**	**-**	**15,690**	**-**	-	-	-	-	16,793	-
Foreign exchange adjustments	**727**	**-**	**-**	**-**	**-**	**-**	(642)	-	(1)	-	-	-
31 December	**136,197**	**-**	**235,277**	**-**	**369,293**	**38,507**	128,006	152,348	236,405	88,022	395,572	23,146

Further details on investment properties restatement is presented in Note 2.2.1.

23. 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.

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2019	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**
Cyprus	14,375	€32-€104	n/a	€131-€1,370	5.5%	€380-€1,925	€110-€1,110	71-1,203	8-1,356	5-104
Greece	4,835	€3-€84	0.9%-5.9%	€134-€2,186	0%-15.6%	€45-€2,186	€3-€2,763	4-5,147	44-825	11-65
Russia	631	n/a	n/a	€225-€633	n/a	€51-€297	€9-€38	800-1,573	198-1,186	n/a
	19,841									
Offices and other commercial properties										
Cyprus	53,086	€11-€500	n/a	€250-€900	5%-9%	€120-€8,921	€120-€2,000	140-35,413	25-9,423	6-85
Greece	4,885	€12-€239	0.7%-2.9%	€151-€3,400	0%-9.3%	€71-€3,400	€25-€106	282-8,582	6-4,087	15-61
Russia	1,081	n/a	n/a	€26-€461	n/a	€23-€461	€3-€93	1,460-5,545	261-3,288	n/a
	59,052									
Manufacturing and industrial										
Cyprus	26,646	€25-€67	n/a	€278-€765	6%-6.5%	€120-€1,484	€60-€550	2,202-15,965	744-7,180	12-35
Greece	9,736	€4-€39	0.9%-2.9%	€84-€1,318	0%-11%	€13-€416	€3-€10	57-34,495	349-5,858	10-81
Russia	512	n/a	n/a	€11-€475	n/a	€8-€247	€7-€115	2,162-29,538	304-8,874	11-32
	36,894									
Hotels										
Russia	**1,701**	n/a	n/a	€360	n/a	€360	n/a	n/a	7,436	14
Land (fields and plots)										
Cyprus	18,155	n/a	n/a	€1,000-€1,250	n/a	€538-€1,028	€538-€1,028	2,316-29,398	n/a	n/a
Greece	56	€1	0.9%	n/a	5.4%	€14	€14	3,988	n/a	n/a
Russia	498	n/a	n/a	n/a	n/a	€1-€18	€1-€18	58,600-300,000	n/a	n/a
	18,709									
Total	**136,197**									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

Analysis of own use properties

Type and country	2019	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	235,277	€26-€277	n/a	€821-€1,895	5%-6%	€14-€6,557	€140-€3,381	390-598,767	122-11,233	12-77
Total	**235,277**									

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

Valuation policy and sensitivity analysis (continued)

Analysis of investment properties and investment properties held for sale

Type and country	2018 (restated)	Estimated rental value per m² per annum	Rent growth per annum	Estimated building cost per m²	Yield	Estimated fair value per m²	Estimated land value per m²	Land	Building area	Age of building
Residential	**€000**							**m²**	**m²**	**Years**
Cyprus	13,882	€32-€104	n/a	€131-€1,370	n/a	€380-€1,925	€110-€1,110	71-1,203	8-1,356	4-103
Greece	3,683	€3-€84	n/a	€134-€2,186	n/a	€45-€2,186	€30-€2,763	4-5,147	44-825	10-64
Russia	1,041	n/a	n/a	€196-€2,020	n/a	€45-€2,020	€8-€114	800-6,087	102-719	n/a
	18,606									
Offices and other commercial properties										
Cyprus	205,319	€54-€353	n/a	n/a	5%-9%	€120-€5,208	n/a	140-35,413	25-24,094	14-34
Greece	6,589	€12-€239	n/a	€151-€3,400	n/a	€71-€3,400	€25-€106	282-8,582	6-4,087	14-60
Russia	683	n/a	n/a	€175-€485	n/a	€47-€198	€26-€161	256-3,498	154-1,644	n/a
	212,591									
Manufacturing and industrial										
Cyprus	21,030	n/a	n/a	€278-€765	n/a	€120-€1,484	€60-€550	2,202-15,695	744-7,180	11-34
Greece	6,695	€4-€39	n/a	€84-€1,318	n/a	€13-€416	€3-€10	57-34,495	349-5,858	9-80
Russia	452	n/a	n/a	€64-€153	n/a	€12-€153	€3-€21	5,220-29,538	304-8,874	9-30
	28,177									
Hotels										
Russia	2,465	n/a	n/a	€318	n/a	€318	n/a	n/a	7,436	13
Land (fields and plots)										
Cyprus	17,780	n/a	n/a	€1,000-€1,200	n/a	n/a	€370-€1,028	2,316-21,053	n/a	n/a
Russia	735	n/a	n/a	n/a	n/a	€1-€33	€1-€33	300-58,600	n/a	n/a
	18,515									
Total	**280,354**									

23. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

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

Type and country	2018	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	324,427	€26-€277	n/a	€821-€1,895	5%-6%	€19-€6,557	€70-€3,381	390-598,767	122-31,000	1-78
Total	**324,427**									

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 could result in a significantly higher/lower fair value of the properties.

24. Loans and advances to customers

	2019 €000	2018 €000
Gross loans and advances to customers at amortised cost	**12,008,146**	12,430,367
Allowance for ECL for impairment of loans and advances to customers (Note 46.9)	**(1,655,598)**	(1,904,153)
	10,352,548	10,526,214
Loans and advances to customers measured at FVPL	**369,293**	395,572
	10,721,841	10,921,786

Loans and advances to customers pledged as collateral are disclosed in Note 48.

Additional analysis and information regarding credit risk and analysis of the allowance for ECL of loans and advances to customers are set out in Note 46.

25. Life insurance business assets attributable to policyholders

	2019 €000	2018 €000
Equity securities	**1,162**	1,025
Debt securities	**39,418**	43,952
Mutual funds	**360,692**	311,892
Bank deposits and other receivables	**45,900**	31,876
	447,172	388,745
Property	**11,680**	13,820
	458,852	402,565

Financial assets of life insurance business attributable to policyholders are classified as investments at FVPL.

Bank deposits and other receivables include other financial receivable of €3,128 thousand (2018: €2,909 thousand).

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 2019 of €167 thousand (2018: €215 thousand). Such shares are presented in the Consolidated Financial Statements as treasury shares (Note 36).

25. 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:

2019	Level 1 €000	Level 3 €000	Total €000
Equity securities	**1,162**	**-**	**1,162**
Debt securities	**17,157**	**22,261**	**39,418**
Mutual funds	**357,307**	**3,385**	**360,692**
	375,626	**25,646**	**401,272**

2018 (restated)			
Equity securities	1,025	-	1,025
Debt securities	19,065	24,887	43,952
Mutual funds	308,290	3,602	311,892
	328,380	28,489	356,869

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:

	2019 €000	2018 (restated) €000
1 January	**28,489**	26,348
Additions	**-**	3,000
Unrealised losses recognised in the consolidated income statement	**(2,843)**	(859)
31 December	**25,646**	28,489

During years 2019 and 2018 there were no significant transfers between Level 1 and Level 2.

Debt securities of carrying value €24,887 and €3,329 thousand originally classified as level 2 and level 1 respectively as at 31 December 2018 were reclassified to level 3 due to the use of significant unobservable inputs in their fair valuation (Note 2.38).

26. Property and equipment

2019	Property €000	Equipment €000	**Total €000**
Net book value at 1 January	238,889	21,834	**260,723**
Recognition of RoU asset upon adoption of IFRS 16 (Note 6)	37,474	-	**37,474**
Balance at 1 January following adoption of IFRS 16	**276,363**	**21,834**	**298,197**
Additions	4,600	6,536	**11,136**
Transfers to stock of property (Note 28)	(234)	-	**(234)**
Transfers from non-current assets and disposal group held for sale	-	93	**93**
Disposals and write-offs	(723)	(296)	**(1,019)**
Depreciation charge for the year (Note 16)	(12,322)	(7,796)	**(20,118)**
Foreign exchange adjustments	-	(1)	**(1)**
Net book value at 31 December	**267,684**	**20,370**	**288,054**

1 January 2019			
Cost or valuation	277,206	138,767	**415,973**
Accumulated depreciation	(38,317)	(116,933)	**(155,250)**
Net book value	**238,889**	**21,834**	**260,723**

31 December 2019			
Cost or valuation	317,994	140,681	**458,675**
Accumulated depreciation	(50,310)	(120,311)	**(170,621)**
Net book value	**267,684**	**20,370**	**288,054**

26. Property and equipment (continued)

2018	Property €000	Equipment €000	**Total €000**
Net book value at 1 January	257,360	22,454	**279,814**
Additions	4,460	9,132	**13,592**
Transfers from stock of property (Note 28)	84,744	-	**84,744**
Transfer to non-current assets and disposal group held for sale	(88,022)	(110)	**(88,132)**
Disposals and write-offs	-	(37)	**(37)**
Disposal of subsidiary (Note 53.4.1)	(16,073)	(1,151)	**(17,224)**
Depreciation charge for the year - continuing operations (Note 16)	(3,320)	(7,792)	**(11,112)**
Depreciation charge for the year - discontinued operations	(252)	(652)	**(904)**
Impairment charge for the year (Note 17)	-	(11)	**(11)**
Foreign exchange adjustments	(8)	1	**(7)**
Net book value at 31 December	**238,889**	**21,834**	**260,723**

1 January 2018			
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**

31 December 2018			
Cost or valuation	277,206	138,767	**415,973**
Accumulated depreciation	(38,317)	(116,933)	**(155,250)**
Net book value	**238,889**	**21,834**	**260,723**

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

	2019 €000	2018 €000
Freehold property	**235,277**	236,405
Improvements on leasehold property	**2,019**	2,484
RoU asset (Note 44)	**30,388**	n/a
Total	**267,684**	238,889

Freehold property includes land amounting to €92,471 thousand (2018: €92,471 thousand) for which no depreciation is charged.

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. The valuations 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 23.

As at 31 December 2019 there are charges against freehold property of the Group with carrying value €20,879 thousand (2018: €20,711 thousand).

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 31 December 2019 would have amounted to €179,501 thousand (2018: €180,340 thousand).

27. Intangible assets

	Computer software	In-force life insurance business	**Total**
2019	€000	€000	**€000**
Net book value at 1 January	54,978	115,433	**170,411**
Additions	23,684	-	**23,684**
Increase in value of in-force life insurance business (Note 13)	-	1,200	**1,200**
Disposals and write-offs	(188)	-	**(188)**
Amortisation charge for the year (Note 16)	(16,161)	-	**(16,161)**
Net book value at 31 December	**62,313**	**116,633**	**178,946**
1 January 2019			
Cost	186,196	115,433	**301,629**
Accumulated amortisation and impairment	(131,218)	-	**(131,218)**
Net book value	**54,978**	**115,433**	**170,411**
31 December 2019			
Cost	209,692	116,633	**326,325**
Accumulated amortisation and impairment	(147,379)	-	**(147,379)**
Net book value	**62,313**	**116,633**	**178,946**

	Computer software	In-force life insurance business	**Total**
2018	€000	€000	**€000**
Net book value at 1 January	45,205	120,747	**165,952**
Additions	27,006	-	**27,006**
Transfers to non-current assets and disposal group held for sale	(20)	-	**(20)**
Decrease in value of in-force life insurance business (Note 13)	-	(5,314)	**(5,314)**
Disposals and write-offs	(1,784)	-	**(1,784)**
Disposals of subsidiaries (Note 53.4.1)	(1,883)	-	**(1,883)**
Amortisation charge for the year - continuing operations	(13,217)	-	**(13,217)**
Amortisation charge for the year - discontinuing operations	(325)	-	**(325)**
Foreign exchange adjustments	(4)	-	**(4)**
Net book value at 31 December	**54,978**	**115,433**	**170,411**
1 January 2018			
Cost	169,612	120,747	**290,359**
Accumulated amortisation and impairment	(124,407)	-	**(124,407)**
Net book value	**45,205**	**120,747**	**165,952**
31 December 2018			
Cost	186,196	115,433	**301,629**
Accumulated amortisation and impairment	(131,218)	-	**(131,218)**
Net book value	**54,978**	**115,433**	**170,411**

27. Intangible assets (continued)

Valuation of in-force life insurance business

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

	2019	2018
Discount rate (after tax)	**10.0%**	10.0%
Return on investments	**5.0%**	5.0%
Expense inflation	**3.5%**	3.5%

28. Stock of property

The carrying amount of stock of property is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During 2019 an impairment loss of €25,294 thousand (2018: €17,272 thousand) was recognised in 'Impairment of non-financial assets' in the consolidated income statement. At 31 December 2019, stock of €310,573 thousand (2018 restated: €362,794 thousand) is carried at net realisable value which is approximately the fair value less costs to sell.

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

During 2019, the Group changed the classification for properties which are leased out under operating leases as detailed in Note 2.2.1. The comparative note below is restated in accordance with the new classification policy.

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

	2019	2018 (restated)
	€000	€000
Net book value at 1 January	**1,426,857**	1,486,979
Additions	**176,688**	306,498
Disposals	**(193,526)**	(190,688)
Transfers (to)/from investment properties (Note 23)	**(1,006)**	-
Transfers of stock of property of Serbian entities to non-current assets held for sale	**(2,427)**	-
Transfers from/(to) own use properties (Note 26)	**234**	(84,744)
Transfers to disposal group 1 (Note 30)	**(3,816)**	(73,899)
Impairment (Note 17)	**(25,294)**	(17,272)
Foreign exchange adjustments	**(257)**	(17)
Net book value at 31 December	**1,377,453**	1,426,857

There were no costs of construction during the year ended 31 December 2019.

Additions during the year 2018 include costs of construction of €31,860 thousand.

28. Stock of property (continued)

The table below shows the result on the disposal of stock of property in the year:

	2019	2018 (restated)
	€000	€000
Net proceeds	**219,478**	221,125
Carrying value of stock of property disposed of (excluding stock of property held by subsidiary disposed of)	**(193,526)**	(190,688)
Net gains on disposal of stock of property	**25,952**	30,437

Analysis by type and country	**Cyprus**	**Greece**	**Romania**	**Total**
2019	**€000**	**€000**	**€000**	**€000**
Residential properties	167,330	21,300	116	**188,746**
Offices and other commercial properties	147,568	24,013	5,745	**177,326**
Manufacturing and industrial properties	46,703	22,754	50	**69,507**
Hotels	24,286	494	-	**24,780**
Land (fields and plots)	906,980	7,286	2,828	**917,094**
Total	**1,292,867**	**75,847**	**8,739**	**1,377,453**

2018 (restated)	**€000**	**€000**	**€000**	**€000**
Residential properties	150,106	20,855	313	**171,274**
Offices and other commercial properties	179,822	33,283	7,401	**220,506**
Manufacturing and industrial properties	54,188	36,212	498	**90,898**
Hotels	34,840	484	-	**35,324**
Land (fields and plots)	897,020	7,546	3,611	**908,177**
Properties under construction	678	-	-	**678**
Total	**1,316,654**	**98,380**	**11,823**	**1,426,857**

29. Prepayments, accrued income and other assets

	2019	2018
	€000	€000
Financial assets		
Receivables relating to disposal of operations, loan portfolios and other assets	**53,354**	85,606
Debtors	**39,663**	30,671
Receivable relating to tax	**5,102**	12,329
Other assets	**48,477**	15,775
	146,596	144,381
Non financial assets		
Reinsurers' share of insurance contract liabilities (Note 33)	**50,609**	48,348
Current tax receivable	**10,335**	2,308
Prepaid expenses	**1,256**	8,658
Other assets	**35,134**	52,307
	97,334	111,621
	243,930	256,002

29. Prepayments, accrued income and other assets (continued)

An analysis of changes in the gross carrying amount of the financial assets included in prepayments, accrued income and other assets is presented in the table below:

	Stage 1	Stage 2	Stage 3	Simplified method	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**
1 January	80,865	30,846	31,323	14,856	**157,890**
Net increase/(decrease)	21,233	(7,067)	2,401	(659)	**15,908**
31 December	**102,098**	**23,779**	**33,724**	**14,197**	**173,798**
2018					
1 January	25,032	36,282	38,173	14,485	**113,972**
New assets acquired	54,760	-	-	-	**54,760**
Net increase/(decrease)	1,073	(5,436)	(6,850)	371	**(10,842)**
31 December	**80,865**	**30,846**	**31,323**	**14,856**	**157,890**

An analysis of the changes on the ECL of the above financial assets is presented in the table below:

	Stage 1	Stage 2	Stage 3	Simplified method	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**
1 January	-	-	19,022	912	**19,934**
Changes to models and inputs used for ECL calculations	-	-	9,442	68	**9,510**
31 December	**-**	**-**	**28,464**	**980**	**29,444**
2018					
1 January	-	-	14,923	-	**14,923**
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	576	**576**
Restated balance at 1 January	-	-	14,923	576	**15,499**
Changes to models and inputs used for ECL calculations	-	-	4,099	336	**4,435**
31 December	**-**	**-**	**19,022**	**912**	**19,934**

Financial assets include €2,242 thousand (2018: €6,425 thousand) measured at FVPL.

As at 31 December 2019, the remaining receivable relating to the disposal of operations in the UK amounts to €29,575 thousand (2018: €54,760 thousand). Half of the consideration was received upon completion of the transaction, an amount was repaid in November 2019 and the remaining is receivable in November 2020, without any performance conditions attached. The receivable relating to the disposal of the Ukrainian operations in 2014, amounted to €23,779 thousand (2018: €30,846 thousand) and the deferred consideration was due to be paid to BOC PCL under a repayment programme which had been extended from June 2019 to December 2022. The receivable was fully secured. The receivable was repaid in February 2020.

During 2019, credit losses of €5,384 thousand were recognised in relation to prepayments, accrued income and other assets. This includes ECL losses of €9,510 thousand and net reversal of impairments amounting to €4,126 thousand. During 2018 credit losses amounted to €8,056 thousand, which includes ECL of €4,435 thousand and €3,621 thousand write-offs (Note 17).

30. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups held for sale
The following non-current assets and disposal groups were classified as held for sale as at 31 December 2019 and 2018:

	2019	2018
	€000	€000
Disposal group 1	**-**	1,228,007
Disposal group 2	**-**	151,248
Disposal group 3	**-**	89,683
Disposal group 4	**25,929**	-
Other exposures held by Serbian subsidiary	**288**	-
Investment properties held for sale	**-**	1,100
	26,217	1,470,038

	2019	2018
	Disposal Group 4	Disposal Group 1
	€000	€000
Gross loans and advances to customers	**173,881**	2,711,960
Allowance for ECL for impairment of loans and advances to customers (Note 46.9)	**(147,952)**	(1,557,852)
	25,929	1,154,108
Stock of property	**-**	73,899
31 December	**25,929**	1,228,007

Non-current labilities and disposal groups held for sale
The liabilities amounting to €5,812 thousand relate to disposal group 3 and represent other liabilities.

Disposal group 1
As at 31 December 2018 Disposal group 1 comprised of a portfolio of loans and advances to customers (the Portfolio) and stock of property (known as 'Project Helix' or the 'Transaction') and a portfolio of loans and advances to customers known as 'Velocity'. During 2019, the Group disposed of the Portfolio through the transfer of the Portfolio by BOC PCL to a licensed Cypriot Credit Acquiring Company (the 'CyCAC'). The shares of the CyCAC were subsequently acquired by certain funds affiliated with Apollo Global Management LLC (together with its consolidated subsidiaries 'Apollo', the purchaser of the Portfolio). Funds managed by Apollo provided equity capital in relation to the financing of the purchase of the Portfolio.

BOC PCL received consideration of c.€1,186 million on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Portfolio since the reference date of 31 March 2018, of which €45 million concern the BOC PCL participation in the senior debt issued to finance the transaction. As at the date of the completion of the sale, the Portfolio included loans and advances to customers of gross book value amounting to €2,631 million (net book value €1,054 million) and stock of properties with carrying value amounting to €109 million. In June 2019 the Group has derecognised the disposed portfolio relating to Project Helix. During the year up until the completion date, the Group recorded credit losses on loans and advances to customers of €16 million and net interest income of €34 million in relation to Disposal Group 1.

In addition, during June 2019 the Group disposed of the portfolio of project 'Velocity'. The portfolio of project Velocity comprised of gross loans and advances to customers amounting to €30 million with net book value of €4 million and the net proceeds amounted to €4 million. The Group has derecognised the disposed portfolio relating to Project Velocity as of 30 June 2019.

30. Non-current assets and disposal groups held for sale (continued)

Disposal group 2
In June 2019 BOC PCL disposed of its entire holding of 88.2% in the investment shares of Cyreit Variable Capital Investment Company PLC (Cyreit). Cyreit is the holding company of a group of companies which holds and manages investment properties. As at 31 December 2018, the relevant properties with associate assets and liabilities were classified as a disposal group.

The investment properties held within the disposal group were measured at fair value up to the date of disposal. The results of the fair value changes and the impact on disposal are presented within 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement and are within the Cyprus operating segment since the investment properties are in Cyprus. Further information is presented in Note 53.2.1.

Disposal group 3
The disposal group 3 related to the subsidiary Nicosia Mall Holdings (NMH) Limited and its subsidiaries (NMH group) which are involved in the construction and management of the Nicosia Mall. It was disposed of during December 2019. Further information is presented in Note 53.2.2. It was classified as a disposal group held for sale as at 31 December 2018, as management was committed to sell and had proceeded with an active programme to complete this plan.

Disposal group 4
Disposal group 4 comprises loans and advances to customers of projects Velocity 2 and Helix tail as further analysed below. The disposal group has been classified as held for sale as management is committed to sell it and has proceeded with an active programme to complete this plan. The plan is expected to be completed within 12 months from the classification date.

Velocity 2 relates to a portfolio of unsecured loans and advances to customers with a net book value of €13,931 thousand. The disposal is expected to be completed by the end of the second quarter of 2020. Helix tail includes a portfolio of credit facilities related to Helix and its carrying value amounts to €11,998 thousand. The disposal is expected to be completed within the second quarter of 2020.

Further analysis of the loans and advances to customer's portfolio, which is included in this disposal group, is disclosed in Note 46.7.

Other exposures held by Serbian subsidiary
The portfolio held by Serbian subsidiary related to loans with collaterals in Serbia and properties in Serbia. It was disposed of in August 2019 except for two properties with a carrying value of €288 thousand as at 31 December 2019. These properties are still classified as non-current assets held for sale and are expected to be disposed of during 2020.

Investment properties
The investment properties classified as held for sale as at 31 December 2018 were properties which management was committed to sell and had proceeded with an active programme to complete this plan. The disposals were completed during 2019. Investment properties classified as held for sale were measured at fair value. The results of the fair value changes were presented within 'Net losses from revaluation and disposal of investment properties' in the consolidated income statement and were within the Cyprus operating segment since these investment properties were in Cyprus.

31. Funding from central banks

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

	2019	2018
	€000	€000
Targeted Longer-Term Refinancing Operations (TLTRO II)	**-**	830,000

31. Funding from central banks (continued)

As at 31 December 2018, ECB funding was at €830 million that was borrowed from the 4-year TLTRO II. ECB funding was fully repaid in September 2019.

The interest rate applied to TLTRO II is fixed for each operation at the rate applied in the Main Refinancing Operations (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. The interest rate applicable to the amount borrowed by BOC PCL under the TLTRO II transactions was 0% as eligible net lending in the pre-specified period did not exceed the benchmark.

Details on encumbered assets related to the above funding facilities are disclosed in Note 48.

32. Customer deposits

	2019	2018 (restated)
	€000	€000
By type of deposit		
Demand	**7,595,231**	6,708,852
Savings	**1,567,344**	1,352,452
Time or notice	**7,528,956**	8,782,254
	16,691,531	16,843,558
By geographical area		
Cyprus	**16,691,531**	16,843,558
By currency		
Euro	**15,009,828**	14,961,025
US Dollar	**1,286,292**	1,482,867
British Pound	**288,289**	292,640
Russian Rouble	**30,113**	25,529
Swiss Franc	**10,803**	7,994
Other currencies	**66,206**	73,503
	16,691,531	16,843,558

32. Customer deposits (continued)

	2019	2018 (restated)
By customer sector	**€000**	€000
Corporate	**1,117,222**	1,122,465
Global corporate	**691,550**	628,052
SMEs	**770,655**	800,671
Retail	**10,140,920**	10,032,047
Restructuring		
– Corporate	**52,421**	69,180
– SMEs	**28,222**	29,299
– Retail other	**10,507**	16,773
Recoveries		
– Corporate	**6,140**	6,492
International banking services	**3,543,315**	3,707,713
Wealth management	**330,579**	430,866
	16,691,531	16,843,558

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

Comparative information was restated due to the reorganisational change in BOC PCL and the set-up of Global corporate. Deposits amounting to €628,052 thousand were restated out of Corporate into Global corporate. (Note 2.38 and Note 7).

As at 31 December 2018 customer deposits denominated in Romanian Lei amounting to €443 thousand were previously separately presented in the analysis by currency. In the current year the table was restated to include this amount within 'Other currencies' for both 2019 and 2018.

33. Insurance liabilities

	2019			2018		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Life insurance	**€000**	**€000**	**€000**	€000	€000	€000
Life insurance contract liabilities	**579,128**	**(28,625)**	**550,503**	531,640	(27,601)	504,039
Non-life insurance						
Provision for unearned premiums	**26,656**	**(9,728)**	**16,928**	25,962	(9,475)	16,487
Other liabilities						
Claims outstanding	**34,155**	**(12,256)**	**21,899**	33,397	(11,272)	22,125
Unexpired risks reserve	**74**	**-**	**74**	58	-	58
Non-life insurance contract liabilities	**60,885**	**(21,984)**	**38,901**	59,417	(20,747)	38,670
	640,013	**(50,609)**	**589,404**	591,057	(48,348)	542,709

Reinsurers' share of insurance contract liabilities and other reinsurance balances receivable are included in 'Prepayments, accrued income and other assets' (Note 29).

33. Insurance liabilities (continued)

Life insurance contract liabilities

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

	2019			2018		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
	€000	**€000**	**€000**	€000	€000	€000
1 January	**531,640**	**(27,601)**	**504,039**	546,887	(27,608)	519,279
New business	**11,045**	**(1,128)**	**9,917**	13,633	(1,275)	12,358
Change in existing business	**36,443**	**104**	**36,547**	(28,880)	1,282	(27,598)
31 December	**579,128**	**(28,625)**	**550,503**	531,640	(27,601)	504,039

Non-life insurance contract liabilities

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

	2019			2018		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Liabilities for unearned premium	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**25,962**	**(9,475)**	**16,487**	24,151	(8,879)	15,272
Premium income	**76,075**	**(34,362)**	**41,713**	72,912	(32,128)	40,784
Earned premiums	**(75,381)**	**34,109**	**(41,272)**	(71,101)	31,532	(39,569)
31 December	**26,656**	**(9,728)**	**16,928**	25,962	(9,475)	16,487

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.

	2019			2018		
	Gross	**Reinsurers' share**	**Net**	Gross	Reinsurers' share	Net
Claims outstanding	**€000**	**€000**	**€000**	€000	€000	€000
1 January	**33,397**	**(11,272)**	**22,125**	34,076	(11,513)	22,563
Amount paid for claims settled in the year	**(33,922)**	**13,799**	**(20,123)**	(34,516)	14,735	(19,781)
Increase in liabilities arising from claims	**34,680**	**(14,783)**	**19,897**	33,837	(14,494)	19,343
31 December	**34,155**	**(12,256)**	**21,899**	33,397	(11,272)	22,125
Reported claims	**32,166**	**(11,379)**	**20,787**	31,427	(10,395)	21,032
Incurred but not reported	**1,989**	**(877)**	**1,112**	1,970	(877)	1,093
31 December	**34,155**	**(12,256)**	**21,899**	33,397	(11,272)	22,125

34. Subordinated loan stock

		2019	2018
	Contractual interest rate	**€000**	€000
Subordinated Tier 2 Capital Note with nominal value of €250 million	9.25% up to 19 January 2022	**272,170**	270,930

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

In January 2017, BOC PCL issued a €250 million unsecured and subordinated Tier 2 Capital Note (the Note) under BOC PCL'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. BOC PCL 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. The fair value as at 31 December 2019 is disclosed in Note 23.

35. Accruals, deferred income, other liabilities and other provisions

	2019	2018
	€000	€000
Income tax payable and related provisions	**5,025**	14,568
Special defence contribution payable	**2,065**	4,270
Retirement benefit plans liabilities (Note 15)	**9,212**	8,777
Provisions for financial guarantees and commitments (Notes 46.8.1 and 46.8.2)	**22,112**	27,685
Liabilities for investment-linked contracts under administration	**9,237**	2,971
Accrued expenses and other provisions	**89,620**	72,702
Deferred income	**13,611**	18,869
Items in the course of settlement	**49,975**	47,958
Lease liabilities (Note 44)	**29,704**	-
Other liabilities	**93,685**	87,683
	324,246	285,483

The ECL allowance for financial guarantees and commitments is analysed by stage in the table below:

	2019	2018
	€000	**€000**
Stage 1	**51**	1,314
Stage 2	**157**	2,593
Stage 3	**21,904**	23,778
	22,112	27,685

36. Share capital

	2019		2018	
	Number of shares (thousand)	**€000**	Number of shares (thousand)	€000
Authorised				
Ordinary shares of €0,10 each	**10,000,000**	**1,000,000**	10,000,000	1,000,000
Issued				
1 January and 31 December	**446,200**	**44,620**	446,200	44,620

Authorised and issued share capital

All issued ordinary shares carry the same rights.

There were no changes to the authorised or issued share capital during the year ended 31 December 2019 and during the year ended 31 December 2018.

Share premium reserve

2019
There were no changes to the share premium reserve during the year ended 31 December 2019.

2018
The Annual General Meeting of the shareholders of the Company held in August 2018 approved a reduction of up to €1.5 billion of the Company's share premium to eliminate the Company's accumulated losses and create distributable reserves (retained earnings). This was approved by the Irish High Court pursuant to sections 85(1) of the Companies Act on 13 December 2018.

Treasury shares of the Company

Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. Following the restructuring of the Group and the introduction of the Company as the new holding company of the Group, the shares held by the life insurance subsidiary were cancelled and New Shares of the Company were issued.

The life insurance subsidiary of the Group, as at 31 December 2019, held a total of 142 thousand ordinary shares of the Company of a nominal value of €0.10 each (2018: 142 thousand ordinary shares 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 €21,463 thousand (2018: €21,463 thousand).

The treasury shares represent 0.03% of the total issued share capital of the Company (2018: 0.03%).

The Company did not provide financial assistance permitted by Section 82 of the Companies Act 2014 for the purchase of its shares.

Share-based payments - share options

Following the incorporation of the Company and its introduction as the new holding company of the Group in January 2017, the Long-Term Incentive Plan was replaced by the Share Option Plan which operates at the level of the Company. The Share Option Plan is identical to the Long-Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price was set at €5.00 per share. The term of the options was also extended to between 4-10 years after the grant date.

36. Share capital (continued)

Share-based payments - share options (continued)

No share options were granted since the date of replacement of the Long-Term Incentive Plan by the Share Option Plan at the level of the Company and the Share Option Plan remains frozen. Any shares related to the Share Option Plan carry rights with regards to control of the Company that are only exercisable directly by the employee.

Other equity instruments

	2019	2018
	€000	€000
Reset Perpetual Additional Tier 1 Capital Securities	**220,000**	220,000

In December 2018 the Company issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. During the year ended 31 December 2019 two coupon payments to AT1 holders were made of a total amount of €27,199 thousand and have been recognised in retained earnings. The Company may elect to cancel any interest payment for an unlimited period, on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. AT1 is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and each subsequent fifth anniversary subject to the prior approval of the regulator. AT1 is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

During the year ended 31 December 2018, the transaction costs, directly attributable to the issuance, amounted to €2,458 thousand and have been recognised in retained earnings.

37. Dividends

Based on the SREP decisions of prior years, the Company and BOC PCL were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2019 and 2018.

Following the 2019 SREP decision, the Company and BOC PCL are still under equity dividend distribution prohibition. This prohibition does not apply if the distributions are made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital.

No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company and BOC PCL.

38. Retained earnings/(accumulated losses)

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 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 or individuals who are domiciled in Cyprus. 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 2019 and 2018 no special defence contribution on deemed dividend distribution was paid by the Company and by BOC PCL.

39. 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 2019 amounted to €1,320,195 thousand (2018: €1,244,908 thousand).

40. Pending litigation, claims, regulatory and other 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 BOC PCL in 2013 as a result of the bail-in Decrees, BOC PCL 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 2019 and hence it is not believed that such matters, when concluded, will have a material impact upon the financial position of the Group.

40. Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims

Investigations and litigation relating to securities issued by BOC PCL
A number of institutional and retail customers have filed various separate actions against BOC PCL alleging that BOC PCL is guilty of misselling in relation to securities issued by BOC PCL 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 BOC PCL 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).

BOC PCL 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 BOC PCL officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', BOC PCL may face significant difficulties. To date, a number of cases have been tried in Greece. BOC PCL 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. Provision has been made based on management's best estimate of probable outflows and based on advice of legal counsel.

In July 2019 the first capital securities case to reach the Areios Pagos (Supreme Court of Greece) has been adjudged in favour of BOC PCL, ruling in effect that BOC PCL can rely on the defence of Frustration (i.e. intervening event out of the control of BOC PCL, in this case BOC PCL's resolution and recapitalisation through the bail-in of deposits) to show that the risks associated with the sale of the capital securities because of the consequences of the bail-in were unforeseeable.

The case will be retried by the Larissa District Court as per the direction of the Supreme Court, however the ruling of the Supreme Court on this point is final and binding on lower courts and BOC PCL's position therefore is that BOC PCL will, most probably, win the case at the Larissa District Court.

In July 2018 the Nicosia District Court ruled in favour of BOC PCL in an action against BOC PCL by a capital securities holder and rejected the claim to reimburse the plaintiff for alleged damages sustained from investing in the capital securities of BOC PCL. In September 2018 judgement was issued by the District Court of Larnaca against BOC PCL with respect to a capital securities case. The plaintiffs were seeking compensation against BOC PCL (and others) for negligence/fraud/breach of statutory duty in selling to the plaintiffs contingent convertible bonds. The court found in favour of the plaintiffs and against BOC PCL, awarding damages plus interest and legal fees. BOC PCL has filed an appeal against this judgement.

In May 2019 and June 2019 the District Court of Nicosia issued the second and third judgements in favour of BOC PCL relating to capital securities cases. The plaintiffs have filed appeals against both of these judgements.

Bail-in related litigation
Depositors
A number of the BOC PCL's depositors, who allege that they were adversely affected by the bail in, filed claims against BOC PCL and other parties (such as the CBC and the Ministry of Finance of Cyprus) including against BOC PCL as the alleged successor of Laiki Bank 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. BOC PCL is defending these actions.

40. Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims (continued)

Shareholders
Numerous claims were filed by shareholders in 2013 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. BOC PCL 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 alleging either the unconstitutionality of the Resolution Law and the bail-in Decrees, or a misapplication of same by BOC PCL (as regards the way and methodology whereby such Decrees have been implemented), or that BOC PCL failed to follow instructions promptly prior to the bail-in coming into force. BOC PCL intends to contest all of these claims.

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.

Provident fund case
In December 2015, the Bank of Cyprus Employees Provident Fund (the Provident Fund) filed an action against BOC PCL claiming €70 million allegedly owed as part of BOC PCL'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 BOC PCL to predict the resolution of this matter, including the timing or any possible impact on BOC PCL.

Employment litigation
Former senior officers of BOC PCL have instituted one claim for unfair dismissal and one claim for Provident Fund entitlements against BOC PCL 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 on its financial position.

Additionally, a number of former employees have filed claims against BOC PCL contesting entitlements received relating to the various voluntary exit plans. As at the balance sheet date no judgement has been issued in any of the said claims. The Group does not expect that these actions will have a material impact on its financial position.

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

UK property lending claims
BOC PCL is the defendant in certain proceedings alleging that BOC PCL 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. The Group does not expect that these negotiations will lead to outflows for the Group.

40. Pending litigation, claims, regulatory and other matters (continued)

40.1 Pending litigation and claims (continued)

Banking business cases
There is a number of banking business cases where the amounts claimed are significant. Management has assessed the probability of loss as remote and does not expect any remote future outflows with respect to these cases to have a material impact on the financial position of the Group. These cases primarily concern allegations as to BOC PCL's standard policies and procedures allegedly resulting to damages and other losses for the claimants.

Consumer Protection Service decision
The Consumer Protection Service ('CPS') has issued decisions against BOC PCL regarding unfair contract terms and unfair commercial practices – decisions of the CPS (according to rulings of the Administrative Court) are not binding but merely an expression of opinion. Against this decision, BOC PCL has filed an application before the Administrative Court which has not yet issued its judgement. In March 2020 BOC PCL has been served with an application by the director of CPS through the Attorney General seeking for an order of the court, with immediate effect, the result of which will be for the BOC PCL to cease the use of a number of unfair terms in the contracts of BOC PCL. The said terms relate to contracts that had been signed during 2006-2007. Furthermore the said application seeks for an order ordering BOC PCL to undertake measures to remedy the situation. BOC PCL will take all necessary steps for the protection of its interests.

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. BOC PCL 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.

In January 2017 the Attorney General had filed a criminal case against a number of current and former officers of BOC PCL relating to the reclassification of Greek Government Bonds in April 2010. No charges were instituted against BOC PCL in this case. Two of the former officers accused, had already been acquitted on the basis of preliminary objections raised by them. The Attorney General had filed an appeal against the acquittals. The Supreme Court dismissed the Attorney General's appeal.

On 19 March 2020, the Assize Court of Nicosia discontinued the criminal case and discharged all accused, including the current officers of BOC PCL, who had been charged with various criminal offences relating to events occurring before the financial crisis of 2013 and the bailing-in of BOC PCL. The Court ruled that there had been clear and serious abuse of the process of the Court and that in fact the specific prosecution should never have been instituted.

Others
An investigation is in process relating to the examination of any exaggerated and/or fabricated claims paid by the non-life insurance subsidiary of the Group. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the investigation and of the potential litigation. Based on the information available at present, Management's view is that it is unlikely for this matter to have a material adverse impact on the financial position and capital adequacy of the non-life insurance subsidiary and thereby the Group, considering also the relevant insurance policy in place, a reimbursement is virtually certain to be received upon settlement of any relevant obligation that may arise.

40. Pending litigation, claims, regulatory and other matters (continued)

40.2 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 BOC PCL'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 BOC PCL'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
As at 31 December 2019 there were no pending CySEC investigations against BOC PCL.

The only pending CySEC investigation against BOC PCL as at 31 December 2018 concerned possible price manipulation attributable to BOC PCL for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transylvania. As at the balance sheet date the investigation is closed and BOC PCL is acquitted of all responsibilities.

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, BOC PCL and JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by BOC PCL. BOC PCL is expecting the final conclusion of this matter and has provided for it accordingly.

The Commission for the Protection of Competition has ruled in March 2020 that there is breach of competition law in relation to BOC PCL participation in the shareholding of Fairways Ltd. A fine will be imposed upon BOC PCL following submission of BOC PCL’s written address on mitigation. The fine is not expected to be material.

There was also an allegation concerning BOC PCL's arrangements with American Express, namely that such exclusive arrangements violated Cypriot and EU competition law. On both matters, the CPC has concluded that BOC PCL (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 BOC PCL and BOC PCL filed a recourse against the decision and the fine. The payment of the fine has been stayed pending the final outcome of the recourse. In June 2018 the Administrative court accepted BOC PCL’s position and cancelled the decision as well as the fine imposed upon BOC PCL. The Attorney General has filed an appeal before the Supreme court with respect to such decision and the final outcome is pending.

UK regulatory matters
The provision outstanding as at 31 December 2019 is €1,645 thousand (31 December 2018: €15,795 thousand). As part of the agreement for the sale of Bank of Cyprus UK Ltd, liability in regards to UK regulatory matters remains an obligation for settlement by the Group. 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.

40. Pending litigation, claims, regulatory and other matters (continued)

40.2 Regulatory matters (continued)

Romanian Competition Council
An investigation has been initiated by the Romanian Competition Council on all leasing companies in Romania. All leasing companies were members of the professional association ALB (Asociatia Societatilor Financiare din Romania) and the Romanian Competition Council is alleging that there was an illegal exchange of information between them. BOC Asset Management Romania is included in the said investigation due to the fact that it is a member of the said association. Upon receipt of the investigation report BOC Asset Management Romania - assisted by Romanian attorneys - prepared and submitted its observations on the report and subsequently it has submitted its defence. This may result in the imposition of a fine on BOC Asset Management Romania which is not expected to be material.

40.3 Provisions for pending litigation, claims, regulatory and other matters

	Pending litigation or claims (Note 40.1)	Regulatory matters (Note 40.2)	Other matters (Note 40.4)	**Total**
2019	€000	€000	€000	**€000**
1 January	74,372	29,569	13,010	**116,951**
Increase of provisions including unwinding of discount (Note 16)	16,325	413	18,574	**35,312**
Utilisation of provisions	(15,641)	(14,856)	(2,397)	**(32,894)**
Release of provisions (Note 16)	(4,981)	(1,480)	-	**(6,461)**
Transfer to income tax payable	-	-	(4,859)	**(4,859)**
Foreign exchange adjustments	-	45	-	**45**
31 December	**70,075**	**13,691**	**24,328**	**108,094**
Provisions expected to be settled within 12 months post reporting date	**16,333**	**1,600**	-	**17,933**

2018	€000	€000	€000	**€000**
1 January	62,646	70,672	5,057	**138,375**
Increase of provisions including unwinding of discount - continuing operations (Note 16)	20,804	6,675	7,953	**35,432**
Utilisation of provisions	(9,016)	(39,242)	-	**(48,258)**
Release of provisions - continuing operations (Note 16)	(62)	(9,000)	-	**(9,062)**
Foreign exchange adjustments	-	464	-	**464**
31 December	**74,372**	**29,569**	**13,010**	**116,951**
Provisions expected to be settled within 12 months post reporting date	**2,000**	**15,795**	-	**17,795**

The increase in provisions for the year 2019 was primarily driven by the progressed status of the pending investigations and litigations relating to securities issued by BOC PL as well as the provisions taken for other matters in relation to the disposal process of certain of its operations.

An increase by 5% in the probability of loss rate for pending litigation and claims (2018: 5%) with all other variables held constant, would lead to an increase in the actual provision by €5,848 thousand at 31 December 2019 (2018: increase by €6,914 thousand).

40. Pending litigation, claims, regulatory and other matters (continued)

40.3 Provisions for pending litigation, claims, regulatory and other matters (continued)

40.4 Other matters

Other matters include other provisions for various open examination requests by governmental and other public bodies or provisions for warranties and indemnities related to the disposal process of certain operations of the Group (Note 41). The provisions for pending litigation, claims, regulatory and other 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'.

Some information required by the IAS 37 Provision, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation or the outcome of the negotiation in relation to provisions for warranties and indemnities related to the disposal process of certain operations of the Group.

41. Contingent liabilities and commitments

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

Even though these obligations may not be recognised on the consolidated balance sheet, they do contain credit risk and are therefore part of the overall credit risk exposure of the Group (Note 46.8).

41.1 Capital commitments

Capital commitments for the acquisition of property, equipment and intangible assets as at 31 December 2019 amount to €26,341 thousand (2018: €28,851 thousand).

41.2 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.

42. Net cash flow from operating activities

	2019	2018 (restated)*
	€000	€000
Loss before tax from continuing operations	**(180,569)**	(33,360)
Profit before tax from discontinued operations	**-**	8,926
Adjustments for:		
Credit losses to cover credit risk on loans and advances to customers and net gains on derecognition of financial assets measured at amortised cost	**224,264**	300,634
Depreciation of property and equipment	**20,118**	12,016
Amortisation of intangible assets	**16,161**	13,542
Impairment of property held for own use and equipment	**-**	11
Impairment of other non-financial assets	**787**	1,368
Credit losses of other financial instruments	**4,790**	1,610
Amortisation of discounts/premiums, catch-up adjustment on debt securities and interest on debt securities	**(33,175)**	(25,418)
Loss/(profit) on sale and write-offs of property and equipment and intangible assets	**99**	(99)
Net gains on disposal of investment properties	**(2,551)**	(1,430)
Net losses from revaluation of investment properties and investment properties held for sale	**302**	13,275
Dividend income	**(361)**	(547)
Net gains on disposal of investments at FVOCI	**-**	(19,484)
Net losses/ (gains) on financial liabilities at FVPL	**495**	(1,435)
Share of profit from associates	**(5,513)**	(9,095)
(Profit)/loss from revaluation of debt securities designated as fair value hedges	**(5,539)**	22,775
Profit on disposal/dissolution of subsidiaries and associates	**(3,886)**	(6,205)
Net gains on disposal of stock of property	**(25,952)**	(30,437)
Impairment of stock of property	**25,294**	17,272
Negative interest on loans and advances to banks and central banks	**17,448**	14,142
Interest on subordinated loan stock	**23,325**	25,365
Change in value of in-force life insurance business	**(1,200)**	5,314
Remeasurement of investment in associate upon classification as held for sale	**25,943**	-
Interest expense on lease liability	**386**	-
Special levy	**13,077**	-
	113,743	308,740
Change in:		
Loans and advances to banks	**26,150**	(284,836)
Deposits by banks	**101,462**	(61,938)
Obligatory balances with central banks	**2,627**	(8,942)
Customer deposits	**(152,027)**	983,999
Value of in-force life insurance policies and liabilities	**(7,331)**	12,934
Loans and advances to customers measured at amortised cost	**(178,414)**	(320,757)
Loans and advances to customers measured at FVPL	**26,279**	(5,710)
Other assets	**9,644**	12,230
Accrued income and prepaid expenses	**1,794**	(8,306)
Other liabilities and pending litigation, claims, regulatory and other matters	**22,695**	(46,236)
Accrued expenses and deferred income	**17,267**	27,855
Derivative financial instruments	**13,304**	(18,636)
Investments measured at FVPL	**(23,633)**	(9,816)
Repurchase agreements	**(80,816)**	(8,377)
Proceeds on disposals of stock of property	**219,478**	221,125
	112,222	793,329
Tax (paid)/received	**(2,475)**	3,913
Net cash flow from operating activities	**109,747**	797,242

For information on restatement of comparatives refer to Notes 2.2.1 and 2.38.

42. Net cash flow from operating activities (continued)

Non-cash transactions

2019

Repossession of collaterals
During 2019, the Group acquired properties by taking possession of collaterals held as security for loans and advances to customers of €197,209 thousand (2018: €396,256 thousand) (Note 46.10).

Disposal of Project Helix
Upon the disposal of Project Helix, the Group participated in a senior debt in relation to the financing of the Project Helix amounting to €45 million (Note 30).

Acquisition of equity investments
During 2019 the Group acquired equity investments amounting to €6,529 thousand as a result of its loan restructuring activities. The Group elected to classify this equity participation at FVOCI. The carrying value as at 31 December 2019 is €6,789 thousand.

Disposal of NMH group
During 2019 the Group disposed of its 64% holding in NMH group. The transaction involved settlement of existing facilities and provision of new lending. Further information is disclosed in Note 53.2.2.

Recognition of RoU asset and lease liabilities
During 2019 the Group recognised RoU assets and corresponding lease liabilities of €39,227 thousand (2018: not applicable).

2018

Increase in the shareholding of Nicosia Mall Holdings (NMH) Ltd
During 2018, BOC PCL increased its controlling interest from 51% to 64% in Nicosia Mall Holdings (NMH) Ltd.

Net cash flow from operating activities - interest and dividends

	2019	2018
	€000	€000
Interest paid	**(161,447)**	(225,585)
Interest received	**733,623**	633,733
Dividends received	**361**	547
	572,537	408,695

42. Net cash flow from operating activities (continued)

Changes in liabilities arising from financing activities

2019	Funding from central banks (Note 31) €000	Subordinated loan stock (Note 34) €000	**Total** **€000**
1 January	830,000	270,930	**1,100,930**
Cash flows	(830,000)	(23,325)	**(853,325)**
Other non-cash movements	-	24,565	**24,565**
31 December	**-**	**272,170**	**272,170**
2018			
1 January	930,000	302,288	**1,232,288**
Cash flows	(100,000)	(24,476)	**(124,476)**
Foreign exchange adjustments	-	(33)	**(33)**
Other non-cash movements	-	28,491	**28,491**
Disposal of subsidiary	-	(35,340)	**(35,340)**
31 December	**830,000**	**270,930**	**1,100,930**

Further information relating to the change in lease liabilities is disclosed in Note 44.

43. Cash and cash equivalents

Cash and cash equivalents comprise:

	2019 **€000**	2018 €000
Cash and non-obligatory balances with central bank	**4,899,994**	4,447,816
Loans and advances to banks with original maturity less than three months	**230,869**	357,028
	5,130,863	4,804,844

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

	2019 **€000**	2018 €000
Cash and non-obligatory balances with central bank	**4,899,994**	4,447,816
Obligatory balances with central banks (Note 20)	**160,048**	162,675
Total cash and balances with central banks (Note 20)	**5,060,042**	4,610,491
Loans and advances to banks with original maturity less than three months	**230,869**	357,028
Restricted loans and advances to banks	**88,712**	115,504
Other loans and advances to banks	**1,300**	-
Total loans and advances to banks (Note 20)	**320,881**	472,532

Restricted loans and advances to banks include collaterals under derivative transactions of €41,104 thousand (2018: €42,631 thousand) which are not immediately available for use by the Group, but are released once the transactions are terminated.

44. Leases

The Group is a lessee for commercial properties such as office buildings and branches. Prior to the adoption of IFRS 16 on 1 January 2019 those contracts were classified as operating leases under IAS17. The basic terms for lease contracts relating to the branch network are uniform, irrespective of lessors, with the non-cancellable rental period being two years. The Group has the option to extend the tenancy for four further periods of two years each. The Group has the right at any time after the expiry of the initial term to terminate the present rental agreement by providing notice (usually 3 or 6 months' notice) to the lessor. Depending on the terms agreed, the rent is adjusted at the end of each renewal period, according to the current rents of the area and considering the relevant legislation.

Office buildings are leased by the Group for the operation of administrative divisions. The basic terms for a new lease contracts and the current practise are substantially the same with those for lease contracts of branches.

The carrying amounts of the Group's RoU assets and lease liabilities and the movement during the year is presented in the table below:

	RoU asset (Note 26)	**Lease Liabilities (Note 35)**
	€000	**€000**
1 January 2019 - Impact on adoption of IFRS 16 (Note 6)	37,474	(37,474)
Additions	2,476	(2,476)
Assets de-recognised	(723)	723
Restoration liability - disclosed within other liabilities	-	1,230
Depreciation charge for the year (Note 16)	(8,839)	-
Interest expense (Note 9)	-	(386)
Cash outflows	-	8,679
31 December 2019	**30,388**	**(29,704)**

RoU assets comprised of leases of buildings and are presented within Property.

Cash outflows relate to lease payments made in the year.

The maturity analysis of lease liabilities is disclosed in Note 48 'Risk management–Liquidity risk and funding'.

The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 under IAS 17 are presented below:

	2018
	€000
Within one year	1,864
Between one and five years	2,542
After five years	47
	4,453

45. Analysis of assets and liabilities by expected maturity

	2019			2018 (restated)		
	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	**4,899,994**	**160,048**	**5,060,042**	4,447,816	162,675	4,610,491
Loans and advances to banks	**232,169**	**88,712**	**320,881**	364,655	107,877	472,532
Derivative financial assets	**3,217**	**19,843**	**23,060**	4,148	20,606	24,754
Investments including investments pledged as collateral	**446,293**	**1,459,537**	**1,905,830**	135,679	1,379,012	1,514,691
Loans and advances to customers	**1,521,642**	**9,200,199**	**10,721,841**	1,525,865	9,395,921	10,921,786
Life insurance business assets attributable to policyholders	**14,528**	**444,324**	**458,852**	498	402,067	402,565
Prepayments, accrued income and other assets	**192,831**	**51,099**	**243,930**	82,214	173,788	256,002
Stock of property	**582,878**	**794,575**	**1,377,453**	542,419	884,438	1,426,857
Deferred tax assets	**37,909**	**341,217**	**379,126**	-	301,778	301,778
Property, equipment and intangible assets	**14**	**466,986**	**467,000**	6	431,128	431,134
Investment properties	**-**	**136,197**	**136,197**	-	128,006	128,006
Investment in associates and joint venture	**-**	**2,393**	**2,393**	-	114,637	114,637
Non-current assets and disposal groups held for sale	**26,217**	**-**	**26,217**	1,470,038	-	1,470,038
	7,957,692	**13,165,130**	**21,122,822**	8,573,338	13,501,933	22,075,271
Liabilities						
Deposits by banks	**203,406**	**329,998**	**533,404**	151,230	280,712	431,942
Funding from central banks	**-**	**-**	**-**	-	830,000	830,000
Repurchase agreements	**168,129**	**-**	**168,129**	80,692	168,253	248,945
Derivative financial liabilities	**11,839**	**38,754**	**50,593**	12,459	26,524	38,983
Customer deposits	**5,327,735**	**11,363,796**	**16,691,531**	2,946,714	13,896,844	16,843,558
Insurance liabilities	**88,796**	**551,217**	**640,013**	90,464	500,593	591,057
Accruals, deferred income and other liabilities and pending litigation, claims, regulatory and other matters	**273,914**	**158,426**	**432,340**	300,765	101,669	402,434
Subordinated loan stock	**-**	**272,170**	**272,170**	-	270,930	270,930
Deferred tax liabilities	**-**	**46,015**	**46,015**	-	44,282	44,282
Non-current liabilities and disposal group classified as held for sale	**-**	**-**	**-**	5,812	-	5,812
	6,073,819	**12,760,376**	**18,834,195**	3,588,136	16,119,807	19,707,943

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.

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

Performing loans and advances to customers in Cyprus are classified based on the contractual repayment schedule. Overdraft accounts are classified in the 'Over one year' time band. The Stage 3 Loans are classified in the 'Over one year' time band except from expected receipts which are included within time bands, according to historic amounts of receipts in the last months.

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

A percentage of customer deposits in Cyprus maturing within one year is classified in the 'Over one year' time band, based on the observed behavioural analysis.

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

Regarding comparative information, stock of property amounting to €103,531 thousand within the 'Over one year time' band was restated to 'Investment properties' in the same time band as disclosed in Notes 2.2.1 and 2.38.

Additionally regarding 'Deposits by banks' an amount of €17,510 thousand was reclassified out of the 'Less than one year' time band into the Over one year time based on the expected maturity of the loans related to this funding (Note 2.38).

46. Risk management - Credit risk

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

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

The Credit Risk 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.

The 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 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 across the various sectors of the economy. Credit Risk Management determines the prohibitive/ high credit risk sectors of the economy and sets out stricter policy rules for these sectors, according to their degree of riskiness.

The Group's significant judgements, estimates and assumptions regarding the determination of the level of provisions for impairment are described in Note 5 'Significant and other judgements, estimates and assumptions' of these Consolidated Financial Statements.

46. Risk management - Credit risk (continued)

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

46.1 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:

	2019	2018
On-balance sheet	**€000**	€000
Cyprus	**17,890,028**	18,504,113
Other countries	**45,382**	83,307
	17,935,410	18,587,420
Off-balance sheet		
Cyprus	**2,563,718**	2,781,943
Other countries	**58,290**	60,592
	2,622,008	2,842,535
Total on and off-balance sheet		
Cyprus	**20,453,746**	21,286,056
Other countries	**103,672**	143,899
	20,557,418	21,429,955

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.

46. Risk management - Credit risk (continued)

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

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

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

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.

46. Risk management - Credit risk (continued)

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

		Fair value of collateral and credit enhancements held by the Group							
	Maximum exposure to credit risk	Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	**Net exposure to credit risk**
2019	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 20)	**4,908,487**	-	-	-	-	-	-	-	**4,908,487**
Loans and advances to banks (Note 20)	**320,881**	470	-	-	-	-	-	470	**320,411**
FVPL debt securities (Note 21)	**24,093**	-	-	-	-	-	-	-	**24,093**
Debt securities classified at amortised cost and FVOCI (Note 21)	**1,713,914**	-	-	-	-	-	-	-	**1,713,914**
Derivative financial instruments (Note 22)	**23,060**	-	-	-	-	-	-	-	**23,060**
Loans and advances to customers (Note 24)	**10,721,841**	434,985	637,792	170,711	15,507,312	1,387,859	(8,525,943)	9,612,716	**1,109,125**
Loans and advances to customers classified as held for sale (Note 30)	**25,929**	25	689	253	29,276	15,704	(31,293)	14,654	**11,275**
Receivable relating to disposal of operations (Note 29)	**53,354**	-	-	23,816	48,900	44,270	(93,207)	23,779	**29,575**
Debtors (Note 29)	**39,663**	-	-	-	-	-	-	-	**39,663**
Reinsurers' share of insurance contract liabilities (Note 29)	**50,609**	-	-	-	-	-	-	-	**50,609**
Other assets (Note 29)	**53,579**	-	-	-	-	-	-	-	**53,579**
On-balance sheet total	**17,935,410**	**435,480**	**638,481**	**194,780**	**15,585,488**	**1,447,833**	**(8,650,443)**	**9,651,619**	**8,283,791**
Contingent liabilities									
Acceptances and endorsements	**5,816**	447	-	-	4,471	175	-	5,093	**723**
Guarantees	**683,084**	127,078	2,045	3,132	137,509	34,527	-	304,291	**378,793**
Commitments									
Documentary credits	**11,767**	1,993	-	-	5,429	618	-	8,040	**3,727**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**1,921,341**	28,653	6,087	1,590	345,199	51,128	-	432,657	**1,488,684**
Off-balance sheet total	**2,622,008**	**158,171**	**8,132**	**4,722**	**492,608**	**86,448**	**-**	**750,081**	**1,871,927**
	20,557,418	**593,651**	**646,613**	**199,502**	**16,078,096**	**1,534,281**	**(8,650,443)**	**10,401,700**	**10,155,718**

46. Risk management - Credit risk (continued)

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

	Maximum exposure to credit risk	Fair value of collateral and credit enhancements held by the Group							**Net exposure to credit risk**
		Cash	Securities	Letters of credit/ guarantee	Property	Other	Surplus collateral	Net collateral	
2018	**€000**	€000	€000	€000	€000	€000	€000	€000	**€000**
Balances with central banks (Note 20)	**4,456,768**	-	-	-	-	-	-	-	**4,456,768**
Loans and advances to banks (Note 20)	**472,532**	12,220	-	-	-	-	-	12,220	**460,312**
FVPL debt securities (Note 21)	**14,616**	-	-	-	-	-	-	-	**14,616**
Debt securities classified at amortised cost and FVOCI (Note 21)	**1,350,127**	-	-	-	-	-	-	-	**1,350,127**
Derivative financial instruments (Note 22)	**24,754**	-	-	-	-	-	-	-	**24,754**
Loans and advances to customers (Note 24)	**10,921,786**	419,735	291,662	209,274	15,735,094	1,315,573	(8,241,099)	9,730,239	**1,191,547**
Loans and advances to customers classified as held for sale (Note 30)	**1,154,108**	2,726	14,283	13,156	2,371,672	13,307	(1,374,545)	1,040,599	**113,509**
Receivable relating to disposal of operations (Note 29)	**85,606**	-	-	31,768	48,900	46,683	(96,505)	30,846	**54,760**
Debtors (Note 29)	**30,671**	-	-	-	-	-	-	-	**30,671**
Reinsurers' share of insurance contract liabilities (Note 29)	**48,348**	-	-	-	-	-	-	-	**48,348**
Other assets (Note 29)	**28,104**	-	-	-	-	-	-	-	**28,104**
On-balance sheet total	**18,587,420**	**434,681**	**305,945**	**254,198**	**18,155,666**	**1,375,563**	**(9,712,149)**	**10,813,904**	**7,773,516**
Contingent liabilities									
Acceptances and endorsements	**5,561**	323	-	34	4,506	492	-	5,355	**206**
Guarantees	**748,705**	120,139	985	4,563	152,272	34,958	-	312,917	**435,788**
Commitments									
Documentary credits	**24,297**	3,115	-	10	6,440	5,143	-	14,708	**9,589**
Undrawn formal stand-by facilities, credit lines and other commitments to lend	**2,063,972**	30,197	8,490	810	346,736	41,288	-	427,521	**1,636,451**
Off-balance sheet total	**2,842,535**	**153,774**	**9,475**	**5,417**	**509,954**	**81,881**	**-**	**760,501**	**2,082,034**
	21,429,955	**588,455**	**315,420**	**259,615**	**18,665,620**	**1,457,444**	**(9,712,149)**	**11,574,405**	**9,855,550**

The contingent liabilities and commitments include exposures relating to loans and advances to customers classified as held for sale amounting to €6,569 thousand (2018: €3,656 thousand), which largely relate to the Cyprus geographical area.

46. Risk management - Credit risk (continued)

46.2 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 their capital base to a single customer group. The Group's risk appetite statement imposes stricter concentration limits and the Group is taking actions to run down those exposures which are in excess of these internal limits over time.

For the application of these restrictions, BOC PCL categorises its loans per customer group, using the following customer sectors:

- Retail – all personal customers and small businesses with facilities from BOC PCL 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 BOC PCL in the range of €260 thousand to €6 million and a maximum annual credit turnover of €10 million.
- 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 BOC PCL 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 related to the loans and advances to customers acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In accordance with the provisions of IFRS 3, this adjustment decreased the gross balance of loans and advances to customers. However, for IFRS 7 disclosure purposes as well as for credit risk monitoring, the residual of the fair value adjustment on initial recognition as at each balance sheet date is not presented within the gross balances of loans and advances.

The Group presents its credit risk concentration below, which is based on industry (economic activity) concentration and by business line under which its customers are managed. A geographical analysis, based on the country in which loans are managed, is presented in the table below. This geographical analysis presents loans in Romania, and Russia within 'Other countries'.

2019	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	1,334,506	11,092	**1,345,598**	**(16,375)**	**1,329,223**
Manufacturing	456,129	3,222	**459,351**	**(4,659)**	**454,692**
Hotels and catering	932,435	840	**933,275**	**(17,436)**	**915,839**
Construction	838,388	3,272	**841,660**	**(10,821)**	**830,839**
Real estate	1,131,179	23,777	**1,154,956**	**(14,760)**	**1,140,196**
Private individuals	5,892,821	929	**5,893,750**	**(110,332)**	**5,783,418**
Professional and other services	797,044	41,970	**839,014**	**(22,745)**	**816,269**
Other sectors	741,858	683	**742,541**	**(4,871)**	**737,670**
	12,124,360	**85,785**	**12,210,145**	**(201,999)**	**12,008,146**

46. Risk management - Credit risk (continued)

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

2019	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	1,970,656	22,371	**1,993,027**	**(18,212)**	**1,974,815**
Global corporate	1,862,119	53,972	**1,916,091**	**(16,342)**	**1,899,749**
SMEs	1,118,499	8,632	**1,127,131**	**(16,827)**	**1,110,304**
Retail					
- housing	2,834,411	-	**2,834,411**	**(41,724)**	**2,792,687**
- consumer, credit cards and other	893,199	810	**894,009**	**1,835**	**895,844**
Restructuring					
- corporate	323,670	-	**323,670**	**(2,545)**	**321,125**
- SMEs	322,284	-	**322,284**	**(5,007)**	**317,277**
- retail housing	353,593	-	**353,593**	**(3,059)**	**350,534**
- retail other	181,768	-	**181,768**	**(2,723)**	**179,045**
Recoveries					
- corporate	93,299	-	**93,299**	**(2,692)**	**90,607**
- SMEs	449,559	-	**449,559**	**(15,981)**	**433,578**
- retail housing	882,311	-	**882,311**	**(37,654)**	**844,657**
- retail other	670,787	-	**670,787**	**(37,256)**	**633,531**
International banking services	134,940	-	**134,940**	**(1,288)**	**133,652**
Wealth management	33,265	-	**33,265**	**(2,524)**	**30,741**
	12,124,360	**85,785**	**12,210,145**	**(201,999)**	**12,008,146**

2018	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans after residual fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	1,447,623	39,682	**1,487,305**	**(24,096)**	**1,463,209**
Manufacturing	437,030	7,572	**444,602**	**(6,439)**	**438,163**
Hotels and catering	877,501	3,806	**881,307**	**(20,354)**	**860,953**
Construction	991,122	2,552	**993,674**	**(14,661)**	**979,013**
Real estate	980,152	21,644	**1,001,796**	**(16,231)**	**985,565**
Private individuals	6,234,765	11,536	**6,246,301**	**(135,603)**	**6,110,698**
Professional and other services	866,093	45,758	**911,851**	**(36,551)**	**875,300**
Other sectors	720,876	4,704	**725,580**	**(8,114)**	**717,466**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

46. Risk management - Credit risk (continued)

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

2018 (restated)	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans after residual fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	1,977,498	65,854	**2,043,352**	**(31,553)**	**2,011,799**
Global corporate	1,504,175	59,284	**1,563,459**	**(16,784)**	**1,546,675**
SMEs	1,188,420	11,188	**1,199,608**	**(16,537)**	**1,183,071**
Retail					
- housing	2,871,294	-	**2,871,294**	**(45,016)**	**2,826,278**
- consumer, credit cards and other	940,385	904	**941,289**	**2,965**	**944,254**
Restructuring					
- corporate	480,676	24	**480,700**	**(9,552)**	**471,148**
- SMEs	560,806	-	**560,806**	**(11,637)**	**549,169**
- retail housing	498,601	-	**498,601**	**(4,481)**	**494,120**
- retail other	328,952	-	**328,952**	**(8,588)**	**320,364**
Recoveries					
- corporate	164,821	-	**164,821**	**(7,439)**	**157,382**
- SMEs	630,968	-	**630,968**	**(26,178)**	**604,790**
- retail housing	697,212	-	**697,212**	**(40,577)**	**656,635**
- retail other	480,733	-	**480,733**	**(39,923)**	**440,810**
International banking services	192,646	-	**192,646**	**(2,158)**	**190,488**
Wealth management	37,975	-	**37,975**	**(4,591)**	**33,384**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

The residual fair value adjustment on initial recognition for loans and advances to customers included in the Cyprus geographical area amounts to €201,853 thousand (2018: €261,862 thousand).

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by BOC PCL in Cyprus in its normal course of business with a carrying value of €184,130 thousand (2018: €55,789 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €80,324 thousand (2018: €76,303 thousand).

Loans and advances to customers under the business line of 'Global corporate' as restated include €1,385,800 thousand previously classified under 'Corporate Cyprus' and €59,284 thousand previously classified under 'Corporate Other countries', along with their equivalent residual fair value adjustment of €18,429 thousand. The new business line also includes €50,786 thousand from 'Restructuring corporate', along with its equivalent residual fair value adjustment debit of €1,645 thousand as well as €67,550 from 'Wealth Management', €36 thousand from 'SME' and €3 thousand from 'Retail consumer, credit cards and other' (Note 2.38).

46.3 Credit risk concentration of loans and advances to customers classified as held for sale

Industry and business lines concentrations and geographical analysis of Group loans and advances to customers at amortised cost classified as held for sale are presented in the table below.

46. Risk management - Credit risk (continued)

46.3 Credit risk concentration of loans and advances to customers classified as held for sale (continued)

2019	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	19,263	-	**19,263**	**(1,224)**	**18,039**
Manufacturing	6,649	-	**6,649**	**(322)**	**6,327**
Hotels and restaurants	5,725	-	**5,725**	**(561)**	**5,164**
Construction	11,187	-	**11,187**	**(595)**	**10,592**
Real estate	1,416	-	**1,416**	**(153)**	**1,263**
Private individuals	117,137	-	**117,137**	**(6,474)**	**110,663**
Professional and other services	18,068	-	**18,068**	**(1,490)**	**16,578**
Other sectors	5,519	-	**5,519**	**(264)**	**5,255**
	184,964	**-**	**184,964**	**(11,083)**	**173,881**

2019	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	710	**-**	**710**	**-**	**710**
SMEs	5	**-**	**5**	**-**	**5**
Retail					
- consumer, credit cards and other	330	**-**	**330**	**-**	**330**
Restructuring					
- corporate	7,706	**-**	**7,706**	**(88)**	**7,618**
- SMEs	1,157	**-**	**1,157**	**(2)**	**1,155**
- retail housing	1,142	**-**	**1,142**	**(15)**	**1,127**
- retail other	41,996	**-**	**41,996**	**(1,884)**	**40,112**
Recoveries					
- corporate	18,493	**-**	**18,493**	**(853)**	**17,640**
- SMEs	21,997	**-**	**21,997**	**(1,306)**	**20,691**
- retail housing	5,316	**-**	**5,316**	**(564)**	**4,752**
- retail other	86,039	**-**	**86,039**	**(6,365)**	**79,674**
International banking services	73	**-**	**73**	**(6)**	**67**
	184,964	**-**	**184,964**	**(11,083)**	**173,881**

46. Risk management - Credit risk (continued)

46.3 Credit risk concentration of loans and advances to customers classified as held for sale (continued)

2018	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
By economic activity	€000	€000	**€000**	**€000**	**€000**
Trade	373,351	-	**373,351**	**(12,213)**	**361,138**
Manufacturing	202,193	-	**202,193**	**(7,216)**	**194,977**
Hotels and catering	258,529	-	**258,529**	**(11,960)**	**246,569**
Construction	995,430	-	**995,430**	**(74,233)**	**921,197**
Real estate	409,632	55,225	**464,857**	**(11,765)**	**453,092**
Private individuals	218,531	-	**218,531**	**(9,098)**	**209,433**
Professional and other services	140,748	-	**140,748**	**(5,941)**	**134,807**
Other sectors	191,463	6,011	**197,474**	**(6,727)**	**190,747**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

2018	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
By business line	€000	€000	**€000**	**€000**	**€000**
Corporate	15,249	-	**15,249**	**(584)**	**14,665**
SMEs	2,841	-	**2,841**	**-**	**2,841**
Retail					
- consumer, credit cards and other	128	-	**128**	**(1)**	**127**
Restructuring					
- corporate	859,214	-	**859,214**	**(24,379)**	**834,835**
- SMEs	216,866	-	**216,866**	**(4,858)**	**212,008**
- retail housing	272	-	**272**	**-**	**272**
- retail other	5,773	-	**5,773**	**(210)**	**5,563**
Recoveries					
- corporate	1,274,835	61,236	**1,336,071**	**(86,644)**	**1,249,427**
- SMEs	374,336	-	**374,336**	**(17,991)**	**356,345**
- retail housing	635	-	**635**	**(115)**	**520**
- retail other	39,720	-	**39,720**	**(4,371)**	**35,349**
International banking services	8	-	**8**	**-**	**8**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

46. Risk management - Credit risk (continued)

46.4 Currency concentration of loans and advances to customers

	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
2019	€000	€000	**€000**	**€000**	**€000**
Euro	11,424,516	56,164	**11,480,680**	**(198,488)**	**11,282,192**
US Dollar	398,914	7,580	**406,494**	**(355)**	**406,139**
British Pound	85,293	836	**86,129**	**(204)**	**85,925**
Russian Rouble	1	20,536	**20,537**	**-**	**20,537**
Romanian Lei	-	669	**669**	**-**	**669**
Swiss Franc	200,879	-	**200,879**	**(2,619)**	**198,260**
Other currencies	14,757	-	**14,757**	**(333)**	**14,424**
	12,124,360	**85,785**	**12,210,145**	**(201,999)**	**12,008,146**

2018	€000	€000	**€000**	**€000**	**€000**
Euro	11,992,100	60,006	**12,052,106**	**(256,720)**	**11,795,386**
US Dollar	300,718	28,523	**329,241**	**(276)**	**328,965**
British Pound	37,955	11,735	**49,690**	**(248)**	**49,442**
Russian Rouble	81	36,058	**36,139**	**-**	**36,139**
Romanian Lei	-	932	**932**	**-**	**932**
Swiss Franc	203,026	-	**203,026**	**(3,242)**	**199,784**
Other currencies	21,282	-	**21,282**	**(1,563)**	**19,719**
	12,555,162	**137,254**	**12,692,416**	**(262,049)**	**12,430,367**

46.5 Currency concentration of loans and advances to customers classified as held for sale

The following tables present the currency concentration of the Group's loans and advances at amortised cost classified as held for sale.

	Cyprus	Other countries	**Total**	**Residual fair value adjustment on initial recognition**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition**
2019	€000	€000	**€000**	**€000**	**€000**
Euro	180,844	-	**180,844**	**(10,794)**	**170,050**
US Dollar	71	-	**71**	**(16)**	**55**
British Pound	2	-	**2**	**-**	**2**
Swiss Franc	2,532	-	**2,532**	**(110)**	**2,422**
Other currencies	1,515	-	**1,515**	**(163)**	**1,352**
	184,964	**-**	**184,964**	**(11,083)**	**173,881**

46. Risk management - Credit risk (continued)

46.5 Currency concentration of loans and advances to customers classified as held for sale (continued)

2018	Cyprus €000	Other countries €000	**Total €000**	**Residual fair value adjustment on initial recognition €000**	**Gross loans at amortised cost after residual fair value adjustment on initial recognition €000**
Euro	2,638,647	61,236	**2,699,883**	**(129,898)**	**2,569,985**
US Dollar	20,593	-	**20,593**	**(123)**	**20,470**
British Pound	2,469	-	**2,469**	**(18)**	**2,451**
Swiss Franc	90,951	-	**90,951**	**(8,239)**	**82,712**
Other currencies	37,217	-	**37,217**	**(875)**	**36,342**
	2,789,877	**61,236**	**2,851,113**	**(139,153)**	**2,711,960**

46.6 Analysis of loans and advances to customers by staging

The following tables present the Group's loans and advances to customers at amortised cost by staging and by business line concentration.

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Gross loans at amortised cost before residual fair value adjustment on initial recognition	7,020,377	1,523,823	3,038,733	627,212	**12,210,145**
Residual fair value adjustment on initial recognition	(75,508)	(20,455)	(16,516)	(89,520)	**(201,999)**
Gross loans at amortised cost after residual fair value adjustment on initial recognition	**6,944,869**	**1,503,368**	**3,022,217**	**537,692**	**12,008,146**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

Gross loans at amortised cost before residual fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2019	€000	€000	€000	€000	**€000**
By business line					
Corporate	1,643,073	248,464	60,676	40,814	**1,993,027**
Global corporate	1,467,004	263,296	149,464	36,327	**1,916,091**
SMEs	849,347	226,351	40,463	10,970	**1,127,131**
Retail					
- housing	2,237,619	435,853	149,257	11,682	**2,834,411**
- consumer, credit cards and other	644,345	169,440	60,826	19,398	**894,009**
Restructuring					
- corporate	32,992	61,896	198,152	30,630	**323,670**
- SMEs	49,279	55,902	195,681	21,422	**322,284**
- retail housing	2,613	3,881	336,931	10,168	**353,593**
- retail other	430	607	173,213	7,518	**181,768**
Recoveries					
- corporate	-	-	74,899	18,400	**93,299**
- SMEs	-	-	374,671	74,888	**449,559**
- retail housing	-	-	706,060	176,251	**882,311**
- retail other	216	-	503,408	167,163	**670,787**
International banking services	76,253	45,300	12,805	582	**134,940**
Wealth management	17,206	12,833	2,227	999	**33,265**
	7,020,377	**1,523,823**	**3,038,733**	**627,212**	**12,210,145**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

Residual fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2019	€000	€000	€000	€000	**€000**
By business line					
Corporate	(18,187)	(963)	1,241	(303)	**(18,212)**
Global corporate	(10,924)	(4,871)	-	(547)	**(16,342)**
SMEs	(11,522)	(4,374)	(244)	(687)	**(16,827)**
Retail					
- housing	(35,575)	(5,653)	(237)	(259)	**(41,724)**
- consumer, credit cards and other	2,303	(377)	64	(155)	**1,835**
Restructuring					
- corporate	(113)	(1,351)	(833)	(248)	**(2,545)**
- SMEs	(86)	(557)	(2,266)	(2,098)	**(5,007)**
- retail housing	(9)	(15)	(2,039)	(996)	**(3,059)**
- retail other	-	-	(1,134)	(1,589)	**(2,723)**
Recoveries					
- corporate	-	-	(262)	(2,430)	**(2,692)**
- SMEs	-	-	(2,625)	(13,356)	**(15,981)**
- retail housing	-	-	(3,668)	(33,986)	**(37,654)**
- retail other	-	-	(4,390)	(32,866)	**(37,256)**
International banking services	(288)	(983)	(17)	-	**(1,288)**
Wealth management	(1,107)	(1,311)	(106)	-	**(2,524)**
	(75,508)	**(20,455)**	**(16,516)**	**(89,520)**	**(201,999)**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

Gross loans at amortised cost after residual fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2019	€000	€000	€000	€000	**€000**
By business line					
Corporate	1,624,886	247,501	61,917	40,511	**1,974,815**
Global corporate	1,456,080	258,425	149,464	35,780	**1,899,749**
SMEs	837,825	221,977	40,219	10,283	**1,110,304**
Retail					
- housing	2,202,044	430,200	149,020	11,423	**2,792,687**
- consumer, credit cards and other	646,648	169,063	60,890	19,243	**895,844**
Restructuring					
- corporate	32,879	60,545	197,319	30,382	**321,125**
- SMEs	49,193	55,345	193,415	19,324	**317,277**
- retail housing	2,604	3,866	334,892	9,172	**350,534**
- retail other	430	607	172,079	5,929	**179,045**
Recoveries					
- corporate	-	-	74,637	15,970	**90,607**
- SMEs	-	-	372,046	61,532	**433,578**
- retail housing	-	-	702,392	142,265	**844,657**
- retail other	216	-	499,018	134,297	**633,531**
International banking services	75,965	44,317	12,788	582	**133,652**
Wealth management	16,099	11,522	2,121	999	**30,741**
	6,944,869	**1,503,368**	**3,022,217**	**537,692**	**12,008,146**

	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018	€000	€000	€000	€000	**€000**
Gross loans at amortised cost before residual fair value adjustment on initial recognition	6,035,781	1,921,255	3,915,591	819,789	**12,692,416**
Residual fair value adjustment on initial recognition	(77,738)	(20,673)	(40,432)	(123,206)	**(262,049)**
Gross loans at amortised cost after residual fair value adjustment on initial recognition	**5,958,043**	**1,900,582**	**3,875,159**	**696,583**	**12,430,367**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

Gross loans at amortised cost before residual fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018 (restated)	€000	€000	€000	€000	**€000**
By business line					
Corporate	1,485,461	342,564	160,788	54,539	**2,043,352**
Global corporate	769,386	490,325	261,348	42,400	**1,563,459**
SMEs	739,166	346,112	103,384	10,946	**1,199,608**
Retail					
- housing	2,259,976	300,101	300,584	10,633	**2,871,294**
- consumer, credit cards and other	591,239	199,099	130,816	20,135	**941,289**
Restructuring					
- corporate	38,612	91,234	268,912	81,942	**480,700**
- SMEs	55,295	52,573	406,369	46,569	**560,806**
- retail housing	6,883	3,745	473,444	14,529	**498,601**
- retail other	5,140	1,226	304,076	18,510	**328,952**
Recoveries					
- corporate	-	-	120,234	44,587	**164,821**
- SMEs	-	-	515,542	115,426	**630,968**
- retail housing	-	-	512,175	185,037	**697,212**
- retail other	89	-	313,529	167,115	**480,733**
International banking services	69,620	78,109	41,352	3,565	**192,646**
Wealth management	14,914	16,167	3,038	3,856	**37,975**
	6,035,781	**1,921,255**	**3,915,591**	**819,789**	**12,692,416**

Loans and advances to customers under the business line 'Global corporate' as restated include €1,445,084 thousand Corporate loans, €50,786 thousand Restructuring corporate loans, €67,550 thousand Wealth management loans, €36 thousand SME loans and €3 thousand Retail consumer credit cards and other. The Corporate loans include €729,803 thousand Stage 1, €450,685 thousand Stage 2, €226,305 thousand Stage 3 and €38,291 thousand POCI loans. The Restructuring corporate loans include €10,331 thousand Stage 1, €1,303 thousand Stage 2, €35,043 thousand Stage 3 and €4,109 thousand POCI loans. The Wealth management loans, include €29,249 thousand Stage 1, and €38,301 thousand Stage 2 loans. SMEs loans are Stage 2 and Retail loans are Stage 1 (Note 2.38).

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

Residual fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018 (restated)	€000	€000	€000	€000	**€000**
By business line					
Corporate	(20,547)	(1,246)	(9,330)	(430)	**(31,553)**
Global corporate	(4,612)	(10,334)	(1,291)	(547)	**(16,784)**
SMEs	(10,652)	(4,150)	(1,113)	(622)	**(16,537)**
Retail					
- housing	(43,528)	(97)	(1,246)	(145)	**(45,016)**
- consumer, credit cards and other	3,248	352	(375)	(260)	**2,965**
Restructuring					
- corporate	(199)	(1,972)	(4,348)	(3,033)	**(9,552)**
- SMEs	28	(580)	(3,931)	(7,154)	**(11,637)**
- retail housing	(119)	(3)	(2,796)	(1,563)	**(4,481)**
- retail other	34	(40)	(3,971)	(4,611)	**(8,588)**
Recoveries					
- corporate	-	-	(1,654)	(5,785)	**(7,439)**
- SMEs	-	-	(2,073)	(24,105)	**(26,178)**
- retail housing	-	-	(3,200)	(37,377)	**(40,577)**
- retail other	-	-	(4,695)	(35,228)	**(39,923)**
International banking services	(303)	(1,164)	(195)	(496)	**(2,158)**
Wealth management	(1,088)	(1,439)	(214)	(1,850)	**(4,591)**
	(77,738)	**(20,673)**	**(40,432)**	**(123,206)**	**(262,049)**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

Gross loans at amortised cost after residual fair value adjustment on initial recognition	Stage 1	Stage 2	Stage 3	POCI	**Total**
2018 (restated)	€000	€000	€000	€000	**€000**
By business line					
Corporate	1,464,914	341,318	151,458	54,109	**2,011,799**
Global corporate	764,774	479,991	260,057	41,853	**1,546,675**
SMEs	728,514	341,962	102,271	10,324	**1,183,071**
Retail					
- housing	2,216,448	300,004	299,338	10,488	**2,826,278**
- consumer, credit cards and other	594,487	199,451	130,441	19,875	**944,254**
Restructuring					
- corporate	38,413	89,262	264,564	78,909	**471,148**
- SMEs	55,323	51,993	402,438	39,415	**549,169**
- retail housing	6,764	3,742	470,648	12,966	**494,120**
- retail other	5,174	1,186	300,105	13,899	**320,364**
Recoveries					
- corporate	-	-	118,580	38,802	**157,382**
- SMEs	-	-	513,469	91,321	**604,790**
- retail housing	-	-	508,975	147,660	**656,635**
- retail other	89	-	308,834	131,887	**440,810**
International banking services	69,317	76,945	41,157	3,069	**190,488**
Wealth management	13,826	14,728	2,824	2,006	**33,384**
	5,958,043	**1,900,582**	**3,875,159**	**696,583**	**12,430,367**

The movement of the gross loans at amortised cost after residual fair value adjustment on initial recognition by staging including the loans and advances to customers classified as held for sale is presented in the table below. Details on the loans and advances to customers classified as held for sale are disclosed in Note 46.7.

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	5,964,996	1,991,921	6,073,519	1,111,891	**15,142,327**
Transfers to stage 1	1,099,371	(935,543)	(163,828)	-	**-**
Transfers to stage 2	(616,576)	776,129	(159,553)	-	**-**
Transfers to stage 3	(98,708)	(117,022)	215,730	-	**-**
Foreign exchange and other adjustments	10	-	533	-	**543**
Write offs	(3,351)	(5,096)	(369,744)	(63,674)	**(441,865)**
Interest accrued and other adjustments	47,600	216,036	258,631	67,757	**590,024**
New loans originated or purchased and drawdowns of existing facilities	1,801,886	49,540	67,220	798	**1,919,444**
Loans other than Helix and Velocity portfolios derecognised or repaid (excluding write offs)	(1,239,757)	(426,773)	(551,549)	(148,439)	**(2,366,518)**
Changes to contractual cash flows due to modifications resulting in derecognition	487	72	(298)	(717)	**(456)**
Disposal of Helix and Velocity portfolios	(10,913)	(45,076)	(2,198,238)	(407,245)	**(2,661,472)**
31 December	**6,945,045**	**1,504,188**	**3,172,423**	**560,371**	**12,182,027**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
1 January	5,100,964	4,418,226	6,838,643	1,308,500	**17,666,333**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	**1,689,497**
Restated balance at 1 January 2018	5,106,032	4,424,820	8,188,686	1,636,292	**19,355,830**
Transfers to stage 1	2,180,460	(1,952,997)	(227,463)	-	**-**
Transfers to stage 2	(269,513)	462,775	(193,262)	-	**-**
Transfers to stage 3	(171,920)	(441,097)	613,017	-	**-**
Write offs	(12,256)	(21,814)	(2,028,137)	(556,097)	**(2,618,304)**
Interest accrued and other adjustments	97,860	38,850	516,425	109,977	**763,112**
New loans originated or purchased and drawdowns of existing facilities	1,752,138	193,416	111,124	33,044	**2,089,722**
Loans other than Helix and Velocity portfolios derecognised or repaid (excluding write offs)	(1,021,693)	(603,701)	(879,866)	(112,836)	**(2,618,096)**
Changes to contractual cash flows due to modifications resulting in derecognition	(22)	(65)	(654)	1,511	**770**
Disposal of subsidiary	(1,696,090)	(108,266)	(26,351)	-	**(1,830,707)**
31 December	**5,964,996**	**1,991,921**	**6,073,519**	**1,111,891**	**15,142,327**

For revolving facilities, overdrafts and credit cards the net positive change in balance by stage excluding write-offs is reported in 'New loans originated' and if net negative change is reported as 'Loans derecognised or repaid'.

The movement of gross loans and advances to customers at amortised cost after residual fair value adjustment on initial recognition, in the Corporate, Global corporate and Retail business line in Cyprus (excluding loans under Restructuring Recoveries, International banking services and Wealth management) including loans and advances to customers classified as held for sale are presented in the table below:

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

	2019			2018	
	Corporate	**Global corporate**	**Retail**	Corporate	Retail
	€000	**€000**	**€000**	€000	€000
1 January	3,323,801	-	3,769,872	2,822,022	4,048,153
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	-	-	-	33,867	22,650
	3,323,801	-	3,769,872	2,855,889	4,070,803
Transfers in/(out) of business line	(8,718)	8,867	(167,414)	358,019	(305,898)
Transfer in/(to) Global corporate business line	(1,367,371)	1,487,391	(3)	-	-
Interest accrued, foreign exchange and other adjustments	69,113	62,841	108,655	172,622	144,670
Write offs	(12,740)	(545)	(7,637)	(80,160)	(25,188)
New loans originated or purchased	489,068	644,947	524,813	870,620	446,855
Loans other than Helix and Velocity portfolios derecognised or repaid (excluding write offs)	(528,094)	(356,620)	(540,004)	(852,997)	(561,675)
Changes to contractual cash flows due to modifications not resulting to derecognition	2,776	(1,104)	(18)	(192)	305
Disposal of Helix and Velocity portfolios	(14,665)	-	(127)	-	-
31 December	**1,953,170**	**1,845,777**	**3,688,137**	**3,323,801**	**3,769,872**

As disclosed in Note 2.38 disclosure of movement of Corporate gross loans for 2018 for Corporate line is not restated due to impracticability to extract the information in the manner disclosed in the table above. Rather the 'transfer' of the closing balance of loans as reported in the 2018 financial statements from the Corporate line into the new Global corporate line is disclosed in the table above providing information as to the impact of the change compared to the amounts disclosed in the 2018 financial statements.

Geographical analysis
The following table presents the staging of the Group's loans and advances to customers at amortised cost before residual fair value adjustment on initial recognition by geographical analysis:

2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	7,019,591	1,523,823	2,953,734	627,212	**12,124,360**
Other countries	786	-	84,999	-	**85,785**
	7,020,377	**1,523,823**	**3,038,733**	**627,212**	**12,210,145**

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	6,023,870	1,921,234	3,790,269	819,789	**12,555,162**
Other countries	11,911	21	125,322	-	**137,254**
	6,035,781	**1,921,255**	**3,915,591**	**819,789**	**12,692,416**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for the key portfolios of BOC PCL. These are corporate, retail and SMEs. Corporate and SME clients include legal entities. Retail includes individuals.

Scoring models use internal and external data to assess and 'score' borrowers, predict future performance and manage limits for existing loans and collection activities. The data is specific to the borrower but additional data which could affect the borrower's behaviour is also used.

Credit score is one of the factors employed on new clients and management of existing clients. The credit score of the borrower is used to assess the predicted credit risk for each independent acquisition or account management action, leading to an automated decision or guidance for an adjudicator. Credit scoring improves credit decision quality, adjudication timeframes and consistency in the credit decision process and facilitates risk-based pricing.

Borrower scores define the rating of the borrower from a range of 1-7 and 8 is defined as defaulted. The 12 months default rates (PDs) are calculated per rating. These default rates are assumed to be the 12 month probability of default for the scored borrowers. The following table maps PD bands to various risk levels for corporate, retail and SME exposures.

Unrated loans for corporate are assessed using a decision tree methodology based on customer's characteristics such as days past due and gross book value. Unrated loans for retail include qualifying revolving facilities without scoring (i.e. prepaid cards) and other revolving facilities (i.e. financial guarantees) which are assigned a more generic curve. Similarly unrated SME exposures are assigned a more generic segment curve.

New customers for corporate and SME legal entities and new lending for retail individuals are separately disclosed since a time span of seven months is necessary in order to provide an accurate rating.

The IFRS 9 PD models were calibrated during the second quarter of 2019 in order to include additional recent historical observations.

2019	12-month PD		
Rating	Corporate legal entities %	Retail individuals %	SME legal entities %
1	0.89	1.15	0.34
2	1.55	1.75	0.81
3	1.59	3.08	2.30
4	2.53	7.29	7.46
5	3.51	12.72	13.11
6	4.16	19.21	18.16
7	8.63	43.82	41.82

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

2018	12-month PD		
Rating	Corporate legal entities %	Retail individuals %	SME legal entities %
1	2.46	1.49	0.88
2	3.04	1.87	1.85
3	3.37	3.20	2.57
4	3.74	5.42	3.84
5	4.21	7.92	6.49
6	7.47	13.37	9.03
7	12.28	29.54	18.17

Low rating exposures demonstrate a good capacity to meet financial commitments, with low probability of default. Medium range rating exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk. High rating exposures require varying degrees of special attention and default risk is of greater concern.

The tables below shows the gross loans after fair value adjustment on initial recognition in Cyprus, using the corporate legal entities, SMEs legal entities and retail individual definition as per the internal rating of BOC PCL. Loans and advances to customers classified based on the internal credit rating grades include €53,972 thousand (2018: €67,381 thousand) managed in Cyprus but originated in other countries.

	2019			2018		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Corporate legal entities	€000	€000	**€000**	€000	€000	**€000**
Rating 1	455,089	28,855	**483,944**	203,010	51,808	**254,818**
Rating 2	307,934	43,602	**351,536**	485,028	110,127	**595,155**
Rating 3	663,727	41,449	**705,176**	398,722	61,739	**460,461**
Rating 4	503,200	44,019	**547,219**	429,053	223,243	**652,296**
Rating 5	559,043	78,257	**637,300**	184,338	62,825	**247,163**
Rating 6	170,365	58,189	**228,554**	174,717	12,577	**187,294**
Rating 7	59,916	42,488	**102,404**	123,716	16,911	**140,627**
Unrated	88,175	240,389	**328,564**	184,900	573,703	**758,603**
New customers	581,894	65,999	**647,893**	259,164	19,022	**278,186**
	3,389,343	**643,247**	**4,032,590**	**2,442,648**	**1,131,955**	**3,574,603**
Total Stage 3 and POCI			**839,728**			**1,237,587**
			4,872,318			**4,812,190**

46. Risk management - Credit risk (continued)

46.6 Analysis of loans and advances to customers by staging (continued)

46.6.1 Credit quality of loans and advances to customers based on the internal credit rating (continued)

	2019			2018		
Retail individuals	Stage 1 €000	Stage 2 €000	**Total €000**	Stage 1 €000	Stage 2 €000	**Total €000**
Rating 1	372,733	32,921	**405,654**	279,305	67,286	**346,591**
Rating 2	878,683	93,604	**972,287**	686,960	94,836	**781,796**
Rating 3	968,991	146,123	**1,115,114**	930,261	99,008	**1,029,269**
Rating 4	340,375	110,972	**451,347**	423,067	74,341	**497,408**
Rating 5	201,829	139,552	**341,381**	330,270	76,060	**406,330**
Rating 6	72,163	97,418	**169,581**	174,645	52,359	**227,004**
Rating 7	22,411	52,736	**75,147**	42,216	51,842	**94,058**
Unrated	-	3,284	**3,284**	-	3,470	**3,470**
New customers	249,288	24,024	**273,312**	259,495	36,397	**295,892**
	3,106,473	**700,634**	**3,807,107**	**3,126,219**	**555,599**	**3,681,818**
Total Stage 3 and POCI			**2,220,743**			**2,709,494**
			6,027,850			**6,391,312**

	2019			2018		
SMEs legal entities	Stage 1 €000	Stage 2 €000	**Total €000**	Stage 1 €000	Stage 2 €000	**Total €000**
Rating 1	121,507	17,969	**139,476**	55,500	30,751	**86,251**
Rating 2	144,339	35,365	**179,704**	87,460	31,678	**119,138**
Rating 3	59,538	14,584	**74,122**	51,932	17,992	**69,924**
Rating 4	31,598	14,430	**46,028**	41,757	15,644	**57,401**
Rating 5	19,863	14,639	**34,502**	40,685	22,250	**62,935**
Rating 6	14,724	18,698	**33,422**	35,414	32,538	**67,952**
Rating 7	9,176	23,431	**32,607**	37,283	36,180	**73,463**
Unrated	-	14,658	**14,658**	-	19,080	**19,080**
New customers	47,522	5,713	**53,235**	37,717	6,918	**44,635**
	448,267	**159,487**	**607,754**	**387,748**	**213,031**	**600,779**
Total Stage 3 and POCI			**468,411**			**556,403**
			1,076,165			**1,157,182**

46.7 Analysis of loans and advances to customers classified as held for sale

The following tables present the staging of the Group's loans and advances at amortised cost classified as held for sale as at 31 December 2019 and 2018 by business line concentration.

46. Risk management - Credit risk (continued)

46.7 Analysis of loans and advances to customers classified as held for sale (continued)

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Gross loans at amortised cost before residual fair value adjustment on initial recognition	176	807	153,608	30,373	**184,964**
Residual fair value adjustment on initial recognition	-	13	(3,402)	(7,694)	**(11,083)**
Gross loans at amortised cost after residual fair value adjustment on initial recognition	**176**	**820**	**150,206**	**22,679**	**173,881**

2019 **Gross loans at amortised cost before residual fair value adjustment on initial recognition**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Corporate	-	360	350	-	**710**
SMEs	-	-	2	3	**5**
Retail					
- consumer, credit cards and other	139	47	144	-	**330**
Restructuring					
- corporate	20	397	6,164	1,125	**7,706**
- SMEs	7	1	952	197	**1,157**
- retail housing	4	-	1,128	10	**1,142**
- retail other	6	2	37,281	4,707	**41,996**
Recoveries					
- corporate	-	-	14,757	3,736	**18,493**
- SMEs	-	-	15,749	6,248	**21,997**
- retail housing	-	-	4,154	1,162	**5,316**
- retail other	-	-	72,908	13,131	**86,039**
International banking services	-	-	19	54	**73**
	176	**807**	**153,608**	**30,373**	**184,964**

46. Risk management - Credit risk (continued)

46.7 Analysis of loans and advances to customers classified as held for sale (continued)

2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
Residual fair value adjustment on initial recognition	€000	€000	€000	€000	**€000**
Restructuring					
- corporate	-	13	(2)	(99)	**(88)**
- SMEs	-	-	-	(2)	**(2)**
- retail housing	-	-	(9)	(6)	**(15)**
- retail other	-	-	(732)	(1,152)	**(1,884)**
Recoveries					
- corporate	-	-	(214)	(639)	**(853)**
- SMEs	-	-	(357)	(949)	**(1,306)**
- retail housing	-	-	(200)	(364)	**(564)**
- retail other	-	-	(1,888)	(4,477)	**(6,365)**
International banking services	-	-	-	(6)	**(6)**
	-	**13**	**(3,402)**	**(7,694)**	**(11,083)**

2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
Gross loans at amortised cost after residual fair value adjustment on initial recognition	€000	€000	€000	€000	**€000**
Corporate	-	360	350	-	**710**
SMEs	-	-	2	3	**5**
Retail					
- consumer, credit cards and other	139	47	144	-	**330**
Restructuring					
- corporate	20	410	6,162	1,026	**7,618**
- SMEs	7	1	952	195	**1,155**
- retail housing	4	-	1,119	4	**1,127**
- retail other	6	2	36,549	3,555	**40,112**
Recoveries					
- corporate	-	-	14,543	3,097	**17,640**
- SMEs	-	-	15,392	5,299	**20,691**
- retail housing	-	-	3,954	798	**4,752**
- retail other	-	-	71,020	8,654	**79,674**
International banking services	-	-	19	48	**67**
	176	**820**	**150,206**	**22,679**	**173,881**

46. Risk management - Credit risk (continued)

46.7 Analysis of loans and advances to customers classified as held for sale (continued)

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Gross loans at amortised cost before residual fair value adjustment on initial recognition	7,148	94,600	2,222,931	526,434	**2,851,113**
Residual fair value adjustment on initial recognition	(195)	(3,261)	(24,571)	(111,126)	**(139,153)**
Gross loans at amortised cost after residual fair value adjustment on initial recognition	**6,953**	**91,339**	**2,198,360**	**415,308**	**2,711,960**

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Gross loans at amortised cost before residual fair value adjustment on initial recognition	€000	€000	€000	€000	**€000**
Corporate	165	-	14,343	741	**15,249**
SMEs	2,835	-	6	-	**2,841**
Retail					
- consumer, credit cards and other	-	-	125	3	**128**
Restructuring					
- corporate	2,110	85,783	722,631	48,690	**859,214**
- SMEs	2,038	8,817	187,831	18,180	**216,866**
- retail housing	-	-	231	41	**272**
- retail other	-	-	5,575	198	**5,773**
Recoveries					
- corporate	-	-	967,761	368,310	**1,336,071**
- SMEs	-	-	300,509	73,827	**374,336**
- retail housing	-	-	484	151	**635**
- retail other	-	-	23,427	16,293	**39,720**
International banking services	-	-	8	-	**8**
	7,148	**94,600**	**2,222,931**	**526,434**	**2,851,113**

46. Risk management - Credit risk (continued)

46.7 Analysis of loans and advances to customers classified as held for sale (continued)

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Residual fair value adjustment on initial recognition	€000	€000	€000	€000	**€000**
Corporate	-	-	(584)	-	**(584)**
Retail					
- consumer, credit cards and other	-	-	-	(1)	**(1)**
Restructuring					
- corporate	-	(2,722)	(13,730)	(7,927)	**(24,379)**
- SMEs	(195)	(539)	(1,470)	(2,654)	**(4,858)**
- retail other	-	-	(132)	(78)	**(210)**
Recoveries					
- corporate	-	-	(4,900)	(81,744)	**(86,644)**
- SMEs	-	-	(3,473)	(14,518)	**(17,991)**
- retail housing	-	-	-	(115)	**(115)**
- retail other	-	-	(282)	(4,089)	**(4,371)**
	(195)	**(3,261)**	**(24,571)**	**(111,126)**	**(139,153)**

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
Gross loans at amortised cost after residual fair value adjustment on initial recognition	€000	€000	€000	€000	**€000**
Corporate	165	-	13,759	741	**14,665**
SMEs	2,835	-	6	-	**2,841**
Retail					
- consumer, credit cards and other	-	-	125	2	**127**
Restructuring					
- corporate	2,110	83,061	708,901	40,763	**834,835**
- SMEs	1,843	8,278	186,361	15,526	**212,008**
- retail housing	-	-	231	41	**272**
- retail other	-	-	5,443	120	**5,563**
Recoveries					
- corporate	-	-	962,861	286,566	**1,249,427**
- SMEs	-	-	297,036	59,309	**356,345**
- retail housing	-	-	484	36	**520**
- retail other	-	-	23,145	12,204	**35,349**
International banking services	-	-	8	-	**8**
	6,953	**91,339**	**2,198,360**	**415,308**	**2,711,960**

The following table presents the staging of the Group's gross loans and advances at amortised cost before residual fair value adjustment on initial recognition classified as held for sale as at 31 December 2019 and 2018 by geographical concetrantion.

46. Risk management - Credit risk (continued)

46.7 Analysis of loans and advances to customers classified as held for sale (continued)

2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	176	807	153,608	30,373	**184,964**
	176	**807**	**153,608**	**30,373**	**184,964**

2018	Stage 1	Stage 2	Stage 3	POCI	**Total**
	€000	€000	€000	€000	**€000**
Cyprus	7,148	94,600	2,161,695	526,434	**2,789,877**
Other countries	-	-	61,236	-	**61,236**
	7,148	**94,600**	**2,222,931**	**526,434**	**2,851,113**

An analysis of gross loans and advances to customers after residual fair value adjustment, classified as held for sale, as per the internal rating system of BOC PCL is disclosed in the tables below.

	2019			**2018**		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Corporate legal entities	€000	€000	**€000**	€000	€000	**€000**
Rating 2	-	-	**-**	2,452	-	**2,452**
Rating 3	-	-	**-**	722	4,468	**5,190**
Rating 6	20	-	**20**	3,000	951	**3,951**
Unrated	-	769	**769**	-	80,402	**80,402**
New customers	-	-	**-**	99	-	**99**
	20	**769**	**789**	**6,273**	**85,821**	**92,094**
Total Stage 3 and POCI			**12,910**			**2,363,960**
			13,699			**2,456,054**

	2019			**2018**		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Retail legal entities	€000	€000	**€000**	€000	€000	**€000**
Rating 3	15	-	**15**	-	-	**-**
Rating 4	45	10	**55**	10	-	**10**
Rating 5	53	3	**56**	670	2,276	**2,946**
Rating 6	2	10	**12**	-	-	**-**
Rating 7	3	-	**3**	-	2,092	**2,092**
	118	**23**	**141**	**680**	**4,368**	**5,048**
Total Stage 3 and POCI			**125,377**			**234,237**
			125,518			**239,285**

46. Risk management - Credit risk (continued)

46.7 Analysis of loans and advances to customers classified as held for sale (continued)

	2019			2018		
SMEs legal entities	Stage 1 €000	Stage 2 €000	**Total €000**	Stage 1 €000	Stage 2 €000	**Total €000**
Rating 2	-	10	**10**	-	-	**-**
Rating 4	38	-	**38**	-	-	**-**
Rating 5	-	14	**14**	-	-	**-**
Rating 6	-	4	**4**	-	-	**-**
Rating 7	-	-	**-**	-	129	**129**
Unrated	-	-	**-**	-	362	**362**
New customers	-	-	**-**	-	659	**659**
	38	**28**	**66**	**-**	**1,150**	**1,150**
Total Stage 3 and POCI			**34,598**			**15,471**
			34,664			**16,621**

46.8 Contingent liabilities and commitments

The Group enters into various irrevocable commitments and contingent liabilities. These consist of acceptances and endorsements, guarantees, documentary credits and undrawn formal stand-by facilities, credit lines and other commitments to lend.

46.8.1 Contingent liabilities

An analysis of changes in the outstanding nominal amount of exposures and the corresponding ECLs are disclosed in the tables below:

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Exposures				
1 January	399,573	194,076	160,617	**754,266**
Transfers to stage 1	39,122	(28,885)	(10,237)	**-**
Transfers to stage 2	(29,376)	44,313	(14,937)	**-**
Transfers to stage 3	(2,776)	(3,495)	6,271	**-**
Net increase/(decrease)	23,750	(46,085)	(43,031)	**(65,366)**
31 December	**430,293**	**159,924**	**98,683**	**688,900**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Exposures				
1 January	302,437	252,230	221,865	**776,532**
Transfers to stage 1	48,097	(32,459)	(15,638)	**-**
Transfers to stage 2	(9,298)	26,050	(16,752)	**-**
Transfers to stage 3	(2,528)	(6,749)	9,277	**-**
Net increase/(decrease)	62,315	(44,996)	(38,135)	**(20,816)**
Foreign exchange and other adjustments	(25)	-	-	**(25)**
Disposal of subsidiary	(1,425)	-	-	**(1,425)**
31 December	**399,573**	**194,076**	**160,617**	**754,266**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.1 Contingent liabilities (continued)

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total** **€000**
ECL				
1 January	302	811	23,778	**24,891**
Transfers to stage 1	9	(1)	(8)	**-**
Transfers to stage 2	(10)	21	(11)	**-**
Charge for the year*	(280)	(761)	(1,855)	**(2,896)**
31 December	**21**	**70**	**21,904**	**21,995**
Individually assessed	11	12	21,904	**21,927**
Collectively assessed	10	58	-	**68**
	21	**70**	**21,904**	**21,995**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total** **€000**
ECL				
1 January	877	2,095	43,214	**46,186**
Impact of adopting IFRS 9 at 1 January 2018	(796)	(1,865)	(14,158)	**(16,819)**
Restated balance at 1 January	81	230	29,056	**29,367**
Transfers to stage 1	77	(47)	(30)	**-**
Transfers to stage 2	(16)	290	(274)	**-**
Transfers to stage 3	(887)	(3,890)	4,777	**-**
Charge for the year*	1,047	4,228	(9,751)	**(4,476)**
31 December	**302**	**811**	**23,778**	**24,891**
Individually assessed	35	149	23,778	**23,962**
Collectively assessed	267	662	-	**929**
	302	**811**	**23,778**	**24,891**

* The charge for the year mainly relates to changes to models and inputs.

The outstanding contingent liabilities by geography are disclosed in the table below:

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total** **€000**
Cyprus	430,293	127,493	73,167	**630,953**
Other countries	-	32,431	25,516	**57,947**
Total	**430,293**	**159,924**	**98,683**	**688,900**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total** **€000**
Cyprus	399,573	158,630	135,814	**694,017**
Other countries	-	35,446	24,803	**60,249**
Total	**399,573**	**194,076**	**160,617**	**754,266**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.1 Contingent liabilities (continued)

The credit quality of contingent liabilities as per the internal rating system of BOC PCL is disclosed in the table below.

	2019			2018		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Corporate legal entities	€000	€000	**€000**	€000	€000	**€000**
Rating 1	99,978	10,831	**110,809**	78,723	63	**78,786**
Rating 2	8,548	93	**8,641**	28,878	24	**28,902**
Rating 3	68,485	3,263	**71,748**	41,333	1,356	**42,689**
Rating 4	16,230	331	**16,561**	27,406	2,569	**29,975**
Rating 5	68,600	5,417	**74,017**	22,468	40	**22,508**
Rating 6	5,257	974	**6,231**	4,811	418	**5,229**
Rating 7	15,561	-	**15,561**	10,717	420	**11,137**
Unrated	29,715	91,811	**121,526**	37,573	145,101	**182,674**
New customers	63,757	-	**63,757**	86,675	-	**86,675**
	376,131	**112,720**	**488,851**	**338,584**	**149,991**	**488,575**
Total Stage 3			**79,600**			**155,784**
			568,451			**644,359**

	2019			**2018**		
	Stage 1	**Stage 2**	**Total**	Stage 1	Stage 2	**Total**
SME legal entities	**€000**	**€000**	**€000**	€000	€000	**€000**
Rating 1	24,343	3,989	**28,332**	10,951	2,515	**13,466**
Rating 2	4,881	2,919	**7,800**	4,520	1,233	**5,753**
Rating 3	3,197	400	**3,597**	1,343	192	**1,535**
Rating 4	464	43	**507**	4,243	900	**5,143**
Rating 5	330	276	**606**	2,797	673	**3,470**
Rating 6	85	26	**111**	4,898	1,588	**6,486**
Rating 7	451	1,770	**2,221**	1,901	1,429	**3,330**
Unrated	-	14,165	**14,165**	-	13,211	**13,211**
New customers	20,411	51	**20,462**	30,336	555	**30,891**
	54,162	**23,639**	**77,801**	**60,989**	**22,296**	**83,285**
Total Stage 3			**18,450**			**2,824**
			96,251			**86,109**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.1 Contingent liabilities (continued)

	2019			2018		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Retail individuals	€000	€000	**€000**	€000	€000	**€000**
Unrated	-	23,565	**23,565**	-	21,789	**21,789**
	-	**23,565**	**23,565**	**-**	**21,789**	**21,789**
Total Stage 3			**633**			**2,009**
			24,198			**23,798**

46.8.2 Commitments

An analysis of changes in the outstanding exposures and the corresponding ECLs are disclosed in the tables below:

	Stage 1	Stage 2	Stage 3	**Total**
2019	€000	€000	€000	**€000**
Exposure				
1 January	1,307,229	615,502	165,538	**2,088,269**
Transfers to stage 1	204,396	(200,726)	(3,670)	**-**
Transfers to stage 2	(127,827)	144,188	(16,361)	**-**
Transfers to stage 3	(2,006)	(5,217)	7,223	**-**
Net decrease	(90,399)	(44,886)	(19,876)	**(155,161)**
31 December	**1,291,393**	**508,861**	**132,854**	**1,933,108**

	Stage 1	Stage 2	Stage 3	**Total**
2018	€000	€000	€000	**€000**
Exposure				
1 January	1,160,742	883,737	218,329	**2,262,808**
Transfers to stage 1	232,355	(205,220)	(27,135)	**-**
Transfers to stage 2	(150,375)	172,014	(21,639)	**-**
Transfers to stage 3	(10,820)	(12,993)	23,813	**-**
Net increase/(decrease)	93,749	(222,036)	(27,830)	**(156,117)**
Disposal of subsidiary	(18,232)	-	-	**(18,232)**
Foreign exchange and other adjustments	(190)	-	-	**(190)**
31 December	**1,307,229**	**615,502**	**165,538**	**2,088,269**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
ECL				
1 January	1,012	1,782	-	**2,794**
Transfers to stage 1	3	(3)	-	**-**
Transfers to stage 2	(11)	20	(9)	**-**
Charge for the year*	(974)	(1,712)	9	**(2,677)**
31 December	**30**	**87**	**-**	**117**
Individually assessed	6	8	-	**14**
Collectively assessed	24	79	-	**103**
	30	**87**	**-**	**117**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
ECL	**-**	**-**	**-**	**-**
1 January	25	22	5,754	**5,801**
Impact of adopting IFRS 9 at 1 January 2018	367	1,204	(3,672)	**(2,101)**
Restated balance at 1 January 2018	392	1,226	2,082	**3,700**
Transfers to stage 1	282	(203)	(79)	**-**
Transfers to stage 2	(265)	754	(489)	**-**
Charge for the year*	603	5	(1,514)	**(906)**
31 December	**1,012**	**1,782**	**-**	**2,794**
Individually assessed	78	71	-	**149**
Collectively assessed	934	1,711	-	**2,645**
	1,012	**1,782**	**-**	**2,794**

*The charge in the year mainly relates to changes to models and inputs.

Commitments by geography are presented in the table below:

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Cyprus	1,291,393	508,861	132,511	**1,932,765**
Other countries	-	-	343	**343**
Total	**1,291,393**	**508,861**	**132,854**	**1,933,108**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	**Total €000**
Cyprus	1,307,229	615,502	165,195	**2,087,926**
Other countries	-	-	343	**343**
Total	**1,307,229**	**615,502**	**165,538**	**2,088,269**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

The credit quality of commitments, as per the internal rating system of BOC PCL is disclosed in the table below.

	2019			2018		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Corporate legal entities	€000	€000	**€000**	€000	€000	**€000**
Rating 1	299,680	22,488	**322,168**	175,810	7,993	**183,803**
Rating 2	32,741	4,960	**37,701**	155,852	5,246	**161,098**
Rating 3	89,930	24,666	**114,596**	85,480	15,600	**101,080**
Rating 4	32,658	1,835	**34,493**	54,717	5,614	**60,331**
Rating 5	55,968	14,695	**70,663**	28,247	1,969	**30,216**
Rating 6	1,237	3,863	**5,100**	10,853	1,982	**12,835**
Rating 7	906	183	**1,089**	11,606	2,167	**13,773**
Unrated	13,133	139,064	**152,197**	31,070	198,058	**229,128**
New customers	42,973	134	**43,107**	103,441	2,604	**106,045**
	569,226	**211,888**	**781,114**	**657,076**	**241,233**	**898,309**
Total Stage 3			**98,942**			**137,557**
			880,056			**1,035,866**

	2019			**2018**		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
SME legal entities	€000	€000	**€000**	€000	€000	**€000**
Rating 1	174,415	54,779	**229,194**	83,581	54,630	**138,211**
Rating 2	52,230	12,724	**64,954**	31,666	14,277	**45,943**
Rating 3	15,215	6,448	**21,663**	12,873	3,432	**16,305**
Rating 4	4,952	4,691	**9,643**	19,947	15,805	**35,752**
Rating 5	1,970	3,418	**5,388**	10,731	5,295	**16,026**
Rating 6	521	940	**1,461**	27,252	28,475	**55,727**
Rating 7	138	1,777	**1,915**	5,109	13,091	**18,200**
Unrated	-	12,942	**12,942**	-	23,122	**23,122**
New customers	14,784	176	**14,960**	25,035	733	**25,768**
	264,225	**97,895**	**362,120**	**216,194**	**158,860**	**375,054**
Total Stage 3			**22,597**			**12,672**
			384,717			**387,726**

46. Risk management - Credit risk (continued)

46.8 Contingent liabilities and commitments (continued)

46.8.2 Commitments (continued)

	2019			2018		
	Stage 1	Stage 2	**Total**	Stage 1	Stage 2	**Total**
Retail individuals	€000	€000	**€000**	€000	€000	**€000**
Rating 1	106,440	36,537	**142,977**	84,297	43,628	**127,925**
Rating 2	121,923	65,694	**187,617**	122,073	67,980	**190,053**
Rating 3	89,794	32,207	**122,001**	85,405	38,570	**123,975**
Rating 4	49,897	15,709	**65,606**	50,785	18,416	**69,201**
Rating 5	13,786	9,285	**23,071**	16,026	7,423	**23,449**
Rating 6	5,894	6,258	**12,152**	5,475	5,054	**10,529**
Rating 7	721	4,755	**5,476**	1,240	3,466	**4,706**
Unrated	-	23,998	**23,998**	-	26,481	**26,481**
New lending	69,487	4,635	**74,122**	68,658	4,391	**73,049**
	457,942	**199,078**	**657,020**	**433,959**	**215,409**	**649,368**
Total Stage 3			**11,315**			**15,309**
			668,335			**664,677**

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale

The movement in ECL of loans and advances, including the loans and advances to customers held for sale, is as follows:

2019	Stage 1	Stage 2	Stage 3	POCI	**Total**
Cyprus	€000	€000	€000	€000	**€000**
1 January	26,233	73,870	2,783,232	431,924	**3,315,259**
Transfers to stage 1	28,434	(13,836)	(14,598)	-	**-**
Transfers to stage 2	(3,645)	16,739	(13,094)	-	**-**
Transfers to stage 3	(1,297)	(18,404)	19,701	-	**-**
Impact on transfer between stages during the year*	(18,450)	(569)	51,033	(128)	**31,886**
Foreign exchange and other adjustments	-	-	5,949	675	**6,624**
Write offs	(3,991)	(3,888)	(331,239)	(63,216)	**(402,334)**
Contractual interest (provided) not recognised in the income statement	-	-	96,042	13,299	**109,341**
New loans originated or purchased*	3,581	-	-	-	**3,581**
Loans derecognised or repaid (excluding write offs)*	228	(3,154)	(55,752)	5,430	**(53,248)**
Write offs*	1,933	2,011	46,020	5,595	**55,559**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	(8,446)	(5,401)	214,203	17,988	**218,344**
Changes to contractual cash flows due to modifications not resulting in derecognition*	(137)	260	5,917	(889)	**5,151**
Disposal of Helix and Velocity portfolios	(7,778)	(22,248)	(1,313,522)	(204,512)	**(1,548,060)**
31 December	**16,665**	**25,380**	**1,493,892**	**206,166**	**1,742,103**
Individually assessed	3,862	7,572	136,369	8,983	**156,786**
Collectively assessed	12,803	17,808	1,357,523	197,183	**1,585,317**
	16,665	**25,380**	**1,493,892**	**206,166**	**1,742,103**

* Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2019 **Other countries**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	135	-	146,611	-	**146,746**
Impact on transfer between stages during the year*	(3)	-	(350)	-	**(353)**
Foreign exchange and other adjustments	-	-	3,857	-	**3,857**
Write offs	-	-	(38,608)	-	**(38,608)**
Contractual interest (provided) not recognised in the income statement	-	-	5,376	-	**5,376**
Loans derecognised or repaid (excluding write offs)*	(132)	-	(247)	-	**(379)**
Write offs*	-	-	17	-	**17**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	-	-	(444)	-	**(444)**
Disposal of Helix and Velocity 1 portfolios	-	-	(54,765)	-	**(54,765)**
31 December	**-**	**-**	**61,447**	**-**	**61,447**
Individually assessed	-	-	55,433	-	**55,433**
Collectively assessed	-	-	6,014	-	**6,014**
	-	**-**	**61,447**	**-**	**61,447**

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2019 **Total**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	26,368	73,870	2,929,843	431,924	**3,462,005**
Transfers to stage 1	28,434	(13,836)	(14,598)	-	**-**
Transfers to stage 2	(3,645)	16,739	(13,094)	-	**-**
Transfers to stage 3	(1,297)	(18,404)	19,701	-	**-**
Impact on transfer between stages during the year*	(18,453)	(569)	50,683	(128)	**31,533**
Foreign exchange and other adjustments	-	-	9,806	675	**10,481**
Write offs	(3,991)	(3,888)	(369,847)	(63,216)	**(440,942)**
Contractual interest (provided) not recognised in the income statement	-	-	101,418	13,299	**114,717**
New loans originated or purchased*	3,581	-	-	-	**3,581**
Loans derecognised or repaid (excluding write offs)*	96	(3,154)	(55,999)	5,430	**(53,627)**
Write offs*	1,933	2,011	46,037	5,595	**55,576**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	(8,446)	(5,401)	213,759	17,988	**217,900**
Changes to contractual cash flows due to modifications not resulting in derecognition*	(137)	260	5,917	(889)	**5,151**
Disposal of Helix and Velocity 1 portfolios	(7,778)	(22,248)	(1,368,287)	(204,512)	**(1,602,825)**
31 December	**16,665**	**25,380**	**1,555,339**	**206,166**	**1,803,550**
Individually assessed	3,862	7,572	191,802	8,983	**212,219**
Collectively assessed	12,803	17,808	1,363,537	197,183	**1,591,331**
	16,665	**25,380**	**1,555,339**	**206,166**	**1,803,550**

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers' (Note 17).

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 **Cyprus**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	20,840	29,510	2,654,800	500,027	**3,205,177**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,561	1,294,541	326,152	**1,632,322**
Impact of adopting IFRS 9 at 1 January 2018	(6,660)	32,744	235,471	52,373	**313,928**
Restated balance at 1 January	19,248	68,815	4,184,812	878,552	**5,151,427**
Transfer from Romania branch ('Other countries' table)	-	-	-	22,176	**22,176**
Transfers to stage 1	54,379	(29,841)	(24,538)	-	**-**
Transfers to stage 2	(1,721)	28,096	(26,375)	-	**-**
Transfers to stage 3	(5,459)	(11,362)	16,821	-	**-**
Foreign exchange and other adjustments	-	-	1,601	317	**1,918**
Write offs	(13,693)	(20,303)	(1,961,979)	(552,912)	**(2,548,887)**
Contractual interest (provided) not recognised in the income statement	-	-	141,719	17,521	**159,240**
New loans originated or purchased*	6,345	-	-	5,581	**11,926**
Loans derecognised or repaid (excluding write offs)*	832	(3,760)	(107,462)	(9,868)	**(120,258)**
Write offs*	2,334	5,369	68,483	11,690	**87,876**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,691	36,336	380,988	61,123	**482,138**
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	**(1,847)**
Impact on transfer between stages during the year*	(39,842)	294	110,778	(1,680)	**69,550**
31 December	**26,233**	**73,870**	**2,783,232**	**431,924**	**3,315,259**
Individually assessed	6,326	17,411	147,327	22,206	**193,270**
Collectively assessed	19,907	56,459	2,635,905	409,718	**3,121,989**
	26,233	**73,870**	**2,783,232**	**431,924**	**3,315,259**

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers'

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 **Other countries**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	1,344	365	222,389	23,575	**247,673**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	-	33	55,502	1,640	**57,175**
Impact of adopting IFRS 9 at 1 January 2018	(7)	4,215	933	33	**5,174**
Restated balance at 1 January	1,337	4,613	278,824	25,248	**310,022**
Transfer to Cyprus operations ('Cyprus' table)	-	-	-	(22,176)	**(22,176)**
Transfers to stage 2	-	28	(28)	-	**-**
Foreign exchange and other adjustments	(236)	-	(8,189)	1	**(8,424)**
Write offs	1	(42)	(116,353)	(832)	**(117,226)**
Disposal of UK subsidiaries	(1,495)	(368)	(1,731)	-	**(3,594)**
Contractual interest (provided) not recognised in the income statement	-	-	5,197	-	**5,197**
New loans originated or purchased*	(1)	-	-	-	**(1)**
Assets derecognised or repaid (excluding write offs)*	-	(3)	(4,209)	(89)	**(4,301)**
Write offs*	-	6	944	3	**953**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	33	(4,212)	(9,346)	(2,155)	**(15,680)**
Discontinued operations	233	3	(860)	-	**(624)**
Impact on transfer between stages during the year*	263	(25)	2,362	-	**2,600**
31 December	**135**	**-**	**146,611**	**-**	**146,746**
Individually assessed	-	-	88,716	-	**88,716**
Collectively assessed	135	-	57,895	-	**58,030**
	135	**-**	**146,611**	**-**	**146,746**

*Individual components of the 'Impairment loss net of reversals of loans and advances to customers'.

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 **Total**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
1 January	22,184	29,875	2,877,189	523,602	**3,452,850**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	5,068	6,594	1,350,043	327,792	**1,689,497**
Impact of adopting IFRS 9 at 1 January 2018	(6,667)	36,959	236,404	52,406	**319,102**
Restated balance at 1 January	20,585	73,428	4,463,636	903,800	**5,461,449**
Transfers to stage 1	54,379	(29,841)	(24,538)	-	**-**
Transfers to stage 2	(1,721)	28,124	(26,403)	-	**-**
Transfers to stage 3	(5,459)	(11,362)	16,821	-	**-**
Impact on transfer between stages during the period*	(39,579)	269	113,140	(1,680)	**72,150**
Foreign exchange and other adjustments	(236)	-	(6,588)	318	**(6,506)**
Write offs	(13,692)	(20,345)	(2,078,332)	(553,744)	**(2,666,113)**
Disposal of UK subsidiaries	(1,495)	(368)	(1,731)	-	**(3,594)**
Contractual interest (provided) not recognised in the income statement	-	-	146,916	17,521	**164,437**
New loans originated or purchased*	6,344	-	-	5,581	**11,925**
Loans derecognised or repaid (excluding write offs)*	832	(3,763)	(111,671)	(9,957)	**(124,559)**
Write offs*	2,334	5,375	69,427	11,693	**88,829**
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	3,724	32,124	371,642	58,968	**466,458**
Discontinued operations	233	3	(860)	-	**(624)**
Changes to contractual cash flows due to modifications not resulting in derecognition*	119	226	(1,616)	(576)	**(1,847)**
31 December	**26,368**	**73,870**	**2,929,843**	**431,924**	**3,462,005**
Individually assessed	6,326	17,411	236,043	22,206	**281,986**
Collectively assessed	20,042	56,459	2,693,800	409,718	**3,180,019**
	26,368	**73,870**	**2,929,843**	**431,924**	**3,462,005**

* Individual components of the 'Impairment loss net of reversals of loans and advances to customers' (Note 17).

The above tables do not include the residual fair value adjustments on initial recognition of loans acquired from Laiki Bank as this forms part of the gross carrying amount and ECL on financial guarantees which are part of other liabilities on the balance sheet.

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

The movement of credit losses of loans and advances to customers for 2019 and 2018 includes credit losses relating to loans and advances to customers classified as held for sale. Their balance at 31 December 2019 and 2018 by staging and geographical area is presented in the table below:

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Cyprus	7	42	130,551	17,352	**147,952**
Total	**7**	**42**	**130,551**	**17,352**	**147,952**
Individually assessed	-	-	115	64	**179**
Collectively assessed	7	42	130,436	17,288	**147,773**
	7	**42**	**130,551**	**17,352**	**147,952**

2018	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Cyprus	3,441	43,977	1,271,559	188,482	**1,507,459**
Other countries	-	-	50,393	-	**50,393**
Total	**3,441**	**43,977**	**1,321,952**	**188,482**	**1,557,852**
Collectively assessed	**3,441**	**43,977**	**1,321,952**	**188,482**	**1,557,852**

The credit losses of loans and advances as at 31 December 2019 and 2018 (including the loans and advances to customers held for sale), by business line is presented in the table below:

2019	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Corporate	2,133	846	28,615	676	**32,270**
Global corporate	3,447	5,016	60,175	1,908	**70,546**
SMEs	1,525	1,940	12,458	334	**16,257**
Retail					
- housing	2,871	4,720	19,499	413	**27,503**
- consumer, credit cards and other	2,247	3,077	15,823	1,104	**22,251**
Restructuring					
- corporate	232	2,834	80,347	3,195	**86,608**
- SMEs	2,905	4,695	72,662	5,224	**85,486**
- retail housing	1,052	1,445	143,988	3,985	**150,470**
- retail other	173	251	125,335	7,190	**132,949**
Recoveries					
- corporate	-	-	55,912	13,719	**69,631**
- SMEs	-	-	213,544	29,726	**243,270**
- retail housing	-	-	337,807	62,576	**400,383**
- retail other	2	-	386,193	75,507	**461,702**
International banking services	73	546	2,223	157	**2,999**
Wealth management	5	10	758	452	**1,225**
	16,665	**25,380**	**1,555,339**	**206,166**	**1,803,550**

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

2018 (restated)	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total €000**
Corporate	4,722	4,218	85,226	1,364	**95,530**
Global corporate	3,787	11,804	80,480	3,780	**99,851**
SMEs	5,621	3,333	22,574	320	**31,848**
Retail					
- housing	4,052	1,028	28,109	301	**33,490**
- consumer, credit cards and other	4,848	4,655	26,152	1,878	**37,533**
Restructuring					
- corporate	1,616	42,731	402,181	21,620	**468,148**
- SMEs	1,507	5,469	253,504	24,325	**284,805**
- retail housing	23	102	138,799	4,309	**143,233**
- retail other	127	53	171,882	9,479	**181,541**
Recoveries					
- corporate	-	-	696,310	147,552	**843,862**
- SMEs	-	-	538,148	83,209	**621,357**
- retail housing	-	-	248,429	59,651	**308,080**
- retail other	-	-	226,379	72,396	**298,775**
International banking services	52	462	10,180	1,175	**11,869**
Wealth management	13	15	1,490	565	**2,083**
	26,368	**73,870**	**2,929,843**	**431,924**	**3,462,005**

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

Credit losses under the business line Global corporate as restated include credit loss of €99,649 thousand previously included in Corporate loans (Stage 1: €3,600 thousand, Stage 2: €11,790 thousand, Stage 3: €80,480 thousand and POCI 3: €3,779 thousand). Additionally they include credit losses of €202 thousand previously included in Restructuring corporate (Stage 1: €187 thousand, Stage 2: €14 thousand and POCI: €1 thousand.

The movement of the ECL allowance for the loans and advances to customers in the Corporate, Global corporate and Retail business line in Cyprus (excluding loans under Restructuring, Recoveries, International banking services and Wealth management) including ECL allowance for loans and advances to customers held for sale is presented in the table below:

	2019			2018	
	Corporate	**Global corporate**	**Retail**	Corporate	Retail
	€000	**€000**	**€000**	€000	€000
1 January	107,869	-	70,476	106,153	115,197
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	-	-	-	33,867	22,651
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	40,270	40,645
	107,869	-	70,476	180,290	178,493
Transfer (to)/in Global corporate business line	(56,374)	56,576	-	-	-
Transfer (out of)/in of the business line	(8,110)	(1,351)	(19,793)	18,978	(95,078)
Loans derecognised or repaid (excluding write offs)	(410)	-	(1,260)	-	-
Write offs	(12,740)	(545)	(8,436)	(80,160)	(25,188)
Interest (provided) not recognised in the income statement	268	2,381	931	1,788	1,531
New loans originated or purchased*	528	1,400	979	5,987	1,385
Loans derecognised or repaid (excluding write offs)*	(2,541)	(4,977)	(1,900)	(36,005)	(10,796)
Write offs*	572	1	4,586	772	8,018
Changes to models and inputs (changes in PDs, LGDs and EADs) used for ECL calculations*	(1,777)	(11,679)	3,169	(1,156)	17,962
Changes to contractual cash flows due to modifications not resulting in derecognition*	25	-	2,436	7	827
Impact on transfer between stages during the year*	(2,092)	(7,824)	(1,806)	17,368	(6,678)
Disposal of Helix and Velocity portfolios	(9,864)	-	(125)	-	-
31 December	**15,354**	**33,982**	**49,257**	107,869	70,476

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

* Individual components of the 'Impairment loss net of reversal of loans and advances to customers'.

As disclosed in Note 2.38 disclosure of movement of ECL for 2018 for Corporate line is not restated due to impracticability to extract the information in the manner disclosed in the table above. Rather the 'transfer' of the closing balance of ECL as reported in the 2018 financial statements from the Corporate line into the new Global corporate line is disclosed in the table above providing information as to the impact of the change compared to the amounts disclosed in the 2018 financial statements.

As from 1 January 2018, to comply with the requirements of IFRS 9, relating to the measurement and presentation of the gross carrying amount and accumulated allowance for impairment as impacted from interest income on impaired loans, the gross carrying amounts of the loans have been increased by an amount of €1,689,497 thousand and an equivalent adjustment was effected on the accumulated allowance for impairment. There was no impact on the net carrying amount of the customer loans and advances from this change in the presentation.

During 2019 the total non-contractual write-offs recorded by the Group amounted to €235,181 thousand (2018: €2,264,902 thousand).

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.

At 31 December 2019 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provision calculation for loans and advances to customers excluding those classified as held for sale is c.32% under the baseline scenario (2018: c.32%).

The timing of recovery from real estate collaterals used in the collectively assessed provision calculation for loans and advances to customers has been estimated to be on average seven years under the baseline scenario (2018: average of seven years), excluding those classified as held for sale.

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

For Stage 3 customers, the calculation of individually assessed ECL is the weighted average of three scenarios; base, adverse and favourable. The base scenario focuses on the following variables, which are based on the specific facts and circumstances of each customer: the operational cash flows, the timing of recovery of collaterals and the haircuts from the realisation of collateral. The base scenario is used to derive additional scenarios for either better or worse cases. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year with reference to the baseline scenario. Under the favourable scenario, applied haircuts are decreased by 5%, with no change in the recovery period with reference to the baseline scenario. Assumptions used in estimating expected future cash flows (including cash flows that may result from the realisation of collateral) reflect current and expected future economic conditions and are generally consistent with those used in the Stage 3 collectively assessed exposures. In the case of loans held for sale the Group has taken into consideration the timing of expected sale and the estimated sale proceeds in determining the ECL. Amounts previously written off which are expected to be recovered through sale are presented in 'Recoveries of loans and advances to customers previously written off' in (Note 17).

For the calculation of expected credit losses three scenarios were used; base, adverse and favourable with 50%, 30% and 20% probability respectively.

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

Any positive cumulative average future change in forecasted property values was capped to zero for 2019 and 2018. This applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue BOC PCL 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 the 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 estimated amount of expected credit losses of loans and advances.

Sensitivity analysis
The Group has performed sensitivity analysis relating to the loan portfolio in Cyprus, which represents 99% of the total loan portfolio of the Group (excluding the loans and advances to customers classified as held for sale) with reference date 31 December 2019.

The Group uses three different economic scenarios in the ECL calculation: a base, an adverse and a favourable scenario with weights 50%, 30% and 20% respectively. The same scenario weights determined at 31 December 2019 were used for the scenario weights determined on 31 December 2018.

The Group has altered for the purpose of sensitivity analysis the weights of the economic scenarios and changed the collateral realisation periods and the impact on the ECL, for both individually and collectively assessed ECL calculations, as presented in the table below:

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost	
	2019	**2018**
	€000	**€000**
Increase the adverse weight by 5% and decrease the favourable weight by 5%	**2,702**	4,963
Decrease the adverse weight by 5% and increase the favourable weight by 5%	**(2,682)**	(4,956)
Increase the expected recovery period by 1 year	**42,064**	50,898
Decrease the expected recovery period by 1 year	**(42,200)**	(49,821)
Increase the collateral realisation haircut by 5%	**81,569**	89,682
Decrease the collateral realisation haircut by 5%	**(75,148)**	(81,862)
Increase in the PDs of stages 1 and 2 by 20%	**5,486**	12,733
Decrease in the PDs of stages 1 and 2 by 20%	**(5,632)**	(11,126)

A bundle of sensitivity runs were carried out as at 31 December 2019 in order to stress the expected lifetime on revolving facilities. The expected lifetime for all Stage 1 and Stage 2 facilities was extended to three, five, seven and nine years and the impact on the carrying value upon increase in the imposed lifetime is shown in the table below:

46. Risk management - Credit risk (continued)

46.9 Credit losses of loans and advances to customers, including loans and advances to customers held for sale (continued)

Increase in the expected lifetime of revolving facilities	Increase on the ECL carrying value of Stage 1 facilities		Increase on the ECL carrying value of Stage 2 facilities	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
3 years	**4,160**	14,690	**2,400**	7,000
5 years	**7,030**	24,530	**3,960**	12,760
7 years	**9,390**	32,200	**5,080**	17,070
9 years	**11,370**	38,310	**5,950**	20,410

The main drivers of the deviation between the 2018 and 2019 sensitivities are the model calibration, which took place in the second quarter of 2019, and the transition of balances between stages. The underlying ECL differs significantly between the two time points. The relative increase in the sensitivities remains consistent.

46.10 Collateral and other credit enhancements obtained

The carrying value of assets obtained during 2019 and 2018 by taking possession of collateral held as security, was as follows:

	2019	2018
	€000	€000
Residential property	**69,134**	66,893
Commercial and other property	**128,075**	329,363
	197,209	396,256

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 2019 amounted to €1,483,167 thousand (2018: €1,684,606 thousand).

The disposals of repossessed assets during 2019 amounted to €212,501 thousand (2018: €173,080 thousand).

46.11 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 with 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.

The loans forborne continue to be classified as Stage 3 in the case they are performing forborne exposures under probation for which additional forbearance measures are extended, or performing forborne exposures under probation that present more than 30 days past due within the probation period.

46. Risk management - Credit risk (continued)

46.11 Forbearance (continued)

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements, are not regarded as sufficient to categorise the facility as credit impaired, as by themselves they do not necessarily indicate credit distress affecting payment ability such that would require the facility to be classified as NPE.

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.

The forbearance characteristic contributes in two specific ways for the calculation of lifetime ECL for each individual facility. Specifically, it is taken into consideration in the scorecard development where if this characteristic is identified as statistically significant it affects negatively the rating of each facility. The second contribution of the forbearance flag is in the construction of the through the cycle probability of default curve, where when feasible a specific curve for the forborne products is calculated and assigned accordingly.

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; that is forbearance of the arrears and capitalisation 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.

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.
- 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.

46. Risk management - Credit risk (continued)

46.11 Forbearance (continued)

- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Group and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

Stage 2 and Stage 3 loans after residual fair value adjustment on initial recognition that were forborne during the year amounted to €206,007 thousand (2018: €480,437 thousand). Their related modification loss amounted to €2,141 thousand (2018: €7,009 thousand).

Facilities that have cured since their modification and are classified as Stage 1 at 31 December 2019 amount to €13,221 thousand (2018: €31,138 thousand) and their corresponding ECL amount to €37 thousand (2018: €220 thousand).

Facilities that reverted to Stage 2 and Stage 3 having once cured amount to €66,215 thousand (2018: €165,379 thousand) and their corresponding ECL amounts to €1,431 thousand (2018: €6,495 thousand) as at 31 December 2019.

46.12 Rescheduled loans and advances to customers

The below table presents the movement of the Group's rescheduled loans and advances to customers measured at amortised cost including those classified as held for sale (by geography). The rescheduled loans related to loans and advances classified as held for sale as at 31 December 2019 amounts to €42,803 thousand (2018: €1,412,802 thousand).

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

	Cyprus	Other countries	**Total**
2019	€000	€000	**€000**
1 January	4,566,470	48,806	**4,615,276**
New loans and advances rescheduled in the year	146,422	-	**146,422**
Loans no longer classified as rescheduled (including repayments)	(830,137)	(683)	**(830,820)**
Applied in writing off rescheduled loans and advances	(136,135)	(13,634)	**(149,769)**
Interest accrued on rescheduled loans and advances	91,281	(5,509)	**85,772**
Foreign exchange adjustments	2,490	4,387	**6,877**
Disposal of Helix and Velocity portfolios	(1,370,825)	-	**(1,370,825)**
31 December	**2,469,566**	**33,367**	**2,502,933**

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
1 January	6,272,946	99,068	**6,372,014**
Rescheduled loans measured at FVPL on adoption of IFRS 9	(341,765)	-	**(341,765)**
Change in the basis of calculation of gross carrying value (IFRS 9 Grossing up adjustment)	416,093	3,678	**419,771**
Restated balance at 1 January	6,347,274	102,746	**6,450,020**
Transfer between geographical areas	6,254	(6,254)	**-**
New loans and advances rescheduled in the year	240,660	220	**240,880**
Loans no longer classified as rescheduled (including repayments)	(1,472,701)	(98)	**(1,472,799)**
Applied in writing off rescheduled loans and advances	(727,759)	(31,932)	**(759,691)**
Interest accrued on rescheduled loans and advances	166,922	919	**167,841**
Foreign exchange adjustments	5,820	(16,795)	**(10,975)**
31 December	**4,566,470**	**48,806**	**4,615,276**

The classification as rescheduled loans is discontinued when all EBA criteria for the discontinuation of the classification as forborne exposure are met. These are set out in EBA Final draft Implementing Technical Standards (ITS) on supervisory reporting and non-performing exposures.

The below tables present the Group's rescheduled loans and advances to customers by staging, industry sector, geography and business line classification excluding those classified as held for sale, as well as ECL allowances and tangible collateral held for rescheduled loans.

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

	Cyprus	Other countries	**Total**
2019	€000	€000	**€000**
Stage 1	357,658	114	**357,772**
Stage 2	299,448	-	**299,448**
Stage 3	1,567,155	33,253	**1,600,408**
POCI	202,502	-	**202,502**
	2,426,763	**33,367**	**2,460,130**

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	508,664	120	**508,784**
Stage 2	376,794	24	**376,818**
Stage 3	2,001,947	48,662	**2,050,609**
POCI	266,263	-	**266,263**
	3,153,668	**48,806**	**3,202,474**

Fair value of collateral

	Cyprus	Other countries	**Total**
2019	€000	€000	**€000**
Stage 1	334,938	114	**335,052**
Stage 2	254,238	-	**254,238**
Stage 3	1,276,055	16,102	**1,292,157**
POCI	187,363	-	**187,363**
	2,052,594	**16,216**	**2,068,810**

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	480,611	101	**480,712**
Stage 2	327,142	21	**327,163**
Stage 3	1,631,012	11,204	**1,642,216**
POCI	248,691	-	**248,691**
	2,687,456	**11,326**	**2,698,782**

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

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

Credit risk concentration

2019	Cyprus	Other countries	**Total**
By economic activity	€000	€000	**€000**
Trade	187,008	5,824	**192,832**
Manufacturing	67,568	1,601	**69,169**
Hotels and catering	80,704	-	**80,704**
Construction	281,820	535	**282,355**
Real estate	161,629	12,793	**174,422**
Private individuals	1,427,904	143	**1,428,047**
Professional and other services	145,220	12,470	**157,690**
Other sectors	74,910	1	**74,911**
	2,426,763	**33,367**	**2,460,130**

2019	Cyprus	Other countries	**Total**
By business line	€000	€000	**€000**
Corporate	106,889	17,000	**123,889**
Global corporate	172,924	12,794	**185,718**
SMEs	104,271	3,449	**107,720**
Retail			
- housing	322,880	-	**322,880**
- consumer, credit cards and other	98,973	124	**99,097**
Restructuring			
- corporate	181,986	-	**181,986**
- SMEs	226,447	-	**226,447**
- retail housing	269,648	-	**269,648**
- retail other	111,534	-	**111,534**
Recoveries			
- corporate	46,299	-	**46,299**
- SMEs	191,847	-	**191,847**
- retail housing	376,391	-	**376,391**
- retail other	196,431	-	**196,431**
International banking services	17,017	-	**17,017**
Wealth management	3,226	-	**3,226**
	2,426,763	**33,367**	**2,460,130**

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2019 By business line	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	Total €000
Corporate	32,875	49,897	38,369	2,748	**123,889**
Global corporate	104,633	68,291	12,794	-	**185,718**
SMEs	40,025	33,453	31,632	2,610	**107,720**
Retail					
- housing	118,262	71,835	128,167	4,616	**322,880**
- consumer, credit cards and other	27,598	20,901	48,059	2,539	**99,097**
Restructuring					
- corporate	3,901	17,843	141,185	19,057	**181,986**
- SMEs	26,658	28,055	157,682	14,052	**226,447**
- retail housing	1,811	3,077	260,227	4,533	**269,648**
- retail other	239	443	108,838	2,014	**111,534**
Recoveries					
- corporate	-	-	36,395	9,904	**46,299**
- SMEs	-	-	154,134	37,713	**191,847**
- retail housing	-	-	316,500	59,891	**376,391**
- retail other	-	-	154,670	41,761	**196,431**
International banking services	1,770	5,166	9,959	122	**17,017**
Wealth management	-	487	1,797	942	**3,226**
	357,772	**299,448**	**1,600,408**	**202,502**	**2,460,130**

2018 By economic activity	Cyprus €000	Other countries €000	Total €000
Trade	245,919	20,430	**266,349**
Manufacturing	84,267	2,729	**86,996**
Hotels and catering	123,596	1	**123,597**
Construction	373,539	532	**374,071**
Real estate	221,011	13,186	**234,197**
Private individuals	1,761,663	166	**1,761,829**
Professional and other services	249,607	11,761	**261,368**
Other sectors	94,066	1	**94,067**
	3,153,668	**48,806**	**3,202,474**

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2018 (restated)	Cyprus	Other countries	**Total**
By business line	€000	€000	**€000**
Corporate	140,634	32,029	**172,663**
Global corporate	217,870	13,163	**231,033**
SMEs	207,000	3,466	**210,466**
Retail			
- housing	568,879	-	**568,879**
- consumer, credit cards and other	172,559	124	**172,683**
Restructuring			
- corporate	332,022	24	**332,046**
- SMEs	363,465	-	**363,465**
- retail housing	382,478	-	**382,478**
- retail other	177,241	-	**177,241**
Recoveries			
- corporate	64,698	-	**64,698**
- SMEs	139,309	-	**139,309**
- retail housing	222,244	-	**222,244**
- retail other	117,573	-	**117,573**
International banking services	43,698	-	**43,698**
Wealth management	3,998	-	**3,998**
	3,153,668	**48,806**	**3,202,474**

Rescheduled loans under the business line Global corporate as restated include €196,682 thousand loans previously classified under 'Corporate Cyprus' and €21,188 thousand loans previously classified under 'Restructuring corporate Cyprus' and rescheduled loans of €13,163 thousand previously classified under 'Corporate Other countries' (Note 2.38).

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

2018 (restated) **By business line**	Stage 1 €000	Stage 2 €000	Stage 3 €000	POCI €000	**Total** **€000**
Corporate	57,825	39,932	71,600	3,306	**172,663**
Global corporate	41,259	115,693	74,081	-	**231,033**
SMEs	67,513	63,170	75,310	4,473	**210,466**
Retail					
- housing	246,922	45,090	271,988	4,879	**568,879**
- consumer, credit cards and other	46,012	17,148	107,184	2,339	**172,683**
Restructuring					
- corporate	7,304	43,411	216,894	64,437	**332,046**
- SMEs	31,579	27,729	281,415	22,742	**363,465**
- retail housing	3,800	871	369,482	8,325	**382,478**
- retail other	1,468	153	171,789	3,831	**177,241**
Recoveries					
- corporate	-	-	49,759	14,939	**64,698**
- SMEs	-	-	102,355	36,954	**139,309**
- retail housing	-	-	165,738	56,506	**222,244**
- retail other	-	-	76,716	40,857	**117,573**
International banking services	4,174	23,621	14,185	1,718	**43,698**
Wealth management	928	-	2,113	957	**3,998**
	508,784	**376,818**	**2,050,609**	**266,263**	**3,202,474**

46. Risk management - Credit risk (continued)

46.12 Rescheduled loans and advances to customers (continued)

Rescheduled loans under business line Global corporate as restated include rescheduled loans previously included into Corporate, classified as Stage 1, Stage 2 and Stage 3 amounting to €40,660 thousand, €114,599 thousand and €54,586 thousand respectively. Additionally, they include rescheduled loans previously included in Restructuring corporate classified as Stage 1, Stage 2 and Stage 3 amounting to €599 thousand, €1,094 thousand and €19,495 thousand respectively (Note 2.38).

ECL allowances

	Cyprus	Other countries	**Total**
2019	€000	€000	**€000**
Stage 1	4,391	-	**4,391**
Stage 2	9,595	-	**9,595**
Stage 3	638,308	22,379	**660,687**
POCI	78,088	-	**78,088**
	730,382	**22,379**	**752,761**

	Cyprus	Other countries	**Total**
2018	€000	€000	**€000**
Stage 1	4,122	-	**4,122**
Stage 2	8,613	-	**8,613**
Stage 3	589,372	7,513	**596,885**
POCI	85,412	-	**85,412**
	687,519	**7,513**	**695,032**

46.13 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:

	2019	2018
	€000	€000
Aaa - Aa3	**62,550**	182,968
A1 - A3	**76,916**	100,478
Baa1 - Baa3	**101,093**	68,666
Ba1 - Ba3	**4,909,533**	4,472,223
B1 - B3	**7,553**	8,621
Caa - C	**5,968**	20,973
Unrated	**15,284**	38,147
Other receivables from banks	**50,471**	37,224
	5,229,368	4,929,300

All balances with central banks and loans and advances to banks are classified as Stage 1 (Note 20).

46. Risk management - Credit risk (continued)

46.13 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 as follows:

	2019	2018 (restated)
Moody's rating	**€000**	€000
Aaa - Aa3	**1,044,585**	869,537
A1 - A3	**75,161**	27,005
Baa1 - Baa3	**35,901**	26,001
Ba1 - Ba3	**542,047**	441,700
Unrated	**40,313**	500
	1,738,007	1,364,743
Issued by:		
- Cyprus government	**542,048**	441,757
- Other governments	**389,928**	423,675
- Banks and other corporations	**806,031**	499,311
	1,738,007	1,364,743
Classified as:		
Investments mandatorily measured at FVPL	**24,093**	14,616
Investments at FVOCI	**885,810**	819,748
Investments at amortised cost	**828,104**	530,379
	1,738,007	1,364,743

	FVOCI	**Amortised cost**		
	Stage 1	Stage 1	Stage 2	**Total**
2019	€000	€000	€000	**€000**
Aaa - Aa3	**448,296**	572,696	-	**572,696**
A1 - A3	**28,259**	46,902	-	**46,902**
Baa1 - Baa3	**10,851**	25,050	-	**25,050**
Ba1 - Ba3	**398,404**	94,989	48,654	**143,643**
Unrated	**-**	39,813	-	**39,813**
	885,810	**779,450**	**48,654**	**828,104**

	FVOCI	**Amortised cost**		
	Stage 1	Stage 1	Stage 2	**Total**
2018 (restated)	€000	€000	€000	**€000**
Aaa - Aa3	**494,906**	374,631	-	**374,631**
A1 - A3	**1,876**	11,560	-	**11,560**
Baa1 - Baa3	**946**	25,055	-	**25,055**
Ba1 - Ba3	**322,020**	70,841	48,292	**119,133**
	819,748	**482,087**	**48,292**	**530,379**

46. Risk management - Credit risk (continued)

46.13 Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)

Moody's equivalent rating was assigned on bonds which were rated by other rating agencies. Unrated bonds with carrying value as at 31 December 2018 of €46,052 thousand were restated to Moody's equivalent rating 'Aaa-Aa3'. Investments in debt securities classified at amortised cost Stage 1 'Aaa-Aa3' rating as restated includes €37,531 thousand bonds previously classified at amortised cost Stage 2 'Unrated'. 'Aaa-Aa3' rating at FVOCI as restated includes €8,521 thousand bonds previously classified as FVOCI unrated.

47. Risk management - Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes in interest rates, exchange rates, property 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 refers to the current or prospective risk to Group's capital and earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

Interest rate risk is measured mainly using the impact on net interest income and impact on economic value. In addition to the above measures, interest rate risk is also measured using interest rate risk gap analysis where the assets, liabilities and off balance sheet items, are classified according to their remaining repricing period. Items that are not sensitive to rate changes are recognised as non-rate sensitive (NRS) items. The present value of 1 basis point (PV01) is also calculated.

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). There are different limits for the Euro and the US Dollar.

Sensitivity analysis
The table below sets out the impact on the Group's net interest income, over a one-year period, from reasonably possible changes in the interest rates of the main currencies using the assumption of the prevailing market risk policy for the current and the comparative year.

47. Risk management - Market risk (continued)

		Impact on Net Interest Income in €000	
Currency	**Interest Rate Scenario**	**2019 (50 bps for Euro and 60 bps for US Dollar)**	**2018 (50 bps for Euro and 60 bps for US Dollar)**
All	Parallel up	28,446	32,640
All	Parallel down	(33,117)	(29,712)
All	Steepening	(24,875)	(25,455)
All	Flattening	21,023	27,170
All	Short up	27,010	31,590
All	Short down	(32,076)	(29,590)
Euro	Parallel up	27,577	32,247
Euro	Parallel down	(30,735)	(28,001)
Euro	Steepening	(23,857)	(23,917)
Euro	Flattening	21,225	26,894
Euro	Short up	26,401	31,211
Euro	Short down	(29,958)	(27,743)
Currency	**Interest Rate Scenario**		
US Dollar	Parallel up	869	393
US Dollar	Parallel down	(2,382)	(1,711)
US Dollar	Steepening	(1,018)	(1,538)
US Dollar	Flattening	(202)	276
US Dollar	Short up	609	379
US Dollar	Short down	(2,118)	(1,847)

The table below sets out the impact on the Group's equity, from reasonably possible changes in the interest rates under various interest rate scenarios for the Euro and the US Dollar in line with the EBA guidelines.

47. Risk management - Market risk (continued)

		Impact on Equity in €000	
Currency	**Interest Rate Scenario**	**2019 (50 bps for Euro and 60 bps for US Dollar)**	**2018 (50 bps for Euro and 60 bps US Dollar)**
All	Parallel up	(55,270)	(62,222)
All	Parallel down	42,858	39,961
All	Steepening	(22,598)	(37,309)
All	Flattening	7,278	11,001
All	Short up	(28,788)	(31,449)
All	Short down	23,067	15,908
Euro	Parallel up	(56,259)	(63,551)
Euro	Parallel down	91,255	87,037
Euro	Steepening	(21,581)	(36,216)
Euro	Flattening	14,034	21,382
Euro	Short up	(29,632)	(32,584)
Euro	Short down	51,308	38,322
US Dollar	Parallel up	1,977	2,659
US Dollar	Parallel down	(2,769)	(3,558)
US Dollar	Steepening	(1,017)	(1,093)
US Dollar	Flattening	523	620
US Dollar	Short up	1,687	2,271
US Dollar	Short down	(2,588)	(3,253)

The aggregation of the impact on equity was performed as per the EBA guidelines by adding the negative and 50% of the positive impact of each scenario.

In addition to the above fluctuations in net interest income, interest rate changes can result in fluctuations in the fair value of investments at FVPL (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 at FVOCI.

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.

Parallel change in interest rates ((increase)/decrease in net interest income)	**Impact on loss before tax**	**Impact on equity**
2019	**€000**	**€000**
+0.6% for US Dollar +0.5% for Euro +1.0% for British Pound	**(239)**	**(1,041)**
-0.6% for US Dollar -0.5% for Euro -1.0% for British Pound	**3,120**	**1,041**

47. Risk management - Market risk (continued)

Parallel change in interest rates ((increase)/decrease in net interest income)	Impact on loss before tax	Impact on equity
	€000	**€000**
2018		
+0.6% for US Dollar +0.5% for Euro +1.0% for British Pound	(400)	(1,126)
-0.6% for US Dollar -0.5% for Euro -1.0% for British Pound	9,997	1,126

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.

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.

	Change in foreign exchange rate	Impact on loss after tax	Impact on equity
2019	**%**	**€000**	**€000**
US Dollar	**+10**	**2,717**	**-**
Russian Rouble	**+10**	**995**	**10,483**
Romanian Lei	**+10**	**-**	**(275)**
Swiss Franc	**+10**	**460**	**-**
British Pound	**+10**	**420**	**(1,185)**
Japanese Yen	**+10**	**44**	**-**
Other currencies	**+10**	**(14)**	**-**
US Dollar	**-10**	**(2,223)**	**-**
Russian Rouble	**-10**	**(814)**	**(8,577)**
Romanian Lei	**-10**	**-**	**225**
Swiss Franc	**-10**	**(376)**	**-**
British Pound	**-10**	**(344)**	**969**
Japanese Yen	**-10**	**(36)**	**-**
Other currencies	**-10**	**11**	**-**

47. Risk management - Market risk (continued)

2018	Change in foreign exchange rate %	Impact on profit/(loss) after tax €000	Impact on equity €000
US Dollar	+10	2,071	-
Russian Rouble	+20	2,049	18,060
Romanian Lei	+10	-	(667)
Swiss Franc	+10	1,138	-
British Pound	+20	671	(2,472)
Japanese Yen	+10	119	-
Other currencies	+10	(74)	-
US Dollar	-10	(1,695)	-
Russian Rouble	-20	(1,366)	(12,040)
Romanian Lei	-10	-	546
Swiss Franc	-10	(931)	-
British Pound	-20	(448)	1,648
Japanese Yen	-10	(97)	-
Other currencies	-10	60	-

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 but may be acquired in the context of delinquent loan workouts. The Group monitors the current portfolio mostly acquired by the Group as part of the acquisition of certain operations of Laiki Bank, or through delinquent loan workouts with the objective to gradually liquidate all positions for which there is a market. Equity securities are disposed of by the Group as soon as practicable.

Changes in the prices of equity securities that are classified as investments at FVPL, affect the results of the Group, whereas changes in the value of equity securities classified as FVOCI affect directly the equity of the Group.

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.

2019	Change in index %	Impact on loss before tax €000	Impact on equity €000
Cyprus Stock Exchange	**+15**	**248**	**305**
Athens Exchange	**+20**	**94**	**-**
Other stock exchanges and unlisted	**+15**	**884**	**2,023**
Cyprus Stock Exchange	**-15**	**(248)**	**(305)**
Athens Exchange	**-20**	**(94)**	**-**
Other stock exchanges and unlisted	**-15**	**(884)**	**(2,023)**

47. Risk management - Market risk (continued)

2018			
Cyprus Stock Exchange	+25	574	997
Athens Exchange	+25	95	-
Other stock exchanges and unlisted	+20	1,007	1,695
Cyprus Stock Exchange	-25	(574)	(997)
Athens Exchange	-25	(95)	-
Other stock exchanges and unlisted	-20	(1,007)	(1,695)

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 highly rated securities. The average Moody's Investors Service rating of the debt securities portfolio of the Group as at 31 December 2019 was A2 (2018: A1). The average rating excluding the Cyprus Government bonds and non-rated transactions as at 31 December 2019 was Aa2 (2018: Aa1). Further information on the debt securities rating is disclosed in Note 46.13.

Changes in the prices of debt securities classified as investments at FVPL, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as FVOCI affect directly the equity of the Group.

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

	Impact on loss before tax	**Impact on equity**
2019	**€000**	**€000**
+1.1% for Aa3 and above rated bonds	**915**	**4,891**
+3.2% for A3 and above rated bonds	**1,108**	**894**
+4.7% for Baa3 and above rated bonds	**-**	**509**
+7.6% for Cyprus Government bonds	**-**	**30,011**
-1.1% for Aa3 and above rated bonds	**(915)**	**(4,891)**
-3.2% for A3 and above rated bonds	**(1,108)**	**(894)**
-4.7% for Baa3 and above rated bonds	**-**	**(509)**
-7.6% for Cyprus Government bonds	**-**	**(30,011)**

	Impact on loss before tax	**Impact on equity**
2018	**€000**	**€000**
+1.5% for Aa3 and above rated bonds	1,476	7,320
+3.5% for A3 and above rated bonds	774	167
+5.5% for Baa3 and above rated bonds	-	51
+7.8% for Cyprus Government bonds	42	24,808
-1.5% for Aa3 and above rated bonds	(1,476)	(7,320)
-3.5% for A3 and above rated bonds	(774)	(167)
-5.5% for Baa3 and above rated bonds	-	(51)
-7.8% for below A3 rated bonds	(42)	(24,808)

47. Risk management - Market risk (continued)

Other non-equity instruments price risk
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 other non-equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices.

	Change in index	Impact on loss before tax	Impact on equity
2019	**%**	**€000**	**€000**
Other (non-equity instruments)	**+15**	**3,539**	**-**
Other (non-equity instruments)	**-15**	**(3,539)**	**-**
2018			
Other (non-equity instruments)	+25	3,388	-
Other (non-equity instruments)	-25	(3,388)	-

48. Risk management - Liquidity risk and funding

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

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management 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.

The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group.

The Treasury Division is responsible for liquidity management at Group level to ensure compliance with internal policies and regulatory liquidity requirements and provide direction as to the actions to be taken regarding liquidity needs. 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 ensure a comfortable liquidity position.

Liquidity is also monitored daily by Market Risk, which is an independent department responsible for monitoring compliance with both internal policies and limits, and with the limits set by the regulatory authorities. Market Risk reports to ALCO the regulatory liquidity position 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.

48. Risk management - Liquidity risk and funding (continued)

(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 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 Group to be adequately prepared to respond to stressed conditions and restore the Group’s position.

Monitoring process

Daily
The daily monitoring of customer flows and the stock of highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group’s activities. Market risk prepares a daily report analysing the internal liquidity buffer and comparing it to the previous day’s buffer. This report is made available to Treasury and Group Finance. In addition, Treasury monitors daily and intraday the customer inflows and outflows in the main currencies used by the Group.

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 BOC PCL to survive a three-month stress period, including capacity to raise funding under all scenarios.

Moreover, an intraday liquidity stress test takes place to ensure that the Group maintains sufficient liquidity buffer in immediately accessible form, to enable it to meet the stressed intraday payments.

The liquidity buffer is made up of: Banknotes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), unpledged cash and nostro current accounts, as well as money market placements up to the stress horizon, available ECB credit line and market value net of haircut of unencumbered/available liquid bonds. These bonds are High Quality Liquid Assets (HQLA) as per the LCR definitions and/or ECB Eligible bonds.

The designing of the stress tests followed guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA. In addition it takes into account SREP recommendations as well as the Annual Risk Identification Process of the Group. 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 from 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 report indicating the level of Liquid Assets including Credit Institutions Money Market Placements as per LCR definitions.

Bi-Weekly report
Market Risk prepares a liquidity report twice a month which is submitted to the ECB. The report includes information on the following: deposits breakdown, cash flow information, survival period, LCR ratio, rollover of funding, funding gap (through the Maturity ladder analysis), concentration of funding and collateral details. It concludes on the overall liquidity position of BOC PCL and describes the measures implemented and to be implemented in the short-term to improve liquidity position.

48. Risk management - Liquidity risk and funding (continued)

Monthly
Market Risk prepares reports monitoring compliance with internal and regulatory liquidity ratios requirements 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, the percentage of IBU deposits over total deposits and the percentage of instant access deposits are also presented to the ALCO. The liquidity mismatch in the form of the Maturity Ladder report (for both contractual and behavioural flows) is also presented to ALCO and resulting mismatch between assets and liabilities is compared to previous month's mismatch. A monthly customer deposit analysis by Business Line, Tenor and currency is also presented to ALCO.

Market Risk reports the LCR and Additional Liquidity Monitoring Metrics (ALMM) to the CBC/ECB monthly.

Quarterly
The results of the stress testing scenarios prepared daily are reported to ALCO and Board Risk Committee quarterly as part of the quarterly Internal Liquidity Adequacy Assessment Process (ILAAP) review. Market Risk reports the Net Stable Funding Ratio (NSFR) to the CBC/ECB quarterly as well as various other liquidity reports, included in the short term exercise of the SSM per their SREP guidelines.

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

As part of the Group's procedures for monitoring and managing liquidity risk, there is a Group Liquidity Contingency Plan (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. The LCP, which forms a part of 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 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. As from 1 January 2018, the minimum requirement is 100%.

Main sources of funding

For most of 2019 and during 2018, the Group's main sources of funding were its deposit base and central bank funding, through the Eurosystem monetary policy operations.

In September 2019, ECB funding of €830 million in the form of 4-Year TLTRO II was repaid early thus no ECB funding was outstanding as at December 2019.

Funding to subsidiaries

The funding provided by BOC PCL to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements.

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 BOC PCL, 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.

48. Risk management - Liquidity risk and funding (continued)

Collateral requirements and other disclosures

Collateral requirements
The carrying values of the Group's encumbered assets as at 31 December 2019 and 2018 are summarised below:

	2019	2018
	€000	€000
Cash and other liquid assets	**90,437**	118,627
Investments	**222,961**	737,587
Loans and advances	**2,537,031**	2,528,241
	2,850,429	3,384,455

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, supplementary assets for the covered bond and with the ECB.

Loans and advances indicated as encumbered as at 31 December 2019 and 2018 are mainly used as collateral for available funding from ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount €1,000 million as at 31 December 2019 (2018: €1,009 million) in Cyprus, pledged as collateral for the covered bond issued by BOC PCL in 2011 under its Covered Bond Programme. Furthermore as at 31 December 2019 housing loans of a nominal amount €1,498 million (2018: €1,543 million) in Cyprus, are pledged as collateral to be available for obtaining funding from the ECB (Note 31).

BOC PCL 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, BOC PCL has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. On 6 June 2018, the terms of the covered bonds have been amended to extend the maturity date to 12 December 2021 and set the interest rate to 3 months Euribor plus 2.50% on a quarterly basis. The covered bonds are traded on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by BOC PCL. The covered bonds are eligible collateral for the Eurosystem credit operations and are placed as collateral for accessing funding from the ECB.

Other disclosures
Further, deposits by banks as shown in the table further below which discloses contractual maturities includes balances of €51,934 thousand as at 31 December 2019 (2018: €31,002 thousand) relating to borrowings from international financial and similar institutions for funding, aiming to facilitate access to finance and improve funding conditions for small or medium sized enterprises, active in Cyprus. The carrying value of the respective loans and advances granted to such enterprises serving this agreement amounts to €93,668 thousand as at 31 December 2019 (2018: €94,972 thousand).

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.

48. Risk management - Liquidity risk and funding (continued)

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 FVPL, in which case they are included in the 'On demand and 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
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 are presented in a separate table and the corresponding cash flows are classified accordingly in the time bands which relate to the number of days until their receipt or payment.

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

48. Risk management - Liquidity risk and funding (continued)

2019	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Financial assets						
Cash and balances with central banks	5,002,953	21,601	31,129	2,571	1,788	**5,060,042**
Loans and advances to banks	178,469	52,400	1,300	88,712	-	**320,881**
Investments at FVPL	150,225	1,573	-	59	24,249	**176,106**
Loans and advances to customers	2,181,791	196,572	776,266	3,160,333	4,406,879	**10,721,841**
Fair value of derivative assets	2,953	105	158	19,511	333	**23,060**
Non-trading investments	32,182	64,401	327,718	999,274	306,149	**1,729,724**
Financial assets classified as held for sale	19,660	85	503	2,651	3,030	**25,929**
Other assets	76,140	32,436	29,710	8,310	-	**146,596**
	7,644,373	**369,173**	**1,166,784**	**4,281,421**	**4,742,428**	**18,204,179**
Financial liabilities						
Deposits by banks	159,078	28,581	18,759	147,378	194,118	**547,914**
Repurchase agreements	-	-	170,503	-	-	**170,503**
Customer deposits	10,931,766	2,292,781	3,353,357	132,036	-	**16,709,940**
Subordinated loan stock	23,125	-	-	92,500	319,375	**435,000**
Fair value of derivative liabilities	6,244	71	5,524	13,194	25,560	**50,593**
Lease liabilities	946	1,535	6,884	22,075	-	**31,440**
Other liabilities	213,900	6,383	3,943	-	50	**224,276**
	11,335,059	**2,329,351**	**3,558,970**	**407,183**	**539,103**	**18,169,666**
Net financial (liabilities)/assets	**(3,690,686)**	**(1,960,178)**	**(2,392,186)**	**3,874,238**	**4,203,325**	**34,513**

48. Risk management - Liquidity risk and funding (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2018 (restated)	€000	€000	€000	€000	€000	**€000**
Financial assets						
Cash and balances with central banks	4,541,876	27,022	38,972	87	2,534	**4,610,491**
Loans and advances to banks	357,944	8,347	367	105,874	-	**472,532**
Investments at FVPL	141,219	2,175	-	48	9,031	**152,473**
Loans and advances to customers	2,356,405	200,730	742,393	3,181,229	4,441,029	**10,921,786**
Fair value of derivative assets	3,764	376	8	20,606	-	**24,754**
Non-trading investments	3,683	-	108,969	822,333	427,233	**1,362,218**
Financial assets classified as held for sale	823,140	14,453	71,658	75,722	169,135	**1,154,108**
Other assets	28,055	30,637	9,623	75,854	212	**144,381**
	8,256,086	**283,740**	**971,990**	**4,281,753**	**5,049,174**	**18,842,743**
Financial liabilities						
Deposits by banks	90,495	33,728	32,369	102,390	185,526	**444,508**
Funding from central banks	-	-	-	830,000	-	**830,000**
Repurchase agreements	-	-	90,174	172,803	-	**262,977**
Customer deposits	9,894,848	2,834,384	4,138,620	8,870	-	**16,876,722**
Subordinated loan stock	23,125	-	-	92,500	319,375	**435,000**
Fair value of derivative liabilities	9,343	188	2,929	14,907	11,616	**38,983**
Other liabilities	181,706	4,741	2,065	-	-	**188,512**
	10,199,517	**2,873,041**	**4,266,157**	**1,221,470**	**516,517**	**19,076,702**
Net financial (liabilities)/assets	**(1,943,431)**	**(2,589,301)**	**(3,294,167)**	**3,060,283**	**4,532,657**	**(233,959)**

In relation to comparative information as at 31 December 2018, deposits by banks amounting to €115,263 thousand were reclassified into the various time bands according to the remaining contractual maturity of the loans and advances to customers related to these funding balances. Specifically, €84,261 thousand and €31,002 thousand were reclassified out of the 'Over five years' time bands' time band and 'On demand and up to one month' time band respectively and into 'Between one and three months' time band (€3,645 thousand), 'Between three months and one year' time band (€10,354 thousand) and 'Between one and five years' time band (€101,951 thousand) including interest of €687 thousand.

Additionally investments at FVPL amounting to €39,090 thousand were reclassified from the ‘Between one and five year years’ time band to the ‘On demand and up to one month’ upon consideration of the contractual maturity of the investment itself, which is highly liquid, rather than the average contractual maturity of its underlying assets.

48. Risk management - Liquidity risk and funding (continued)

2019	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	434,309	6,525	448	-	-	**441,282**
Contractual amounts payable	(432,201)	(6,439)	(445)	-	-	**(439,085)**
	2,108	**86**	**3**	**-**	**-**	**2,197**
Financial liabilities						
Contractual amounts receivable	843,726	4,222	445	-	-	**848,393**
Contractual amounts payable	(850,046)	(4,276)	(444)	-	-	**(854,766)**
	(6,320)	**(54)**	**1**	**-**	**-**	**(6,373)**

2019	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	2,922	2,373	521	-	-	**5,816**
Guarantees	88,696	117,436	278,187	155,718	43,047	**683,084**
Commitments						
Documentary credits	3,217	4,002	2,403	985	1,160	**11,767**
Undrawn formal standby facilities, credit lines and other commitments to lend	1,921,341	-	-	-	-	**1,921,341**
	2,016,176	**123,811**	**281,111**	**156,703**	**44,207**	**2,622,008**

2018	On demand and up to one month €000	Between one and three months €000	Between three months and one year €000	Between one and five years €000	Over five years €000	**Total €000**
Gross settled derivatives						
Financial assets						
Contractual amounts receivable	241,235	32,188	448	-	-	**273,871**
Contractual amounts payable	(237,967)	(31,933)	(446)	-	-	**(270,346)**
	3,268	**255**	**2**	**-**	**-**	**3,525**
Financial liabilities						
Contractual amounts receivable	997,856	37,174	446	-	-	**1,035,476**
Contractual amounts payable	(1,006,555)	(37,284)	(445)	-	-	**(1,044,284)**
	(8,699)	**(110)**	**1**	**-**	**-**	**(8,808)**

48. Risk management - Liquidity risk and funding (continued)

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	**Total**
2018	€000	€000	€000	€000	€000	**€000**
Contingent liabilities and commitments						
Contingent liabilities						
Acceptances and endorsements	1,985	3,008	568	-	-	**5,561**
Guarantees	115,174	116,697	258,603	206,044	52,187	**748,705**
Commitments						
Documentary credits	5,085	10,649	5,993	885	1,685	**24,297**
Undrawn formal standby facilities, credit lines and other commitments to lend	2,063,972	-	-	-	-	**2,063,972**
	2,186,216	**130,354**	**265,164**	**206,929**	**53,872**	**2,842,535**

49. Risk management - Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their solvency and credit rating.

Life insurance contracts
The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

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.

49. Risk management - Insurance risk (continued)

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:

Changes in embedded value	**2019** **€000**	2018 €000
Change in interest rates +0.25%	**80**	76
Change in expenses +10%	**(2,351)**	(2,523)
Change in lapsation rates +10%	**(665)**	(902)
Change in mortality rates +10%	**(6,196)**	(7,727)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non–economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non–economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value, each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with–profit business versus non–profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

Non-life insurance contracts
Non-life insurance business is concentrated in Cyprus and the main claims during 2019 and 2018 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.

49. Risk management - Insurance risk (continued)

Derivative financial instruments (continued)

The risk of a non-life 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 non-life 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 non-life 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.

50. 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 as amended by CRR II applicable as at the reporting date and any other decisions or circulars issued by the regulators, ECB and CBC with respect to the capital adequacy calculations.

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply unless they are amended by CRR II. Member states are required to transpose the CRD V into national law. Certain provisions took immediate effect (primarily relating to MREL) but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of among others changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR).

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

The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated UCITS management company of the Group, BOC Asset Management Ltd complies with the regulatory capital requirements of the Cyprus Securities and Exchange Commission (CySEC) laws and regulations as at 31 December 2019. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO) meets the minimum total capital ratio hurdle of CySEC but lacks behind the minimum initial capital requirement and the additional capital conservation buffer as at 31 December 2019. As a result a business and capital plan was submitted to CySEC in December 2019. CISCO also submitted to CySEC its Internal Capital Adequacy Assessment Process (ICAAP) Report in September 2019. It is expected that CySEC will provide CISCO a reasonable timeframe, based on the capital/business plan submitted, to comply, as per its Supervisory Review and Evaluation Process (SREP).

The Pillar III Disclosures Report (unaudited) of the Group required with respect to the requirements of the Capital Requirements Regulation (EU) No 575/2013 as amended by CRR II applicable as at the reporting date, is published on the Group's website www.bankofcyprus.com (Investor Relations).

51. Related party transactions

Related parties of the Group include associates and joint ventures, key management personnel, Board of Directors and their connected persons.

51. Related party transactions (continued)

(a) Transactions with subsidiary

The Company is the holding company of the Group. The Company enters into transactions with its subsidiary in the normal course of business. Balances and transactions between the Company and its subsidiaries are disclosed in Note 16 of the Company's financial statements. Transactions with the subsidiaries have been eliminated on consolidation.

(b) Associates

The Group provides to and receives from its associates certain banking and financial services. These are not material to the Group and all the transactions are made on normal business terms as for comparable transactions with customers of a similar standing. Additional information is disclosed in Note 54.

(c) Compensation of the Board of Directors and key management personnel

The following disclosures are made in accordance with the provisions of IAS 24 Related Party Disclosures and sections 305 and 306 of the Companies Act 2014, in respect of the compensation of the Board of Directors and key management personnel.

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

	2019	2018
Director emoluments	**€000**	€000
Executives		
Salaries and other short term benefits	**1,910**	2,453
Employer's contributions	**100**	98
Retirement benefit plan costs	**152**	216
	2,162	2,767
Non-executives		
Fees	**1,008**	970
Total directors' emoluments	**3,170**	3,737
Other key management personnel emoluments		
Salaries and other short term benefits	**3,013**	3,070
Termination benefits	**186**	-
Employer's contributions	**170**	192
Retirement benefit plan costs	**131**	127
Total other key management personnel emoluments	**3,500**	3,389
Total	**6,670**	7,126

Other key management personnel emoluments for 2018 include an amount of €572 thousand which relates to emoluments of key management personnel of Bank of Cyprus UK Limited, which was disposed of in November 2018.

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.

51. Related party transactions (continued)

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

	2019	2018
	€000	€000
John Patrick Hourican (Chief Executive Officer resigned on 30 August 2019)	**1,510**	2,256
Panicos Nicolaou (Chief Executive Officer - appointed on 1 September 2019)	**168**	**-**
Christodoulos Patsalides (First Deputy Chief Executive Officer)	**232**	197
	1,910	2,453

The retirement benefit plan costs for 2019 amounting to €152 thousand (2018: €216 thousand) relate to: Mr John Patrick Hourican €117 thousand up to the date of his resignation (2018: €198 thousand), Mr Panicos Nicolaou €15 thousand since the date of his appointment and Dr Christodoulos Patsalides €20 thousand (2018: €18 thousand).

Non-executive Directors

	2019	2018
	€000	€000
Josef Ackermann (resigned on 14 May 2019)	**57**	150
Efstratios-Georgios Arapoglou (appointed on 12 June 2019 following ECB approval)	**84**	-
Arne Berggren	**117**	115
Maksim Goldman	**122**	120
Michalis Spanos (resigned on 21 January 2019)	**6**	100
Ioannis Zographakis	**159**	135
Michael Heger	**122**	110
Lyn Grobler	**92**	90
Anat Bar-Gera	**86**	85
Paula Hadjisotiriou	**97**	36
Maria Philippou	**66**	29
	1,008	970

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 First Deputy Chief Executive Officer or Deputy CEO (prior to the change in the group organisational structure, those who reported directly to the Chief Executive Officer or the Deputy Chief Executive Officer and Chief Operating Officer).

51. Related party transactions (continued)

Transactions with Directors and key management personnel

The table below shows the loans and advances, deposits and other credit balances held by the directors and key management personnel and their connected persons, as at the balance sheet date:

Deposits at 31 December	**2019** **€000**	2018 €000
- members of the Board of Directors and other key management personnel	**1,896**	1,575
- connected persons	**4,979**	3,122
	6,875	4,697
Interest expense on deposits for the year	**4**	41

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 expense is disclosed for the period during which they were members of the Board of Directors or served as key management personnel.

Loans to Directors

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, 'Directors' means the current Board of Directors of the Company and any past directors who were members of the Board of Directors of the Company during the relevant period.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions, including interest rates, 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.

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.

Directors: There were 14 Directors in office during the year (2018: 12 Directors), four of whom availed of credit facilities (2018: three Directors). Three of the Directors who availed of credit Facilities had balances outstanding at 31 December 2019 (2018: three Directors). The balances outstanding are disclosed below.

Key management personnel: There were 20 key management personnel in office during the year (2018: 13 key management personnel), 18 of whom availed of credit facilities (2018: 11 key management personnel). All of the key management personnel who availed of credit facilities had balances outstanding at 31 December 2019 (2018: 11 key management personnel).

Where no amount is shown in the tables below, this indicates a credit balance, a balance of nil, or a balance of less than €500.

The value of arrangements at the beginning and end of the current and preceding financial years as stated below in accordance with section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the current and preceding financial years is less than 1%.

Details of transactions with key management personnel, and their connected persons where indicated, for the years ended 31 December 2019 and 2018 are as follows:

51. Related party transactions (continued)

Current Directors

	Balance as at 1 January	Amounts advanced during the year	Amounts repaid during the year/period	**Balance as at 31 December**	**Aggregate maximum amount outstanding during the year**	**Unused credit facilities**
Christodoulos Patsalides	€000	€000	€000	**€000**	**€000**	**€000**
2019						
Loans	212	-	56	164	211	-
Overdrafts/ credit cards	44	n/a	n/a	36	53	21
	256			200	264	21
2018						
Loans	238	-	33	212	236	-
Overdrafts/ credit cards	23	n/a	n/a	44	51	14
	261			256	287	14
Michael Spanos						
2019						
Overdrafts/ credit cards	-	n/a	n/a	-	4	2
2018						
Overdrafts/ credit cards	2	n/a	n/a	-	3	8
Ioannis Zographakis						
2019						
Overdrafts/ credit cards	4	n/a	n/a	1	1	9
2018						
Overdrafts/ credit cards	-	n/a	n/a	4	4	6
Panicos Nicolaou						
2019						
Loans	115	-	12	106	115	-
Overdrafts/ credit cards	2	n/a	n/a	1	1	46
	117			107	116	46

Connected persons of the Board of Directors

The balances included in the table above include principal and interest. Also, amounts advanced and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

51. Related party transactions (continued)

No other Directors had any loan facilities or overdraft/credit card balances with the Group during the year ended 31 December 2019 (2018: nil).

No impairment charges or provisions have been recognised during the year ended 31 December 2019 and 2018 in respect of the above loans and facilities. All interest that has fallen due on these loans or facilities has been paid.

During 2019 three directors resigned from the Board of Directors. No Directors resigned during 2018.

The aggregate of loans to connected person of Directors in office at 31 December 2019, as defined in section 220 of the Companies Act 2014, are as follows (aggregate of 1 person; 2018: 1 person):

	Balance as at 1 January/(or appointment date	Amounts advanced during the year	Amounts repaid during the year	**Balance as at 31 December**	**Aggregate maximum amount outstanding during the year**
2019	€000	€000	€000	**€000**	**€000**
Persons connected to Michael Spanos					
Overdrafts/credit cards	6	n/a	n/a	6	9
2018					
Overdrafts/credit cards	1	n/a	n/a	6	8
2019					
Panicos Nicolaou					
Overdrafts/credit cards	1	n/a	n/a	1	1

The balances included in the table above include principal and interest. Also, amounts advanced and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

No impairment charges or provisions have been recognised during the year ended 31 December 2019 and 2018 in respect of the above loans and facilities. All interest that has fallen due on these loans or facilities has been paid.

Key management personnel in office during the year (and their connected persons)

	Balance as at 1 January	Balances of key management personnel appointed in the year	Balances of key management personnel retired in the year	Amounts advanced during the year	Amounts repaid during the year	**Balance as at 31 December**	**Aggregate maximum amount outstanding during the year**
2019	€000	€000	€000	€000	€000	**€000**	**€000**
Loans	2,230	20,212	200	32	785	21,712	22,454
Overdrafts/credit cards	361	n/a	n/a	n/a	n/a	515	762
	2,591					22,227	23,216

51. Related party transactions (continued)

	Balance as at 1 January	Amounts advanced during the year	Amounts repaid during the year	**Balance as at 31 December**	**Aggregate maximum amount outstanding during the year**
2018	€000	€000	€000	**€000**	**€000**
Loans	2,549	-	403	2,230	2,546
Overdrafts/credit cards	335	n/a	n/a	361	508
	2,884			2,591	3,054

The balances included in the table above include principal and interest. Also, amounts advanced and repaid are not shown for overdraft and credit card facilities as these are revolving in nature. The aggregate maximum amount outstanding includes credit card exposures at the maximum statement balance.

No impairment charges or provisions have been recognised during the year ended 31 December 2019 and 2018 in respect of the above loans and facilities. All interest that has fallen due on these loans or facilities has been paid.

Aggregate amounts outstanding at year end and additional transactions

	2019	2018	**2019**	2018
	Number of directors		**€000**	€000
Loans and advances as at 31 December				
- Board of Directors	**11**	12	**308**	260
- key management personnel	**18**	12	**2,938**	2,216
Connected persons			**19,290**	381
			22,536	2,857
Interest income for the year			**179**	81
Commission income for the year			**3**	9
Insurance premium income for the year			**179**	133
Subscriptions and insurance expenses for the year			**902**	633

Accruals and other liabilities as at 31 December with entity providing key management personnel services	**9,827**	5,108
Staff costs consultancy and restructuring expenses with entity providing key management personnel services	**17,941**	14,629

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 €78 thousand (2018: €37 thousand).

There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €1,367 thousand (2018: €402 thousand).

51. Related party transactions (continued)

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 31 December 2019 amounted to €1,216 thousand (2018: €532 thousand).

At 31 December 2019 the Group has a deposit of €2,848 thousand (2018: €4,086 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.

During the year ended 31 December 2019 premiums of €40 thousand (2018: €45 thousand) and claims of €784 thousand (2018: €19 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.

There were no other transactions during the year ended 31 December 2019 and the year ended 31 December 2018 with connected persons of the current members of the Board of Directors or with any members who resigned during the year.

52. Group companies

The main subsidiary companies and branches included in the Consolidated Financial Statements of the Group, their registered office their activities and the percentage held by the Company (directly or indirectly) as at 31 December 2019 are:

Company	Registered office	Activities	Percentage holding (%)
Bank of Cyprus Holdings Public Limited Company	10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland	Holding company	n/a
Bank of Cyprus Public Company Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Commercial bank	100
The Cyprus Investment and Securities Corporation Ltd (CISCO)	154 Limassol Avenue, CY-2025, Strovolos, Nicosia, Cyprus	Investment banking and brokerage	100
General Insurance of Cyprus Ltd	2-4 Themistokli Dervis Street, CY-1066, Nicosia, Cyprus	Non-life insurance	100
EuroLife Ltd	4 Evrou Street, CY-2003, Strovolos, Nicosia, Cyprus	Life insurance	100
Kermia Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos, CY-2002, Nicosia Cyprus	Property trading and development	100
Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC (formerly Cytrustees Investment Public Company Ltd)	154 Limassol Avenue, CY-2025 Strovolos, Nicosia, Cyprus	UCITS Fund	62
LCP Holdings and Investments Public Ltd	26 Vyronos Street, CY-1096 Nicosia, Cyprus	Holding company	67
JCC Payment Systems Ltd	1 Stadiou Street, Nisou, CY-2571 Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	26 Vyronos Street, CY-1096 Nicosia, Cyprus	Investment company	20
Auction Yard Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos,CY-2002, Nicosia Cyprus	Auction company	100
BOC Secretarial Company Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos,CY-2002, Nicosia Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	51 Stassinos Street, Ayia Paraskevi, Strovolos,CY-2002, Nicosia Cyprus	Land development and operation of a golf resort	70
BOC Asset Management Ltd	154 Limassol Avenue, CY-2025, Strovolos, Nicosia, Cyprus	Management administration and safekeeping of UCITS Units	100
Bank of Cyprus Public Company Ltd (branch of BOC PCL)	192 Alexandras Avenue, 11521 Athens, Greece	Administration of guarantees and holding of real estate properties	n/a
BOC Asset Management Romania S.A.	Calea Dorobonti 187B, Sector 1, Bucharest, Romania	Collection of the existing portfolio of receivables, including third party collections	100
MC Investment Assets Management LLC	19-1 Zvezdnyi building, Moscow, Russia	Problem asset management company	100
Fortuna Astrum Ltd	Internacionalniti Brigada 69, 11104, Grad Beograd, Serbia	Problem asset management company	100

52. Group companies (continued)

In addition to the above companies, at 31 December 2019 BOC PCL had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

Cyprus: Belvesi Properties Ltd, Hamura Properties Ltd, Legamon Properties Ltd, Noleta Properties Ltd, Tolmeco Properties Ltd, Arlona Properties Ltd, Dilero Properties Ltd, Ensolo Properties Ltd, Folimo Properties Ltd, Pelika Properties Ltd, Cobhan Properties Ltd, Birkdale Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Nalmosa Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar 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, Thryan Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Kernland Properties Ltd, Jobelis Properties Ltd, Melsolia Properties Ltd, Koralmon Properties Ltd, Kedonian Properties Ltd, Lasteno 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, Provezaco Properties Ltd, Hillbay Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Hovita Properties Ltd, Badrul Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Camela Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Fareland Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Homirova Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Jaselo Properties Ltd, Elosa 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, Bonsova Properties Ltd, Garmozy Properties Ltd, Palmco Properties Ltd, Thermano Properties Ltd, Venicous Properties Ltd, Lorman Properties Ltd, Eracor Properties Ltd, Rulemon Properties Ltd, Thelemic Properties Ltd, Maledico Properties Ltd, Dentorio Properties Ltd, Valioco Properties Ltd, Bascone Properties Ltd, Balasec Properties Ltd, Bendolio Properties Ltd, Diafor Properties Ltd, Kartama Properties Ltd, Paradexia Properties Ltd, Paramina Properties Ltd, Nouralia Properties Ltd, Resocot Properties Ltd, Soblano Properties Ltd, Talamon Properties Ltd, Weinar Properties Ltd, Zemialand Properties Ltd, Asianco Properties Ltd, Cimonia Properties Ltd, Coeval Properties Ltd, Comenal Properties Ltd, Finevo Properties Ltd, Intelamon Properties Ltd, Mazima Properties Ltd, Nesia Properties Ltd, Nigora Properties Ltd, Riveland Properties Ltd, Rosalica Properties Ltd, Secretsky Properties Ltd, Senadaco Properties Ltd, Tasabo Properties Ltd, Venetolio Properties Ltd, Zandexo Properties Ltd, Flymoon Properties Ltd, Meriaco Properties Ltd, Odolo Properties Ltd, Calandomo Properties Ltd, Molemo Properties Ltd, Nivamo Properties Ltd, Edilia Properties Ltd, Icazo Properties Ltd, Limoro Properties Ltd, Rofeno Properties Ltd, Samilo Properties Ltd, Jalimo Properties Ltd, Sendilo Properties Ltd, Baleland Properties Ltd and Prodino Properties Ltd.

Romania: Otherland Properties Dorobanti SRL, Green Hills Properties SRL, Romaland Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 31 December 2019 BOC PCL had 100% shareholding in Obafemi Holdings Ltd, Stamoland Properties Ltd, Unoplan Properties Ltd, Petrassimo Properties Ltd and Gosman Properties Ltd.

The main activities of the above companies are the holding of shares and other investments and the provision of services.

52. Group companies (continued)

At 31 December 2019 BOC PCL had 100% shareholding in the companies listed below which are reserved to accept property:

Cyprus: Tavoni Properties Ltd, Amary Properties Ltd, Holstone Properties Ltd, Alepar Properties Ltd, Cramonco Properties Ltd, Monata Properties Ltd, Aktilo Properties Ltd, Alezia Properties Ltd, Aparno Properties Ltd, Enelo Properties Ltd, Mikosa Properties Ltd, Stormino Properties Ltd, Stevolo Properties Ltd, Lomenia Properties Ltd, Vemoto Properties Ltd, Vertilia Properties Ltd, Zenoplus Properties Ltd, Carilo Properties Limited, Gelimo Properties Limited, Rifelo Properties Limited, Avaleto Properties Limited, Midelox Properties Limited, Ameleto Properties Limited, Orilema Properties Limited, Montira Properties Limited, Larizemo Properties Limited and Olisto Properties Limited.

Romania: Selilar Properties SRL.

In addition, BOC PCL holds 100% of the following intermediate holding companies:

Cyprus: Otherland Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Romaland Properties Ltd, Janoland Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Landanafield Properties Ltd and Hydrobius Ltd.

BOC PCL also holds 100% of the following companies which are inactive:

Cyprus: Laiki Bank (Nominees) Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Weinco Properties Ltd, Renalandia Properties Limited, Crolandia Properties Ltd, Iperi Properties Ltd, Finerose Properties Ltd, Fantasio Properties Ltd, Demoro Properties Ltd, Elosis Properties Ltd, Polkima Properties Ltd, Pariza Properties Ltd, Prosilia Properties Ltd, Otoba Properties Ltd, Dolapo Properties Limited, Nivoco Properties Limited, Bramwell Properties Ltd, CYCMC II Ltd, CYCMC III Ltd and CYCMC IV 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: Battersee Real Estate SRL, Trecoda Real Estate SRL, Bocaland Properties SRL and Tantora Properties SRL.

All Group companies are accounted for as subsidiaries using the full consolidation method. All companies listed above, except from Global Balanced Fund of Funds Salamis Variable Capital Investment Company PLC which is a UCITS Fund, have share capital consisting of ordinary shares.

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.

52. Group companies (continued)

Dissolution and disposal of subsidiaries

As at 31 December 2019, the following subsidiaries were in the process of dissolution or in the process of being struck off: Bank of Cyprus (Channel Islands) Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Buchuland Properties Ltd, Corner LLC, Diners Club (Cyprus) Ltd, Fairford Properties Ltd, Leasing Finance LLC, Mirodi Properties Ltd, Nallora Properties Ltd, Omiks Finance LLC, Salecom Ltd, Sylvesta Properties Ltd, Commonland Properties Ltd, Fledgego Properties Ltd, Loneland Properties Ltd, Frozenport Properties Ltd, Melgred Properties Ltd and Unknownplan Properties Ltd.

Bank of Cyprus Romania (Romanian branch), BOC Ventures Ltd, Lameland Properties Ltd, Calomland Properties Ltd, Pittsburg Properties Ltd and Kyprou Finance (NL) B.V., Frozenport Properties SRL, Loneland Properties SRL, Melgred Properties SRL, were dissolved during the year ended 31 December 2019. Asendo Properties Ltd, Gylito Properties Ltd, Lamezoco Properties Ltd, Timeland Properties Ltd, Spaceglowing Properties Ltd, Pamaco Platres Complex Ltd, Racotino Properties Ltd, Rondemio Properties Ltd, Rylico Properties Ltd, Vatino Properties Ltd, Valecast Properties Ltd, Teresan Properties Ltd, Virevo Properties Ltd, Armozio Properties Ltd, Garveno Properties Ltd, Dorfilo Properties Ltd, Barway Properties Ltd, Bokeno Properties Ltd, Sailoma Properties Ltd, Fodilo Properties Ltd, Gordian Holdings Limited (formerly CYCMC I Ltd), Citlali Properties Ltd, Livena Properties Ltd, Volparo Properties Ltd, Domilas Properties Ltd, Introserve Properties Ltd, Cereas Properties Ltd, Sindelaco Properties Ltd, Nasebia Properties Ltd, Indene Properties Ltd, Ingane Properties Ltd, Ganina Properties Ltd, Kenelyne Properties Ltd and Ilera Properties Ltd were disposed of during the year ended 31 December 2019. Additionally the entire holding of 64% in Nicosia Mall Management (NMM) Limited, Nicosia Mall Finance (NMF) Limited, Nicosia Mall Holdings (NMH) Limited and Nicosia Mall Property (NMP) Ltd were disposed of during 2019.

During the year ended 31 December 2019, the Group disposed of its entire shareholding in Cyreit, and subsequently its indirect holding in the following Cyreit's subsidiaries: Smooland Properties Ltd, Threefield Properties Ltd, Vameron Properties Ltd, Bascot Properties Ltd, Vanemar Properties Ltd, Consoly Properties Ltd, Alomnia Properties Ltd, Artozaco Properties Ltd, Elizano Properties Ltd, Letimo Properties Ltd, Allodica Properties Ltd, Wiceco Properties Ltd, Primaco Properties Ltd, Arleta Properties Ltd, Kuvena Properties Ltd, Nuca Properties Ltd, Orleania Properties Ltd, Ravenica Properties Ltd, Rouena Properties Ltd, Lancast Properties Ltd and Azemo Properties Ltd.

53. Acquisitions and disposals of subsidiaries

53.1 Acquisitions during 2019

There were no acquisitions during 2019.

53.2 Disposals during 2019

53.2.1 Disposal of Cyreit

In June 2019, the Group completed the sale of its entire holding of 88.2% in Cyreit.

The carrying value of the BOC PCL's share of assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	**€000**
Loans and advances to banks	**7,980**
Investment properties	**133,401**
	141,381
Liabilities	
Other liabilities	**(314)**
Net identifiable assets sold	**141,067**

53. Acquisitions and disposals of subsidiaries (continued)

53.2. Disposals during 2019 (continued)

53.2.1. Disposal of Cyreit (continued)

The final purchase consideration amounts to €141,139 thousand. The disposal resulted in a gain of €72 thousand disclosed within 'Net losses from revaluation and disposal of investment properties'.

The net cash flows of Cyreit are as follows:

	2019	2018
	€000	€000
Net cash inflow for the year from operating activities	**1,330**	7,514

There were no cash equivalents as at the date of disposal.

53.2.2 Disposal of NMH group

In December 2019, the Group completed the sale of its entire holding of 64% in NMH group. The carrying value of the assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	**€000**
Property and equipment	**91,219**
Other assets	**420**
Placements with banks	**2,161**
	93,800
Liabilities	
Other liabilities	**(6,340)**
Net identifiable assets sold	**87,460**

The accumulated losses allocated to non-controlling interest amount to €847 thousand. The purchase consideration amounted to €92,193 thousand and involved the settlement of existing facilities and provision of new lending giving rise to a gain on disposal of €3,886 thousand disclosed within 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates.

The net cash flows of NMH group are as follows:

	2019	2018
	€000	€000
Operating	**(1,148)**	3,579
Investing	**(33)**	(32,006)
Financing	**1,181**	28,432
Net cash inflow for the year	**-**	5

The cash and cash equivalents as at the date of disposal amounted to €1,936 thousand.

53.3 Acquisitions during 2018

There were no acquisitions during 2018.

53. Acquisitions and disposals of subsidiaries (continued)

53.4 Disposals during 2018

53.4.1 Disposal of Bank of Cyprus UK Limited

In November 2018, the Group completed the sale of 100% of its subsidiary bank in the UK, Bank of Cyprus UK Limited and its subsidiary Bank of Cyprus Financial Services Limited.

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

Assets	**€000**
Cash and balances with central banks	**278,250**
Loans and advances to banks	**71,932**
Loans and advances to customers	**1,827,113**
Property and equipment	**17,224**
Intangible assets	**1,883**
Prepayments, accrued income and other assets	**23,204**
	2,219,606
Liabilities	
Deposits by banks	**30,869**
Customer deposits	**1,990,360**
Accruals, deferred income and other liabilities	**29,317**
Subordinated loan stock	**35,340**
	2,085,886
Net identifiable assets sold	**133,720**

The cash consideration amounted to €120,131 thousand comprising of €115,991 thousand base consideration plus a purchase price adjustment of €4,140 thousand. The disposal resulted in a gain of €3,680 thousand comprising a loss of €13,703 thousand against the book value of the assets as at the disposal date and a gain of €17,383 thousand representing the recycling of the foreign currency translation reserve from other comprehensive income to consolidated income statement.

The net cash flows of Bank of Cyprus UK Limited are as follows:

	2018	2017
	€000	€000
Operating	**(119,269)**	92,291
Investing	**(744)**	(1,862)
Financing	**-**	34,483
Net cash (outflow)/inflow for the year	**(120,013)**	124,912

The cash and cash equivalents as at the date of disposal amounted to €321,225 thousand.

54. Investments in associates and joint venture

Carrying value of the investments in associates and joint venture

	Percentage holdings	2019	2018
	(%)	€000	€000
CNP Cyprus Insurance Holdings Ltd (Note 30)	-	-	114,637
Apollo Global Equity Fund of Funds Variable Capital Investment Company Plc	34.1	2,393	-
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	-	-	-
Rodhagate Entertainment Ltd	-	-	-
Fairways Automotive Holdings Ltd	45.0	-	-
		2,393	114,637

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

	2019	2018
	€000	€000
CNP Cyprus Insurance Holdings Ltd	5,312	9,164
Interfund Investments Plc	-	(69)
Apollo Global Equity Fund of Funds Variable Capital	201	-
	5,513	9,095

The share of profit from CNP Cyprus Insurance Holdings Ltd for the year ended 31 December 2019 refers to the period up to the date of classification of CNP Cyprus Insurance Holdings Ltd as held for sale as described below.

Investments in associates

CNP Cyprus Insurance Holdings Ltd
The holding in CNP Cyprus Insurance Holdings Ltd of 49.9% had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013. In May 2019 BOC PCL signed a binding agreement to sell its entire shareholding to CNP Assurances S. A. who owned the remaining 50.1% and was the controlling party. The investment was classified as held for sale as at 30 June 2019 and prior to this classification it was remeasured at fair value less cost to sell; a loss of €25,943 thousand was recognised in the consolidated income statement. The sale was completed in October 2019 and the sale consideration of €97,500 thousand was payable in cash on completion. There was no accounting loss on the sale.

54. Investments in associates and joint venture (continued)

No information is provided regarding the financial highlights for 31 December 2019 since the investment in associate was disposed of in October 2019.

The transactions between CNP Cyprus Insurance Holdings Ltd and the Group during 2019, up to the date of disposal, and during the whole 2018 are presented in the table below:

	2019	2018
	€000	€000
Dividend income	**-**	5,362
Interest expense paid by the Group	**62**	129
Other expenses paid by the Group	**46**	92
Other income received by the Group	**3**	1

Apollo Global Equity Fund of Funds Variable Capital Investment Company Plc (Apollo)
The Group holds effectively 34.1% (2018: 33.2%) of the UCITS of Apollo due to gradual redemption of the other holders of Apollo. The Group considers that it exercises significant influence over Apollo even though no Board representation exists, because due to its UCITS holdings, it possesses the power to potentially appoint members of the Board of Directors.

Interfund Investments Plc
In May 2018, BOC PCL sold its holding of 23.1% in its associate Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the CSE. The loss of disposal amounted to €191 thousand.

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 BOC PCL 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 2019 and 2018 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 in 2013. The investment is considered to be fully impaired and its value is restricted to zero.

M.S. (Skyra) Vassas Ltd
In the context of its loan restructuring activities, the Group acquired 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 December 2019, the Group transferred its entire holding in D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd of 7.5% to the majority holder following settlement of their facilities. The holding had been acquired in the context of its loan restructuring activities. D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd had operations in leisure, tourism, film and entertainment industries in Cyprus. The investments were considered to be fully impaired and their value was restricted to zero. The disposal did not impact the consolidated income statement of the Group.

54. Investments in associates and joint venture (continued)

Fairways Automotive Holdings Ltd
In the context of its loan restructuring activities, the Group acquired 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.

55. 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 2019:

	Total operating income/(expense)	Average number of employees	Profit/(loss) before tax	Accounting tax expense/(income) on profit/(loss)	Corporation tax paid/(refunded)	Public subsidies received
Country	**€000**		**€000**	**€000**	**€000**	**€000**
Cyprus	693,316	4,029	(159,308)	(86)	19,549	-
Russia	(1,640)	5	(3,231)	544	(544)	-
United Kingdom	30	1	121	-	-	-
Romania	367	10	(3,421)	(6)	-	-
Greece	(4,133)	8	(14,730)	153	7,143	-
Total	**687,940**	**4,053**	**(180,569)**	**605**	**26,148**	**-**

Total operating income/(expenses), profit/(loss) before tax and accounting tax expenses/(income) on profit/(loss) are prepared on the same basis as the figures reported elsewhere in these financial statements.

The activities of Group companies by geographical area are disclosed in Note 52.

Total operating income/(expense): comprises net interest income, net fee and commission income, net foreign exchange gains, net gains on financial instrument transactions, insurance income net of claims and commissions, gains/(losses) from revaluation and disposal of investment properties, gains/(losses) on revaluation and 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 2019.

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

Accounting tax expense/(income) on profit/(loss): includes corporation tax and Cyprus special defence contribution. Deferred tax charge for the year is excluded from the above.

Corporation tax paid/(refunded) includes actual payments made during 2019 for corporation tax (including insurance premium taxes) and Cyprus special defence contribution.

56. Events after the reporting date

56.1 Development on the Coronavirus disease (COVID-19) outbreak

With the recent and rapid development of the Coronavirus disease (COVID-19) outbreak, the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Governments around the world, including the Republic of Cyprus, have required certain companies to limit or even suspend normal business operations and have implemented restrictions on travelling as well as strict quarantine measures.

The Group is closely monitoring developments and the effects of the impact of COVID-19 on the global and Cyprus economy as well as on the likely effect on the Group's financial performance and financial position. Specifically, COVID-19 could have an adverse impact across risks including the credit and investment portfolios, operational risk, human resources, capital, funding and liquidity.

With respect to the Group's credit portfolio, COVID-19 could negatively impact specific portfolios through negative rating migrations, higher than expected loan losses, and through the sensitivity of the credit risk models to macro-parameters. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of economic scenarios that will be used to estimate ECL under IFRS 9 in 2020. The property portfolio of the Group may incur losses due to market fluctuations and volatility in case of significant drops in property prices and the speed of property asset reduction may decrease due to reduced counterparty appetite due to the uncertainties. Following the COVID-19 outbreak and the resultant volatile market and economic environment, the Fair Value Reserve of the FVOCI debt security portfolio of the Group held as at 31 December 2019 has decreased by €39 million on 24 April 2020. This change is recognised directly through OCI. Furthermore, on 24 April 2020, the Group held Cyprus sovereign debt securities of a nominal amount of €772 million, compared to €477 million on 31 December 2019, of which €350 million is held at FVOCI portfolio and €422 million is held at amortised cost portfolio. The increase since year end is mainly due to the Group's participation on the issuance of the Cyprus Government of 52-week treasury bills in April 2020.

The extent of the adverse impact of the pandemic on the global and local economy and markets will depend, in part, on the length and severity of the measures taken to limit the spread of the virus and, in part, on the size and effectiveness of the compensating measures taken by governments (measures taken by the Cyprus Government and various regulators are discussed below). The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. As the situation is rapidly evolving the Group cannot at this stage reliably estimate the potential financial impact of the outbreak on the Group.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

Measures announced by the Cyprus Government

In Cyprus, on 15 March 2020, the Council of Ministers in an extraordinary meeting, announced that it considers that Cyprus is entering a state of emergency considering the uncertain situation as it unfolds daily, the growing spread of COVID-19 outbreak and the World Health Organization's data on the situation. To this end, certain measures have been taken with a view to safeguarding public health and ensuring the economic survival of working people, businesses, vulnerable groups and the economy at large.

The Cyprus Government announced a 'Support Programme' valued at €700 million to address the financial effects of COVID-19 and support labour population and business in Cyprus. The measures, amongst others include extension of period and suspension of indirect tax payments and suspension of additional contributions to the General Health Scheme for three months.

56. Events after the reporting date (continued)

56.1. Development on the Coronavirus disease (COVID-19) outbreak (continued)

With respect to the measures for the protection of labour relationships for businesses that have suspended their operations following the relevant decree or businesses that have suffered a more than 25% drop in revenue, these involve the provision of partial subsidy for the compensation for employees, self-employed and single-person enterprises affected by the crisis and at the same time ensuring redundancies are avoided.

In addition, the CBC together with the Government announced the suspension of capital and interest payments until 31 December 2020 for natural persons, self-employed persons and businesses for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Eligible borrowers can apply for the suspension. This was passed through a bill in Parliament on 29 March 2020. Following the Emergency Measures by Financial Institutions and Supervisory Authorities Decree of 2020, dated 30 March 2020, the Group proceeded to announce the procedure through which its clients may apply for the suspension of instalments and interest on their credit facilities. In response to the moratorium the Association of Cyprus Banks also announced the non-capitalisation of interest for the period during which the moratorium is in effect.

The Cyprus Government has also announced that it intends to provide government guaranteed loans that can be extended to customers impacted from COVID-19. In accordance with the draft government proposal, the maximum amount of the guarantees will be €1.75 billion and the guarantee will cover 70% of the new facilities. Participating banks will provide these loans at prescribed interest rates. The proposed scheme is still being deliberated upon and no final scheme has been approved to date.

Additionally, the ESTIA Scheme period for submission of applications has been extended for 3 months, until 30 June 2020, aiming to allow qualifying applicants to provide the relevant information supporting the application.

On 7 April 2020, Cyprus Government issued 7-year and 30-year bonds totalling €1.75 billion to safeguard the liquidity buffers to fund the government measures on the one hand and to strengthen state reserves in accordance with the Medium-Term Public Debt Management Strategy.

Measures announced by regulators

The ECB announced on 12 March 2020 the implementation of a package of monetary policy measures in order to secure favourable conditions of financing for the economy with the aim to mitigate the effects of the crisis.

a) Capital Relief measures

On 12 March 2020, the ECB and the EBA announced the following relaxation measures for the minimum capital requirements for banks:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar II Guidance, the Capital Conservation Buffer and the Countercyclical Buffer. The Countercyclical Buffer is 0% for Cypriot Banks.
- Banks are allowed to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET 1; this brings forward a measure that was scheduled to come in effect in January 2021 with the revision of CRD IV.

The CBC has also decided the postponement of the remaining phase-in of the Other Systemically Important Institution (O-SII) buffer by one year.

The above measures increase the Group's capital base available to absorb potential losses due to the crisis. In addition, the early adoption of CRD V for the composition of Pillar II Requirements provides flexibility regarding the Group's compliance with the minimum capital requirement of Pillar II.

b) Liquidity relief measures

On 12 March 2020 together with the capital relief measures set out above, ECB announced that it will allow banks to operate temporarily below the liquidity coverage ratio (LCR).

56. Events after the reporting date (continued)

56.1. Development on the Coronavirus disease (COVID-19) outbreak (continued)

In addition, on 12 March 2020 the ECB decided on additional longer-term refinancing operations (LTROs) through a full-spread fixed-rate auction equal to the average deposit facility interest rate and similarly it was decided that for the TLTRO III operation in June 2020, considerably more favourable terms will be applied during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time.

The Governing Council of the ECB decided on 18 March 2020 to launch a new Pandemic Emergency Purchase Programme (PEPP) for an amount of €750 billion and purchases will be conducted until the end of 2020. Furthermore, it was decided to expand the range of eligible assets under the Corporate Sector Purchase Programme (CSPP) to non-financial commercial paper and to ease the collateral standards by adjusting the main risk parameters of the collateral framework.

c) 2020 EBA EU-wide stress test postponement

Similarly, due to the outbreak of COVID-19 and its global spread, the EBA decided to postpone until 2021 the EU-wide Stress Test Exercise of 2020 to allow banks to focus on and ensure continuity of their core operations. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks' exposures and asset quality to market participants. The ECB announced that it supports the decision of EBA and will extend the postponement to all banks subject to the 2020 stress test.

d) Supervisory flexibility regarding prudential treatment of forborne and definition of default and accounting considerations

In the same direction, the EBA in cooperation with the ESMA issued statements on 25 March 2020 to provide guidance to banks for the estimation of the expected impact on their financial figures from COVID-19. Specifically the EBA statement seeks to provide clarity to the EU banking sector on how to handle in a consistent manner, aspects related to (i) the classification of loans in default, (ii) the identification of forborne exposures and (iii) the accounting treatment and similarly ESMA's statement is aiming in promoting consistent application on the accounting implications of IFRS 9 Financial Instruments in the specific context of the COVID-19 outbreak. In particular, the EBA clarified that generalised payment delays due to legislative initiatives and addressed to all borrowers do not lead to any automatic classification in default, forborne or unlikeness to pay. Individual assessments of the likeliness to pay should be prioritized. On 2 April 2020, EBA issued detailed guidelines aiming to provide clarity on the treatment of legislative and non-legislative moratoria applied before 30 June 2020.

The IASB issued on 27 March 2020 educational material encouraging entities whose regulators have issued guidance on the application of IFRS 9 in the context of the COVID-19 pandemic to consider that guidance.

Other measures at European Union level

- On 23 March 2020, the EU Ministers of Finance agreed with the Commission's proposal to activate the general escape clause of the Stability and Growth Pact (SGP). Member States will be allowed to undertake measures to deal adequately with the crisis, while departing from the budgetary requirements that would normally apply under the European fiscal framework.
- The Commission has issued a specific temporary State-aid framework to expedite public support to companies to mitigate the economic impact of the crisis, while ensuring the necessary level playing field in the Single Market.
- The Commission launched a Coronavirus Response Investment Initiative (CRII) to mobilise cohesion policy to flexibly respond to the rapidly emerging needs in the most exposed sectors, such as healthcare, SMEs and labour markets, and help the most affected territories in Member States and their citizens. The first package adopted on 30 March 2020 involved about €8 billion of immediate liquidity to accelerate up to €37 billion of European public investment, provide flexibility in applying EU spending rules and extend the scope of the EU Solidarity Fund.

56. Events after the reporting date (continued)

56.1. Development on the Coronavirus disease (COVID-19) outbreak (continued)

- On 9 April 2020 the EU finance ministers reached a comprehensive economic policy response to the COVID-19 pandemic which in addition to the measures announced earlier, the following crisis response instruments were agreed:
    - The Eurogroup proposed to establish a Pandemic Crisis Support, based on the existing Enhanced Conditions Credit Line (ECCL) precautionary credit line, adjusted to meet the current needs and to safeguard the euro area financial stability. Access granted will be 2% of the respective Member's GDP as of end-2019, as a benchmark.
    - Agreed the creation of a dedicated COVID-19 instrument to support the financing of emergency aid, through the provision of grants. In this context the Commission's proposal to re-activate the Emergency Support Instrument in the context of the COVID-19 outbreak which will be used to support the financing of emergency aid, through the provision of grants for an amount of €2.7 billion was welcomed.
    - Agreed with the European Investment Bank's proposal for the creation of a pan-European guarantee fund of €25 billion, which could support €200 billion of financing for companies with a focus on SMEs, throughout the EU, including through national promotional banks.
    - A temporary loan-based instrument labelled SURE (temporary Support to mitigate Unemployment Risks in an Emergency) will be established as soon as possible. In this context, the Commission's proposal of 2 April 2020 to set up a temporary instrument supporting Member States to protect employment in the specific emergency circumstances of the COVID-19 crisis was accepted. This instrument will be used to provide financial assistance, in the form of loans granted on favourable terms from the EU to member states, of up to €100 billion in total.

56.2 Capital reduction through use of the Company's share premium

The Company will proceed (subject to approval by the shareholders, the ECB and the Irish High Court) with a capital reduction process which will result in the reclassification of €700 million of the Company's share premium as distributable reserves. This will increase the distributable reserves of the Company to approximately €1 billion on a pro forma basis (31 December 2019). The capital reduction has been proposed as a special resolution for approval by shareholders at the Company's Annual General Meeting scheduled on 26 May 2020. The capital reduction will not have any impact on regulatory capital or the total equity position of the Company, BOC PCL or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items.

56.3 Introduction of contribution to the Deposit Guarantee Fund

As from 1 January 2020 and until 3 July 2024 BOC PCL is subject to contribution to the Deposit Guarantee Fund (DGF) on a semi-annual basis. The contributions are calculated based on the Risk Based Methodology (RBM) as approved by the management committee of the Deposit Guarantee and Resolution of Credit and Other Institutions Schemes (DGS) and is publicly available on the CBC's website. In line with the RBM, the contributions are broadly calculated on the covered deposits of all authorised institutions and the target level is to reach at 0.8% of these deposits by 3 July 2024. The contribution of BOC PCL has been set at €2.9 million for the first half of 2020 and in line with IFRSs, it will be charged in the first quarter of 2020.

Independent auditors' report to the members of Bank of Cyprus Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion, Bank of Cyprus Holdings plc's consolidated financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the group's and the company's assets, liabilities and financial position as at 31 December 2019 and of the group's and company's loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Financial Report 2019 (the "Annual Report"), which comprise:

- The Consolidated and Company Balance Sheet as at 31 December 2019;
- the Consolidated Income Statement and Statement of Comprehensive Income and the Company Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Statement of Cash Flows for the year then ended;
- the Consolidated and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 16 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

	Materiality ▪ €18.4 million - Consolidated financial statements ▪ Based on circa 1% of net assets. ▪ €18 million - Company financial statements ▪ Based on circa 1% of net assets.
	Audit scope ▪ We audited the complete financial information of Bank of Cyprus public company limited, which is the main trading entity of the Group and its only directly held

<table>
<tr><td rowspan="2">
</td><td>subsidiary, Bank of Cyprus Holdings plc.
• Our audit scope addressed approximately 98%, 95% and 96% respectively of the Group's revenues, the Group's absolute value of underlying profit and the Group's total assets.</td></tr>
<tr><td>Key audit matters
• Impairment of loans and advances to customers.
• Going concern.
• Litigation provisions and regulatory claims.
• Valuation of and accounting for repossessed properties.
• Privileged user access
• Carrying value of Investment in Bank of Cyprus pcl (company only).</td></tr>
</table>

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Impairment of loans and advances to customers ***IFRS 9 ECL provisions on Loans and Advances to Customers*** Refer to note 2.19, "Impairment of financial assets" within Note 2, "Summary of significant accounting policies", Note 5.2, "Calculation of expected credit losses" within Note 5 "Significant and other judgements, estimates and assumptions, Note 24, "Loans and advances to customers" and Note 46, "Risk management - credit risk". The Group has developed complex models to calculate expected credit losses ("ECL") on its loans and advances to customers. 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 are either individually significant or for other exposures meeting specific criteria determined by management. We determined this to be a key audit matter due to the	We understood and evaluated the overall control framework and tested the design and operating effectiveness of key controls across processes relevant to the calculation of ECL. We read and considered the minutes of the Joint Audit & Risk committee meetings where key inputs, assumptions, adjustments and outcomes were discussed and approved by the committee members. We assessed the appropriateness of the key assumptions used in the methodologies and models of the Group and their compliance with the requirements of IFRS 9. We assessed the triggers identified by management to determine the appropriate staging of loans within Stages 1, 2 or 3 and tested, on a sample basis, the criteria used to allocate loans and advances to customers to Stages 1, 2 or 3 with reference to those triggers. We tested the completeness and accuracy of data inputs to

significant judgement exercised by management and the complexity in making the estimate including: • the interpretations and assumptions required to build the model, including the segmentation employed; • the allocation of loans and advances to customers within Stages 1, 2 or 3; • the level of data used as inputs to the Group's models; • the approaches to separately measuring ECL for individually and collectively assessed loan exposures; and • the inputs, assumptions and probability weights assigned to multiple economic scenarios as used by the Bank.	the ECL model via reconciliation to source systems, on a sample basis, tracing relevant data fields to source documents (such as loan agreements and collateral valuations) on a sample basis and the performance of data validation tests. We tested, with the assistance of PwC credit risk specialists, the assumptions, inputs and formulas used in the calculation of collective ECL. This included considering the appropriateness of model design and challenging the assumptions used (eg Exposure at Default, Loss Given Default and Profitability of Default), and the appropriateness of the segmentation employed. We built an ECL calculator ''challenger model'', on the basis of which an independent point ECL estimate was developed and compared against the Group's own calculation. We evaluated the Group's individual assessments for a sample of material Stage 3 exposures for compliance with the Group's policies, developments during 2019 and compliance with IFRS 9 requirements; significant data inputs were tested with reference to appropriate supporting documentation, such as collateral valuations and Land Registry records. We considered the impact on the Group's ECL charge of expected realisation of certain loan portfolios comprising primarily Stage 3 loans through disposals and determined whether the related ECL charge is reasonable. We assessed, with the assistance of PwC credit risk specialists, forecast macroeconomic variables used within the macroeconomic model scenarios such as Gross Domestic Product, unemployment, interest rates and House Price Index. We evaluated the appropriateness of the Group's disclosures particularly in relation to significant judgements and estimates. We concluded that the methodologies and judgments used by management in determining the ECL charge were reasonable, that the ECL provisions recognised were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate.
Going concern Refer to pages 30 to 32 in the Directors' Report, note 3 to the financial statements and pages 335 and 355 in the Corporate Governance report. The directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company or Group will continue in business. The Directors have determined that it is appropriate to prepare the financial statements using the going concern assumption and that no material uncertainties exist which	We obtained the Directors' going concern assessment and assessed whether there are events and conditions that exist that create material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. We read correspondence with the relevant regulators with regards to regulatory capital and liquidity requirements of the Group, as well as other correspondence such as the findings of the ECB's Supervisory Review and Evaluation Process (SREP) which determines the Group's required Regulatory ratios.

would cast doubt on the going concern assumption. In making their assessment, the directors have considered a period of at least twelve months from the date of approval of the financial statements. As part of their assessment, the Group has considered a number of economic scenarios which assess future Group capital and liquidity ratios for comparison against regulatory requirements. The development of these scenarios requires considerable management judgement. Particular consideration has been given to assessing the impact of COVID-19 and of measures taken by the Cypriot government to mitigate its spread as well as legislative amendments in Cyprus and changes to Bank capital and liquidity requirements announced recently by the European Central Bank ('ECB'). Where appropriate, the Directors have identified relevant actions to support the Group's capital and liquidity positions. We determined this to be a key audit matter due to the ongoing focus on Capital adequacy for the Group, the uncertainties involved in the delivery of the Group's "Financial and Capital Plan" and the increased risk presented by the outbreak in quarter 1 of 2020 of COVID-19.	We considered the Group's 3 year Financial and Capital Plan approved by the Board in February 2019 and which was further updated and approved by the Board in December 2019. We assessed the Group's CET1 and other capital and liquidity ratios as included in management's going concern assessment versus regulatory reporting submissions of the bank. We evaluated the Group's assessment of the impact of COVID-19 on its operations, liquidity and capital ratios for the period of assessment. In particular, we: ● Considered the Group's models used to develop projected future operating results, cash flows and estimates of assets and liabilities and challenged the assumptions underlying them by reference to past experience and recent policy announcements by the Cypriot government designed to support the economy. ● Assessed the Group's development of alternative (base and adverse) macroeconomic scenarios by reference to internal and external forecasts for the performance of the Cypriot economy over the next two years. ● Considered the Group's estimates with respect to projected liquidity, taking into consideration changes in market values of treasury investments after the reporting period and other customer behavioural assumptions in the context of liquidity stress testing. ● Assessed the Group's estimation of the expected ECL impact on the customer loan portfolio and the valuation of property assets held as collateral and their consistency with the adversity of the macroeconomic scenarios under consideration. We read correspondence concerning the capital and liquidity relief measures announced by the ECB in March 2020 and the implied capital release made available to the Group as a result of these measures. We discussed a number of matters with relevant regulatory authorities including the nature of the relief measures, their availability to the Group and their likely duration. We also evaluated the disclosures made in the financial statements and assessed whether they reflected the conclusions of the Directors' assessment. We concluded that the judgements made by the Directors in preparing the financial statements on a going concern basis were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate.

Litigation provisions and regulatory claims Refer to Note 2.37 “Provisions for pending litigation, claims and regulatory matters” within Note 2 “Summary of significant accounting policies”, and Note 5.4 “Provisions” within Note 5 “Significant and other judgements, estimates and assumptions” and Note 40 “Pending litigation, claims, regulatory and other matters”. The Group is subject to various legal claims, investigations and other proceedings. Provisions for pending litigation, claims, regulatory and other matters amounted to €108m as at 31 December 2019. Management together with the Group’s compliance and legal departments review all existing and potential legal cases, prepare a detailed assessment of potential outcomes for each individual case and assess the probability of economic outflow from the Group. We determined this to be a key audit matter as the recognition and measurement of provisions in respect of pending litigation, claims, regulatory and other matters require a significant level of judgement by management. The judgement relates to the existence and completeness of obligating events, the probability of those crystallising and the extent of any related economic outflow.	For a sample of cases, we assessed management’s proposed provision against information contained in case files and information obtained from external legal advisors. We confirmed case facts and judgements directly with external legal advisors. For cases where economic outflow was assessed as probable and therefore a provision recorded, we recalculated the provision and performed sensitivity analysis on key assumptions used by management. We inspected minutes of the meetings of the board of directors and certain of its committees for evidence of any unidentified legal cases or developments in current cases which might impact their outcome. We inspected regulatory correspondence for the duration of the audit period and further inquired with the compliance department about known existing circumstances of or possible non-compliance with any regulatory requirements. We evaluated whether the disclosures made addressed significant uncertainties and assessed their adequacy against the relevant accounting standards including cases where a reliable estimate could not be made as at 31 December 2019. Based on evidence obtained, while noting the inherent uncertainty in such matters, we concluded that the recorded provisions for pending litigation, claims, regulatory and other matters were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate.
Valuation of and accounting for repossessed properties Refer to Note 2.30 “Investment properties” and 2.31 “Stock of property”, within Note 2 “Summary of significant accounting policies”, Note 5.3, “Stock of property - estimation of net realisable value” and Note 5.12 ‘’Fair value of properties held for own use and investment properties’’ within Note 5 “Significant and other judgements, estimates and assumptions”, Note 28 “Stock of properties”, Note 23 ‘’Fair value measurement’’ and Note 56 “Events after the reporting date”. The Group has acquired a significant number of properties as a result of restructuring agreements with customers. Most of these properties are accounted for as stock of property in accordance with IAS 2. The remaining are accounted for as investment properties in accordance with IAS 40. Properties accounted for in accordance with IAS 2 are held at the lower of their cost or net realisable value. Properties accounted for in accordance with IAS 40 are held at their fair value at the balance sheet date. In both cases, valuations	We evaluated the overall control framework relevant to repossessed properties and tested the design and operating effectiveness of key controls around their valuation. We focused on the key inputs and assumptions underlying the valuation of the properties accounted for in accordance with IAS 2 and IAS 40. We evaluated the competence, capability and objectivity of management’s external specialists (property valuers). For a sample of properties, we independently obtained the valuation reports used by the Group from external valuers to ensure the accuracy of management’s records. For a sample of external valuation reports, we assessed the methodology and assumptions used with the assistance of PwC valuation specialists. We performed look-back procedures by comparing the price

obtained from reputable external valuers are a key input to determine the appropriate carrying value. In light of the large volume of properties held and the uncertainty around market conditions when estimating the carrying amount, we have considered these financial statement line items which total €1.514 collectively, to be a key audit matter.	achieved for disposals during 2019 to the carrying values for those assets at 31 December 2018. We evaluated whether the disclosures address significant judgements and estimates and assessed their adequacy against the relevant accounting standards. We concluded that the judgements and estimates used by management in determining the carrying amount of repossessed properties were reasonable and the disclosures made in relation to these matters in the consolidated financial statements were appropriate.
Privileged user access Refer to pages 352 to 356 in the Corporate Governance report. The Group's financial reporting is heavily reliant on a number of IT systems which have been in place for a number of years and which are inherently complex. The Group operates privileged user access controls which are critical to ensuring that changes to applications and underlying data are made in an appropriate manner. Appropriate privileged user access controls contribute to mitigating the risk of potential fraud or errors as a result of changes to application functionality and data. We considered this to be a key audit matter as our audit approach relies on IT dependent controls and data and we performed extensive procedures due to the nature of the legacy systems in place.	With the assistance of PwC IT audit specialists, we obtained an understanding of the group's IT environment and evaluated and tested the design and operating effectiveness of those IT General Controls (ITGCs) on IT systems that support financial reporting. Where appropriate, we performed additional audit procedures. Specifically, we: ▪ extracted user access listings directly from the production environment of relevant IT applications, along with their supporting IT infrastructure to validate the completeness of access rights within the Security Identity Manager (SIM) toolset which is used to support the management of user access; ▪ extracted the list of privileged users on the Group's data warehouse and considered the appropriateness of access during 2019; ▪ extracted the list of developers from the production IT systems and release tools for those applications where system functionality is managed in-house and considered the appropriateness of developer access; and ▪ considered the authentication controls of applications and supporting IT infrastructure to assess compliance with the group's password policy requirements. On completion of these procedures we evaluated the residual audit risk and performed additional audit procedures where necessary.
Carrying value of investment in Bank of Cyprus pcl (company only) Refer to Note 3 "significant accounting estimates, judgements and assumptions", Note 8 "investment in subsidiary" to the Company financial statements and Note 56 "Events after the reporting date". As noted in the accounting policies, investment in subsidiaries is shown at cost in the Company financial statements unless	We evaluated and tested controls over the recoverability assessment. We assessed the forecasts of expected cash flows included in management's value in use calculations at 31 December 2019 for consistency with the group's recent trading performance and detailed Capital Plan. We challenged the basis on which management projected cash flows for years after the Capital Plan period and evaluated their

there is evidence of impairment which case, it is shown at cost less impairment. Having completed an impairment test, the directors have recorded an impairment charge of €413 million. We considered this to be a key audit matter because of the judgement associated with the assessment of the recoverable amount of the investment at 31 December 2019 used to measure the impairment loss.	reasonableness by reference to historic performance, future plans and external data, as appropriate. We considered management's calculation of the Group's weighted average cost of capital by reference to external sources used by management. We reperformed management's terminal value calculation and considered the appropriateness of the long term growth rate used by reference to external forecasts for the Cypriot economy as at 31 December 2019. We concluded that the impairment assessment in respect of the investment in Bank of Cyprus pcl and the disclosures made in the financial statements are reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

Bank of Cyprus pcl is the main trading entity of the group and prepares consolidated financial statements which consolidate all subsidiaries of the Group. In establishing the overall approach to scoping the group audit engagement we determined the type of work that needed to be performed by legal entity.

The Group team were responsible for the scope and direction of the audit. Where the work was performed by component auditors, we determined the level of involvement the Group team needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

For the consolidated financial statements we performed an audit of the full financial information of Bank of Cyprus pcl as this accounts for approximately 98%, 95% and 96% respectively of the Group's revenues, the Group's absolute value of underlying profit and the Group's total assets. The nature and extent of audit procedures was determined by our risk assessment

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Consolidated financial statements	***Company financial statements***
Overall materiality	€18.4 million	€18 million
How we determined it	Circa 1% of net assets.	1% of net assets.
Rationale for benchmark applied	Given the volatility in profit / loss before tax arising over recent years from elevated impairments and subsequent reductions and the scale of losses arising from exceptional activities, we believe that net assets provide us with a more appropriate and consistent year on year basis for determining materiality rather than profitability.	The Parent Company is a holding company. Consequently, we consider that net assets is the most relevant measure to reflect the nature of its activities and transactions.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €918,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (Ireland) we report as follows:

Reporting obligation	***Outcome***
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's or the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 (excluding the information included in the "Non Financial Statement" as defined by that Act on which we are not required to report) have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 (CA14) require us to also report certain opinions and matters as described below. (required by ISAs (Ireland) unless otherwise stated).

Directors' Report

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report (excluding the information included in the "Non Financial Statement" on which we are not required to report) for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14)
- Based on our knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' Report (excluding the information included in the "Non Financial Statement" on which we are not required to report). (CA14)

Corporate governance statement

- In our opinion, based on the work undertaken in the course of the audit of the financial statements,
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014;

  included in the Corporate Governance Statement, is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014. (CA14)

- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement. (CA14)
- In our opinion, based on the work undertaken during the course of the audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) of the Companies Act 2014 and regulation 6 of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 is contained in the Corporate Governance Statement. (CA14)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), under ISAs (Ireland) we are required to report to you if we have anything material to add or to draw attention to regarding:

- The directors' confirmation on page 334 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 32 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors on page 355 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 352 - 356 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 50, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the company financial statements to be readily and properly audited.
- The Company Balance Sheet is in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Prior financial year Non Financial Statement

We are required to report if the company has not provided the information required by Regulation 5(2) to 5(7) of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017 in respect of the prior financial year. We have nothing to report arising from this responsibility.

Appointment

We were appointed by the directors on 2 April 2019 to audit the financial statements for the year ended 31 December 2019 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Kevin Egan
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin
28 April 2020

Company Financial Statements

Contents

Company Statement of Comprehensive Income

for the year ended 31 December 2019

	Notes	**2019**	2018
		€000	€000
Income			
Dividend income	*16*	**135,000**	-
Income from equity instruments	*9*	**27,199**	-
Other income	*4*	**2,923**	15,838
Total net income		**165,122**	15,838
Fee and commission expenses	*5*	**-**	(11,215)
Administrative and other operating expenses	*6*	**(2,793)**	(2,237)
		162,329	2,386
Finance costs		**(12)**	(22)
Impairment of investment in subsidiary	*8*	**(413,489)**	(383,131)
Loss before income tax		**(251,172)**	(380,767)
Income tax	*7*	**(5)**	-
Loss for the year		**(251,177)**	(380,767)
Other comprehensive income (OCI)			
OCI not to be reclassified in the income statement in subsequent periods			
Fair value reserve (equity instruments)			
Net gains on investments in equity instruments measured at fair value through OCI (FVOCI)	*9*	**19,558**	-
Total OCI not to be reclassified in the income statement in subsequent periods		**19,558**	-
Other comprehensive income for the year		**19,558**	-
Total comprehensive loss for the year		**(231,619)**	(380,767)

The notes on pages 306 to 315 form an integral part of these Company financial statements.

BANK OF CYPRUS HOLDINGS PUBLIC LIMITED COMPANY

Company Balance Sheet

as at 31 December 2019

	Notes	2019 €000	2018 €000
Assets			
Non-current assets			
Investment in subsidiary	8	**1,632,000**	1,910,489
Investments	9	**239,558**	220,000
		1,871,558	2,130,489
Current assets			
Other assets		**373**	101
Receivables from related parties	11	**-**	734
		373	835
Total assets		**1,871,931**	2,131,324
Equity and liabilities			
Equity and reserves			
Share capital	12	**44,620**	44,620
Share premium	12	**1,294,358**	1,294,358
Revaluation and other reserves	12	**19,558**	-
Retained earnings	13	**293,048**	571,424
Equity attributable to the owners of the Company		**1,651,584**	1,910,402
Other equity instruments	12	**220,000**	220,000
Total equity and reserves		**1,871,584**	2,130,402
Current liabilities			
Bank overdrafts	10	**132**	18
Other payables	14	**85**	904
Payables to related parties	11	**130**	-
		347	922
Total liabilities and equity		**1,871,931**	2,131,324

Mr. E.G. Arapoglou
Chairman

Mr. P. Nicolaou
Chief Executive Officer

28 April 2020

The notes on pages 306 to 315 form an integral part of these Company financial statements.

Company Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital (Note 12)	Share premium (Note 12)	(Accumulated losses)/retained earnings (Note 13)	Financial instruments fair value reserve (Note 9)	**Total equity attributable to the owners of the Company**	Other equity instruments (Note 12)	**Total equity**
	€000	€000	€000	€000	**€000**	€000	**€000**
Balance at 1 January 2018	**44,620**	**2,794,358**	**(545,351)**	**-**	**2,293,627**	**-**	**2,293,627**
Loss after tax for the year	-	-	(380,767)	**-**	**(380,767)**	-	**(380,767)**
Elimination of share premium reserve (Note 12)	-	(1,500,000)	1,500,000	**-**	**-**	-	**-**
Issue of other equity instruments (Note 12)	-	-	(2,458)	**-**	**(2,458)**	220,000	**217,542**
Balance at 31 December 2018/1 January 2019	**44,620**	**1,294,358**	**571,424**	**-**	**1,910,402**	**220,000**	**2,130,402**
Loss after tax for the year	-	-	(251,177)	-	**(251,177)**	**-**	**(251,177)**
Other comprehensive income after tax for the year	-	-	-	19,558	**19,558**	**-**	**19,558**
Total comprehensive income after tax for the year	-	-	(251,177)	19,558	**(231,619)**	**-**	**(231,619)**
Payment of coupon to AT1 holders (Note 12)	-	-	(27,199)	-	**(27,199)**	**-**	**(27,199)**
Balance at 31 December 2019	**44,620**	**1,294,358**	**293,048**	**19,558**	**1,651,584**	**220,000**	**1,871,584**

The notes on pages 306 to 315 form an integral part of these Company financial statements.

Company Statement of Cash Flows

for the year ended 31 December 2019

	Notes	2019 €000	2018 €000
Cash flows from operating activities			
Loss before tax		**(251,172)**	(380,767)
Adjustments for:			
Dividend income	*16*	**(135,000)**	-
Income from equity instruments	*9*	**(27,199)**	-
Impairment of investment in subsidiary	*8*	**413,489**	383,131
		118	2,364
Changes in working capital:			
Other assets		**(272)**	(101)
Receivables from related parties		**734**	(673)
Other payables		**(819)**	699
Payables to related parties		**125**	-
Net cash (used in) / from operating activities		**(114)**	2,289
Cash flows from investing activities			
Income received from equity securities	*9*	**27,199**	-
Purchases of equity securities	*9*	**-**	(220,000)
Net cash from / (used in) investing activities		**27,199**	(220,000)
Cash flows from financing activities			
Payment of AT1 coupon	*12*	**(27,199)**	-
Net proceeds from issuance of capital securities	*12*	**-**	217,542
Net cash (used in) / from financing activities		**(27,199)**	217,542
Net decrease in cash and cash equivalents		**(114)**	(169)
Cash and cash equivalents:			
At beginning of the year		**(18)**	151
At end of the year	*10*	**(132)**	(18)

The notes on pages 306 to 315 form an integral part of these Company financial statements.

1. Corporate information

Bank of Cyprus Holdings Public Limited Company (the 'Company') was incorporated in Ireland on 11 July 2016, as a public limited company under company number 585903 in accordance with the provisions of the Companies Act 2014 of Ireland (Companies Act 2014). Its registered office is 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland.

The Company owns 100% of the share capital of Bank of Cyprus Public Company Limited (BOC PCL) whose principal activities involve the provision of banking, financial services, insurance services and management and disposal of property predominately acquired in exchange of debt. The Board of Directors does not expect that the Company's activities will change in the foreseeable future. The Company is tax resident in Cyprus.

The Bank of Cyprus Holdings Group (the 'Group') comprises the Company, its subsidiary BOC PCL and the subsidiaries of BOC PCL.

The shares of the Company are listed and trading on the London Stock Exchange (LSE) and the Cyprus Stock Exchange (CSE).

The Company financial statements are available at the Company's registered office (at 10 Earlsfort Terrace, Dublin 2, D02 T380, Ireland) and on the Group's website www.bankofcyprus.com (Investor Relations).

Company Financial statements
The Company financial statements for the year ended 31 December 2019 were authorised for issue by a resolution of the Board of Directors on 28 April 2020. The Company also issues consolidated financial statements which are available at the Company's registered office and on the Group's website.

The Company financial statements have been prepared in both the English and Greek language. In case of a difference or inconsistency between the two, the English version prevails.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

Presentation of the Company financial statements
The Company 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.

2.2 Going concern

The going concern assessment of the Company is consistent with the going concern assessment of the Group, a summary of which is presented in Note 3 of the consolidated financial statements of the Group for the year ended 31 December 2019.

2.3 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 2019.

In addition the following policies are adopted:

Investment in subsidiary
The investment in subsidiary is 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 of the consolidated financial statements of the Group for the year ended 31 December 2019.

3. Significant accounting estimates, judgements and assumptions

The preparation of the Company 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 Company 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 Board of Directors has made the following judgements and estimations:

Fair value of investments

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 15.

Investment in subsidiary

The Company periodically evaluates the recoverability of the investment in subsidiary whenever indicators of impairment are present. Indicators of impairment include such items as declines in revenues, earnings or cash flows of the subsidiary or material adverse changes in the economic or political stability of the country that the subsidiary operates, which may indicate that the carrying amount of the subsidiary is not recoverable. If facts and circumstances indicate that the investment in subsidiary may be impaired, the Company determines the recoverable amount of the investment in subsidiary as the higher of its fair value less costs to sell and its value-in-use. Value-in-use is calculated by estimating the future cash inflows and outflows to be derived from continuing use of the asset and applying the appropriate discount rate.

If the recoverable amount is lower than the carrying value of the subsidiary, an impairment loss is recognised equal to the excess of the carrying value over the recoverable amount.

Further details on the determination of the recoverable amount of the investment in subsidiary are disclosed in Note 8.

4. Other income

	2019	2018
	€000	€000
Management consultancy services (Note 16 (ii))	**1,068**	1,034
Reimbursement of expenses and fees (Note 16 (ii))	**1,855**	14,804
	2,923	15,838

5. Fee and commission expenses

	2019	2018
	€000	€000
Fee and commission expenses	**-**	11,215

In accordance with the purchase agreement of the Capital Securities issued in December 2018 (Note 12) between the Company and the investors each investor paid in August and September 2018 an amount equal to the purchase price (principal amount) of the Capital Securities it has agreed to purchase to an escrow agent in accordance with the terms and conditions of an escrow deed. The escrow deed provided that the aggregate purchase proceeds would be held in escrow until the issue date of the capital securities. The purchase proceeds in respect of each investor accrued a commitment fee payable by the Company for the period during which the money was held in escrow, at a rate that was commercially agreed between the investors and the Company.

6. Administrative and other operating expenses

	2019	2018
	€000	€000
Directors' fees (Note 16 (iv))	**1,008**	970
Insurance	**997**	-
Consultancy and other professional fees (Note 16 (iii))	**497**	898
Stock exchange fees	**196**	284
Audit fees	**74**	51
Other expenses	**21**	34
	2,793	2,237

Audit fees above include fees to the statutory auditors for work engaged by the Company during the year 2019 of €36 thousand (2018: €nil) and €38 thousand fees to the previous statutory auditors for 2018 audit fees. The consultancy and other professional fees above do not include any fees charged by the Company's statutory auditors.

The Company did not employ any staff during the years 2019 and 2018.

7. Income tax

	2019	2018
	€000	€000
Current tax	**4**	-
Prior years' tax adjustments	**1**	-
	5	-

7. Income tax (continued)

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

	2019	2018
	€000	€000
Loss before tax	(251,172)	(380,767)
Income tax at the normal tax rates in Cyprus	(31,397)	(47,596)
Income tax effect of:		
- expenses not deductible for income tax purposes	51,908	49,447
- income not subject to income tax	(20,507)	(1,851)
Prior years' tax adjustments	1	-
	5	-

Income tax in Cyprus is calculated at the rate of 12.5% on taxable income (2018: 12.5%).

8. Investment in subsidiary

	2019	2018
	€000	€000
1 January	1,910,489	2,293,620
Issue of shares following the scrip dividend (Note 16 (i))	135,000	-
Impairment of investment in subsidiary	(413,489)	(383,131)
31 December	1,632,000	1,910,489

The investment in subsidiary represents a 100% investment in the share capital of BOC PCL, a company registered in Cyprus and its activities are presented in Note 1. Its registered office is at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O.Box 24884, 1398 Nicosia, Cyprus.

On 31 December 2019, the Company made an assessment of the carrying value of the investment in subsidiary and as a result of that assessment an impairment of €413,489 thousand has been recognised (year ended 31 December 2018: €383,131 thousand).

The assessment involved the determination of the recoverable amount of the investment in subsidiary as the higher of its fair value less costs to sell and the value-in-use. To determine the value-in-use of the investment in subsidiary, the future cash flows to be derived from continuing use of the asset were estimated with the use of a dividend discount model, which was based on the business plan, approved by the Board, and projections which had been extrapolated beyond 2023 until the end of 2028. From year 2029 onwards, a terminal growth rate has been assumed in the valuation. An appropriate discount factor has been applied, which reflects the cost of equity of the investment in subsidiary.

The impairment losses during the year ended 31 December 2018 were primarily driven by the decrease of the equity of the subsidiary following IFRS 9 impact on transition and 2018 loss after tax.

9. Investments

	2019	2018
	€000	€000
Equity instruments at fair value through other comprehensive income (Note 16 (vi))	239,558	220,000

9. **Investments** (continued)

On 19 December 2018 the Company issued €220,000 thousand of Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1) (Note 12). On the same date, the Company and BOC PCL entered into an agreement pursuant to which the Company on-lent to BOC PCL the entire €220,000 thousand proceeds of the issue of the AT1 (the loan, the ‘AT1 Loan’) on terms substantially identical to the terms and conditions of the AT1 issued by the Company. The AT1 Loan constitutes an unsecured and subordinated obligation of BOC PCL. The interest is at 12.50% and is payable semi-annually. BOC PCL may elect to cancel any interest payment for an unlimited period, and on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. The AT1 Loan is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at BOC PCL's option on the fifth anniversary of the issue date and each subsequent fifth anniversary. AT1 Loan has been classified as equity instruments at fair value through other comprehensive income. During the year ended 31 December 2019 an income of €27,199 thousand (2018: nil) has been recognised in profit and loss in respect of these investments.

The fair value of equity instruments held by the Company is determined using models for which all inputs that have a significant effect on fair value are market observable. Equity instruments are financial instruments whose fair value is categorised as Level 2 instruments in fair value hierarchy. The maximum exposure to credit risk at the balance sheet date is the carrying value of the equity instruments.

There were no transfers in and out of Level 2 during 2019.

During the year ended 31 December 2019 an amount of €19,558 thousand (2018: nil) has been recognised in other comprehensive income in respect of the fair value measurement of these investments.

10. Bank balances

Bank balances include the following for the purpose of the statement of cash flows:

	2019	2018
	€000	€000
Bank overdrafts (Note 16 (v))	**(132)**	(18)

11. Receivables from / Payables to related parties

	2019	2018
	€000	€000
Current assets		
Receivables from related parties (Note 16 (v))	**-**	734

	2019	2018
	€000	€000
Current liabilities		
Payables to related parties (Note 16 (v))	**130**	-

The above balances represent the maximum exposure to credit risk at the balance sheet date.

12. Share capital

	2019		2018	
	Number of shares (thousand)	**€000**	Number of shares (thousand)	€000
Authorised				
Ordinary shares of €0.10 each	10,000,000	1,000,000	10,000,000	1,000,000
Issued and fully paid				
Ordinary shares of €0.10 each	446,200	44,620	446,200	44,620

The Company did not provide financial assistance permitted by section 82 of the Companies Act 2014 for the purchase of its shares.

Authorised and issued share capital

All issued shares are fully paid and carry the same rights.

There were no changes to the authorised or issued share capital during the years ended 31 December 2019 and 2018.

Share premium reserve

2019
There were no changes to the share premium reserve during the year ended 31 December 2019.

2018
The Annual General Meeting of the shareholders of the Company held in August 2018 approved a reduction of up to €1.5 billion of the Company's share premium to eliminate the Company's accumulated losses and create distributable reserves (retained earnings). This was approved by the Irish High Court pursuant to section 85(1) of the Companies Act 2014 of Ireland on 13 December 2018.

Share-based payments-share options

Following the incorporation of the Company and its introduction as the new holding company of the Group in January 2017, the Long Term Incentive Plan was replaced by the Share Option Plan which operates at the level of the Company. The Share Option Plan is identical to the Long Term Incentive Plan except that the number of shares in the Company to be issued pursuant to an exercise of options under the Share Option Plan should not exceed 8,922,945 ordinary shares of a nominal value of €0.10 each and the exercise price was set at €5.00 per share. The term of the options was also extended to between 4-10 years after the grant date.

No share options were granted since the date of replacement of the Long Term Incentive Plan by the Share Option Plan at the level of the Company. Any shares related to the Share Option Plan carry rights with regards to control of the Company that are only exercisable directly by the employee.

Other equity instruments

	2019	2018
	€000	€000
Reset Perpetual Additional Tier 1 Capital Securities	**220,000**	220,000

12. **Share capital** (continued)

Other equity instruments (continued)

In December 2018 the Company issued €220 million Subordinated Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (AT1). AT1 constitutes an unsecured and subordinated obligation of the Company. The coupon is at 12.50% and is payable semi-annually. During the year ended 31 December 2019 two coupon payments to AT1 holders were made of a total amount of €27,199 thousand and have been recognised in retained earnings. The Company may elect to cancel any interest payment for an unlimited period, on a non-cumulative basis, whereas it mandatorily cancels interest payment under certain circumstances. AT1 is perpetual and has no fixed date for redemption but can be redeemed (in whole but not in part) at the Company's option on the fifth anniversary of the issue date and each subsequent fifth anniversary subject to the prior approval of the regulator. AT1 is listed on the Luxembourg Stock Exchange's Euro Multilateral Trading Facility (MTF) market.

During the year ended 31 December 2018, the transaction costs, directly attributable to the issuance, amounted to €2,458 thousand and have been recognised in retained earnings.

13. Retained earnings / (accumulated losses)

For the purpose of dividend distribution, retained earnings determined at 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 2019 and 2018 no deemed dividend distribution was paid by the Company.

14. Other payables

	2019	2018
	€000	€000
Accruals	**64**	510
Other payables	**-**	253
VAT payable	**21**	141
	85	904

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

15. Fair value measurement

The fair value of the financial assets and financial liabilities approximates their carrying value as at 31 December 2019 and 31 December 2018.

16. Related party transactions

The following transactions were carried out with related parties:

(i) Dividend income and income from equity instruments

	2019	2018
	€000	€000
Dividend income		
BOC PCL	**135,000**	-
Income from equity instruments		
BOC PCL	**27,199**	-

On 14 December 2018, the Board of Directors of BOC PCL approved the declaration of a conditional interim dividend, amounting to €135,000 thousand, in the form of scrip, through the issue of 675,000 thousand of ordinary shares of a nominal value of €0.10 per share to be issued at a premium of €0.10 per share to the Company, out of BOC PCL's profits for the financial year of 2016. The declaration of such dividend was conditional and subject to lifting of regulatory restrictions. Specifically, the payment of the aforementioned interim dividend could be effected only if the 2018 SREP decision permitted the BOC PCL to make the distribution contemplated by such declaration. The final 2018 SREP decision, received on 27 March 2019, allowed the payment in the form of scrip dividend. The scrip dividend was paid by BOC PCL on 27 March 2019 through the issue of 675,000 thousand of ordinary shares of a total issue price of €0.20 per share to the Company.

During the year ended 31 December 2019 an income of €27,199 thousand (2018: nil) has been recognised in profit and loss in respect of equity instruments at fair value through other comprehensive income (Note 9) held by the Company.

(ii) Other income

	2019	2018
	€000	€000
Management consultancy services	**1,068**	1,034
Reimbursement of expenses and fees	**1,855**	14,804
	2,923	15,838

The above transactions were carried out between the Company and its subsidiary BOC PCL on an arm's length basis.

(iii) Administrative and other expenses

	2019	2018
	€000	€000
Consultancy and other professional fees	**24**	30

The above consultancy and other professional fees were carried out between the Company and its subsidiary BOC PCL on an arm's length basis.

(iv) Directors' remuneration

The total directors' fees amount to €1,008 thousand (2018: €970 thousand). These were reimbursed by BOC PCL and included in other income above.

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

16. Related party transactions (continued)

(iv) Directors' remuneration (continued)

Non-executive Directors

	2019	2018
	€000	€000
Josef Ackermann (resigned on 14 May 2019)	**57**	150
Efstratios-Georgios Arapoglou (appointed on 12 June 2019 following ECB approval)	**84**	-
Arne Berggren	**117**	115
Maksim Goldman	**122**	120
Michalis Spanos (resigned on 21 January 2019)	**6**	100
Ioannis Zographakis	**159**	135
Michael Heger	**122**	110
Lyn Grobler	**92**	90
Anat Bar-Gera	**86**	85
Paula Hadjisotiriou	**97**	36
Maria Philippou	**66**	29
	1,008	970

The fees of the non-executive Directors include fees as members of the Board of Directors of the Company, as well as of members of the committees of the Board of Directors.

(v) Year-end balances

	2019	2018
	€000	€000
Receivables from related parties		
BOC PCL	**-**	734
Payables to related parties		
BOC PCL	**130**	-
Bank overdrafts		
BOC PCL	**132**	18

The payable to related parties as at 31 December 2019 relates to outstanding administrative and other operating expenses. The receivable from related parties as at 31 December 2018 related to income outstanding from management consultancy services and reimbursement of expenses and fees.

There were no other significant transactions with related parties of the Company and no information to be disclosed under section 307 of the Companies Act 2014 for the years 2019 and 2018.

(vi) AT1 Loan

On 19 December 2018 the Company and BOC PCL entered into an agreement pursuant to which the Company on-lent to BOC PCL the entire €220,000 thousand proceeds of the issue of the AT1. Further details are disclosed in Note 9.

17. Dividend

Following the 2018 and 2019 Supervisory Review and Evaluation Process (SREP) decisions, the Company is still under equity dividend distribution prohibition. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders which are eligible as Common Equity Tier 1 capital. No dividends were declared or paid during years 2019 and 2018.

No prohibition applies to the payment of coupon on any AT1 capital instruments issued by the Company.

18. Financial risk management

The Company is exposed to risks the most significant of which are the liquidity risk and market risk.

18.1 Liquidity risk

Liquidity risk refers to probable losses that the Company may face, in case of repayment difficulties to its cash flow obligations. The level of operational costs is low and the Company enjoys adequate liquidity.

18.2 Market risk

Market risk is the risk of loss from adverse changes in market prices namely from changes 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.

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 Company's risk appetite.

Changes in the prices of equity securities that are classified as FVOCI affect the equity of the Company.

The table below shows the impact on the equity of the Company from a change in the price of the equity instruments held, as a result of reasonably possible changes in the relevant stock exchange indices.

2019	**Change in index**	**Impact on equity**
	%	**€000**
Other stock exchanges and unlisted	**+15**	**35,938**
Other stock exchanges and unlisted	**-15**	**(35,938)**
2018		
Other stock exchanges and unlisted	+20	44,000
Other stock exchanges and unlisted	-20	(44,000)

19. Capital management

The capital management of the Company is consistent with the capital management of the Group as presented in Note 50 of the consolidated financial statements of the Group for the year ended 31 December 2019.

20. Events after the reporting date

20.1 Developments on the Coronavirus disease (COVID-19) outbreak

With respect to the developments around the Coronavirus disease (COVID-19) outbreak please refer to Note 56.1 of the consolidated financial statements of the Group for the year ended 31 December 2019.

20.2 Capital reduction through use of the Company's share premium

The Company will proceed (subject to approval by the shareholders, the ECB and the Irish High Court) with a capital reduction process which will result in the reclassification of €700 million of the Company's share premium as distributable reserves. This will increase the distributable reserves of the Company to approximately €1 billion on a pro forma basis (31 December 2019). The capital reduction has been proposed as a special resolution for approval by shareholders at the Company's Annual General Meeting scheduled on 26 May 2020. The capital reduction will not have any impact on regulatory capital or the total equity position of the Company or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Introduction

The Board of Directors (the 'Board') of the Bank of Cyprus Holdings Plc (the 'Company') is committed to the highest standards of corporate governance and aims to ensure on an ongoing basis that the Company is a modern, transparent, competitive and sustainable organisation. A key objective of the governance framework of the Company together with its subsidiaries (the 'Group') is to ensure compliance with applicable legal and regulatory requirements. The Company is subject to the Code of Corporate Governance of the Cyprus Stock Exchange (available on www.cse.com.cy), as well as the Directive on Governance and Management Arrangements of the Central Bank of Cyprus (the 'CBC Directive on Governance') and the Directive on the Assessment of Fitness & Probity of the members of the management body and managers of authorised credit institutions (the 'CBC Directive on Fitness & Probity') (available on www.centralbank.cy).

The Company has also elected to apply the revised 2018 UK Corporate Governance Code published by the Financial Reporting Council in the UK (the 'UK Code' which is available on www.frc.org.uk).

Part A

The Company has fully adopted the Code of Corporate Governance of the Cyprus Stock Exchange (5th revised edition – January 2019) (the 'CSE Code'), has incorporated its provisions in the Group's Corporate Governance Policy and fully implements its principles. The policy together with the Board Manual, the terms of reference of the Board committees and the practices followed by the Board and its committees, constitute important foundations for maximising shareholder value.

Part B

The Company confirms that it has complied with the provisions of the CSE Code throughout 2019. The Company applies the provisions of the Code throughout the Group. As at the date of this Report, all significant subsidiary companies maintain an audit committee and a risk committee. Details of how the Company has applied the provisions of the CSE Code throughout 2019 are set out in this Corporate Governance Report and in the Remuneration Policy Report on page 365.

The Directors further consider that the Company has complied with the provisions of the UK Code, other than as set out herein:

- Following the resignation of Mr. Michael Spanos on 21 January 2019 until 26 February 2019 when Mr. Zographakis was appointed to the role, there was no Senior Independent Director. There was only one intermediate meeting in this time which took place on 25 February and continued into 26 February 2019 because of the large number of matters to be discussed. During this period the Investors Relations Department was ready to take any queries / concerns and address them to the Board if relevant.
- The update on the views received from shareholders and actions taken were not published within six months of the AGM, given that a new Chairman was appointed to the Board in June and a new CEO in September 2019 and discussions with shareholders were slightly delayed to obtain their views on the change in the leadership of the Group. An update is included in this report on page 327.

The narrative that follows also covers how the Company has applied the principles, provisions and disclosure requirements set out in the UK Code.

The Board considers that the Group's governance arrangements are robust and include a clear organisational structure and well defined, transparent and consistent lines of responsibility which support the maintenance of a strong control environment. These governance arrangements also include well-defined and consistent authority limits, reporting mechanisms to higher levels of management and the Board as well as effective processes through which to identify, manage, monitor and report risks to which the Group is or might be exposed. They provide systems of checks and controls to ensure accountability and drive better decision-making, supported by policies and procedures which ensure the Board and its committees operate effectively. The Group has appropriate internal control mechanisms including sound administrative and accounting procedures, Information Technology ('IT') systems and controls. The Board continually monitors and reviews internally, at least once a year, its governance framework and that of the Group's subsidiary companies (where applicable) through effective oversight. Corporate governance principles are constantly evolving, and the Board is committed to monitoring and reviewing its corporate governance framework accordingly.

Introduction (continued)

Part B (continued)

In late October 2019, the Group's operational structure was re-organised, to ensure that the Group is structured effectively to achieve the Group's vision, mission and transformation. The new senior management structure is based on three pillars: Functions; Business; and Legacy to better focus and align with the Group's key objectives. These objectives include significant de-risking of the balance sheet, the building of core activities in the light of the new digital age and the rationalization of the Group's operating activities, with emphasis on digital transformation and cost reduction.

1. Board of Directors

The Board derives its authority to act from the Articles of Association of the Company and the prevailing companies, stock exchange and banking laws, the directives of the CBC, as well as the CSE and UK Codes. The role of the Board and its committees is well described and analysed in the Board Manual that is annually fully revised and incorporates all responsibilities that emanate from the regulatory framework and best practices.

On 18 January 2017 the Company became the sole shareholder of Bank of Cyprus PCL ('BOC PCL' or 'the Bank'). A common board and committee structure applies, with the same directors sitting on the Board of Directors of the Company and on the Board of Directors of BOC PCL and on the committees of each of the two Boards.

The Board is collectively responsible for the long-term success of the Group; it sets the Group's strategic objectives and risk appetite to support the strategy; integrates sustainability into the way business is conducted; ensures that the necessary financial and human resources are in place for the Group to meet its objectives; and reviews management performance. The Board also ensures that its obligations towards its shareholders and other stakeholders are understood and met. The Board recognises the need to be adaptable and flexible to respond to changing circumstances and emerging business priorities, whilst ensuring the continuous monitoring and oversight of core issues.

The Board has delegated authority to committees of the Board to support its oversight of risk and control. The committees are the Audit Committee (the 'AC'), the Risk Committee (the 'RC'), the Nominations and Corporate Governance Committee (the 'NCGC'), the Human Resources and Remuneration Committee (the 'HRRC'), the Technology Committee (the 'TC') and the Ethics, Conduct and Culture Committee (the 'ECCC'). Details of these committees are set out in section 5 of this report. The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. The committee terms of reference are reviewed annually by the relevant committees and by the Board and are available on the Group's website www.bankofcyprus.com or by request to the Company Secretary.

1.1 The Role of the Board

The Board's role is to provide effective leadership of the Group and promote the Group's vision, values, culture and behaviour, within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board is responsible for ensuring that management maintains an appropriate system of internal controls which provides ongoing 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.

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects, including in relation to the annual and interim financial statements and other price-sensitive public reports and reports required by regulators and by law.

The Board is the decision-making body for all matters of importance because of their strategic, financial or reputational implications or consequences. A formal schedule of matters reserved for approval by the Board ensures that control of these key decisions is maintained by the Board. The schedule is reviewed and updated regularly. Matters requiring Board approval include amongst others:

- *Strategy and Risk Appetite*
    - The Group's long-term objectives and strategy;
    - The overall risk policy and risk management procedures;
    - The Group's Risk Appetite Statement;

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

- *Transactions*
  - Capital expenditures for amounts over €20 million;
  - Unusual transactions;
  - Mergers, acquisitions and disposals of the Group's assets for amounts over €20 million;
- *Management*
  - The annual and three-year budgets and business plans;
  - Intra-group guarantees, indemnities and security;
- *Corporate Governance*
  - Directors' conflicts of interest;
  - The selection, appointment, re-appointment of directors of the Company and the termination of the services of the Chief Executive Officer;
  - Overseeing the corporate governance and succession planning framework; setting the right tone; and promoting the appropriate culture, values and ethics of the Group; and
  - The Remuneration Policy.

Moreover, the Board is responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group. Their appropriateness for the role is monitored on an ongoing basis. A full schedule of matters reserved for the Board can be found at www.bankofcyprus.com.

Stakeholders

The Board recognises that the relationship with the Group's stakeholders is a critical component of the drive towards sustained and sustainable growth. Responding to the concerns of stakeholders is a key element of the Group's corporate responsibility and transparency projects and initiatives. The Group has identified, inter alia, the following key stakeholders: regulators, society, suppliers, customers, shareholders and employees.

The Chairman and members of the Board regularly meet with regulators including the Joint Supervisory Team ('JST') and the Central Bank of Cyprus ('CBC'), the European Central Bank ('ECB') and others. Discussions include regulation and supervision, risk governance and oversight, the future of the banking industry, strategic challenges and rebuilding culture. The Board is regularly updated on these meetings.

Following the equity participation of the European Bank for Reconstruction and Development ('EBRD') in the Company's capital in 2014, and in view of its commitment to environmental and social (E&S) issues, the Company is committed to applying certain environmental and social policies and procedures to its lending activities based on specific criteria. The key elements of these procedures are as follows:

- Screening of lending activities against any eligibility criteria and determining the level of E&S risk;
- Obtaining satisfactory assurance that customers comply, at a minimum, with national environmental, health, safety and labour regulations and standards;
- Conducting further due diligence as required on lending above a specified E&S risk level and including such findings in the overall lending decision making;
- Using contractual requirements (where required) to ensure customer compliance with national health and safety requirements, and any other actions to be taken by the customer to mitigate E&S risk;
- Monitoring E&S transactions throughout the life of the facility;
- Reporting to the EBRD on E&S issues on an annual basis.

The Company has adopted the United Nations 2030 Agenda, as represented by the Sustainable Development Goals (SDGs) for 2030. The Group's management has decided that the Company should actively contribute to the achievement of the SDGs through promoting well-being in society, committing to protecting the environment and supporting employee development. To this respect the CEO has endorsed the initiative 'CEOs call to Action' undertaken by CSR Europe.

The Bank recognises the importance of waste resource management, and for that reason for several years Bank of Cyprus PCL has had in place a paper recycling programme on all Bank premises. The Bank continually strives to meet environmental and social challenges by:

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

- Considering all factors which affect the Company, be it risk management or management strategies for alternative investments;
- Expanding the new procedures and criteria for the supply chain, ensuring a smooth and transparent process in the selection of suppliers;
- Adopting and upgrading supplier assessment and selection procedures in all areas of cooperation; and
- Expanding the larger bidders' list by 10%.

The Company remains a strong pillar of society and a key driver for sustainable growth in Cyprus. It develops initiatives that aim to improve the living conditions of the more vulnerable groups of society and preserve local culture. Community activities fall within the two pillars: Health and Education. Each year, the Bank supports more than 300 Non-Governmental Organisations (NGOs), charity organisations, associations, municipalities, schools, sports federations and sports academies with the amount of approximately €1 million. During 2019 Bank of Cyprus continued to actively support significant institutions in the area of health improvement and society welfare and was engaged in numerous initiatives supporting Education, Youth, New Entrepreneurship and highlighting Cyprus' strong heritage. More information on the initiatives of the Company with respect to its role in society can be found in the Corporate Responsibility Report on www.bankofcyprus.com.

The Bank maintains a Donations, Sponsorships and Partnership Policy which does not allow sponsorship of political parties or any associations or organisation related directly or indirectly to one.

The Group plays a key role and contributes to the growth of Cyprus economy as the largest banking and financial services group in Cyprus, with a long presence and tradition. The Board recognises that the Group's performance is highly correlated to the Cypriot economy. Though Cyprus has had strong economic recovery in 2015-2019, the COVID-19 pandemic can lead to a significant slowdown in 2020 and even to a potential recession. Growth in new lending is focused on the consumer, SME and corporate sectors. It 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, shipping, energy, education, health and green projects. The Board has approved the budgets and plans of the business lines supporting this focus.

The Company is improving its risk profile by reducing its non-performing exposures either organically or through sales of loans while enhancing its liquidity and capital positions as well as focusing on diversifying its income streams by optimising fee income from international transaction services, wealth management and insurance. The Board has reviewed the three-year plan of the Restructuring & Recoveries Division ('RRD') and approved individual steps in this direction.

The Group embarked on a journey of digitization in 2018 which involved digitising and automating its processes and directing routine customer interaction over to digital channels. The Bank has been working closely with IBM to redesign its digital channels beginning with mobile services. Electronic banking is secure and internet services are fast, cheap or even free of charge. However, currently some specific demographics do not have access to such services. A key focus for the Bank is educating customers on digital services informing them on ways to avoid charges and encouraging them to use their smart mobile phones for the Bank's services. BOC PCL has already begun the journey of transforming its branch network. The first two model branches (one in Nicosia and one in Limassol) were planned to be launched in the second quarter of 2020 but dates are subject to revision following the pandemic crisis. The Board is closely monitoring the digital transformation project through its Technology Committee which has oversight responsibility with respect to the overall role of technology in the Group's strategy and reviews and approves significant technology investments.

The Bank has replaced the hard copy bank statement which its customers received every month by post with an e-statement, thereby minimizing the use of paper and reducing the environmental impact of its production such as deforestation and wasteful energy and water consumption.

The Board has set down the values of the Company and aims to embed them in every activity and operation of the Group. These are: integrity, transparency, accountability, confidentiality and sustainability. The Group is thus creating value for its customers, shareholders and employees. The security, protection and privacy of personal data are important to the Group and therefore the Board has approved a Data Protection Policy that outlines the principles for data privacy and preserves the customers' ability to have better control of their personal data and to pursue their rights under the EU General Data Protection Regulation ('GDPR').

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

Securing Bank's information and systems has been one of the most significant priorities for the Bank. To this end a multilayer defence approach is used in terms of governance and security controls. The governance model follows regulatory directives employing the three lines of defence. Management support is at the highest possible level and there is direct independent reporting to the appropriate Board committees. In parallel all our security controls follow regulatory standards (GDPR, NIS, PSD2, PCI, SWIFT) and international best practices (such as ISO 27001).

The Group has very low appetite for threats and loses arising from cyber attacks and information misuse. Investments are thus made in terms of people to first, second and third lines of defence employing qualified security engineers, analysts and IT auditors. In addition, significant investments are made in state-of-the-art technology on a continuous basis (such as machine learning and artificial intelligence).

The Bank recognises that its workforce is one of its most valuable assets. To this respect, it has a number of policies and practices in place that relate to talent identification, development and reward/recognition of its employees. Additionally, the Bank invests in the development of its people through the provision of numerous training and development opportunities which aim to create the relevant competencies and behaviours and are appropriate and in line with the Bank's strategy.

Further, the Group maintains a zero-tolerance policy for money laundering and terrorism financing incidents and does not accept excuses for any violations of the relevant legislation or for breaches of the Group's internal policies, procedures and its compliance framework. Strict written instructions were issued in 2018 by the Chairman of the Board and the CEO asking all employees to set rigorous standards and abide by them.

Leadership

There is a clear separation between the role of the Chairman who is responsible for the leadership and effectiveness of the Board, and the Chief Executive Officer ('CEO') who is responsible for the running of the Company's business. This clear division of responsibility is documented in the Board Manual and the Corporate Governance Policy which have been approved by the Board. The day to day operations of the Group have been delegated to management.

Role of the Chairperson

The Chairman creates the conditions for the effectiveness of the Board; oversees the Board's operations ensuring the agenda cover the key strategic items the Group must face; sets the style and tone of Board discussions; and sets clear expectations regarding the Group's culture, values and behaviour.

The Chairman ensures the effective functioning of the Board on all aspects of its role including:

- Providing leadership to the Board;
- Ensuring that the Board determines the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy;
- Ensuring the Board's committees are properly structured with appropriate terms of reference;
- Maintaining effective lines of communication and information between the Board and senior management of the Group;
- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and are not faced with unrealistic deadlines for decision making;
- Encouraging the active participation of members of the Board;
- Regularly reviewing and agreeing with each Director their training and development needs;
- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision-making and voting on any matter on which they may have a conflict of interest;
- Maintaining effective communication with supervisory authorities, shareholders and other stakeholders;
- Acting on the results of Board evaluation, including by recognising the strengths and addressing the weakness of the Board and, where appropriate, proposing the appointment of new directors or seeking the resignation of directors; and
- Promoting high standards of corporate governance.

Josef Ackermann retired as Group Chairman on 14 May 2019. Takis Arapoglou was appointed to the Board as an independent non-executive Director on 26 February 2019. He was elected Group Chairman on 12 June 2019, following ECB consent.

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

Role of the CEO

The CEO is responsible:

- To develop and present to the Board the strategy of the Group;
- To execute the approved strategy;
- To recommend annual operating and capital expenditure budgets;
- In conjunction with the Chairman, represent the Group to clients, regulators, shareholders, potential investors, financial industry and the general public;
- To lead the senior management team in the day-to-day running of the business;
- Accept accountability for the performance of the management team and the delivery of the strategy agreed by the Board;
- Set an example to the Group's employees and communicate to them the expectations of the Board in relation to the Group's culture, values and behaviour; and
- To make decisions on all matters affecting the operations, performance, compliance and strategy of the Group's business with the exception of those matters reserved for the Board.

The CEO, in his day-to-day management of the Group, as delegated by the Board, is supported with recommendations and advice from the Executive Committee ('ExCo') which he chairs. The CEO's service contract is reviewed at least every five years.

John Hourican resigned as CEO on 30 August 2019, after giving appropriate six-month notice. Panicos Nicolaou, CEO designate since May 2019 was appointed to the Board on 1 September 2019 following ECB consent.

Roles of Deputy Chairperson and Senior Independent Director

The Deputy Chairman deputises the Chairman as required. The Senior Independent Director (the 'SID') is available to shareholders and members of the Board if they have concerns that have not / cannot be dealt with through normal communication channels. He provides a sounding board for the Chairman, as well as support to the Chairman in delivering his objectives.

He chairs an executive session of the non-executive directors to assess the performance of the Chairman as part of the annual evaluation of Board performance and oversees the appointment of the Chairperson. He also attends meetings with major shareholders to ensure that there is a balanced understanding of the issues and concerns that they may have.

Michael Spanos, SID, resigned from the Board on 21 January 2019. Ioannis Zographakis was appointed as SID on 26 February 2019.

1.1.1 Information and Support

The Board meets on a regular basis and has a formal schedule of matters for consideration which is annually reviewed. The Board receives regular reports and presentations from the CEO and other senior management on strategy and developments in the operations of the Group. The Board considers reports from each of the Board committees, while regular reports are also provided on the Group's risk appetite, top and emerging risks, risk management, credit exposures and the Group's loan portfolio, asset and liability management, liquidity, litigation, compliance and reputational issues.

Under the supervision of the Chairman of the Board, the Company Secretary's responsibilities include facilitating the flow of information within the Board and its committees, between senior management and non-executive directors and between heads of internal control functions and non-executive directors, as well as facilitating the induction, development and evaluation of members of the Board.

All members of the Board have access to the advice and services of the Company Secretary and the Corporate Governance Compliance Officer (the 'CGCO') who can provide relevant information related to Board procedures and the CSE and UK Codes. The directors also have access to the advice of the Group external legal advisors and to independent professional advice at the Group's expense if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties. All members of the Board have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

1.1.1 Information and Support (continued)

Occasionally the Board holds deep dive sessions with key business lines to provide members with a deeper insight into key areas of strategic focus, enable better quality of debate and enhance knowledge. The deep dives usually include presentations and opportunity for discussion. In 2019, discussions on the capital plan including discussions with external consultants and the regulators took place. A deep dive on new lending for the period 2015-2018 showed consistent governance processes with good practices in retail banking. Some policy exceptions on corporate banking lending were identified but even these indicated due care and adequate analysis.

A quality assurance exercise was carried out by external consultants on the process followed for ICAAP and ILAAP. The cost reduction programme was discussed at length and a cost reduction sponsor was appointed to deliver the program.

The key areas of focus in 2019 for the Board, inter alia, were:

Group Strategy	• Three-year business and capital plan; • Acquisitions and divestitures; • Consideration and approval of large transactions; • Resolution Plan; • Progress of the Bank's Digital Transformation Program; • Minimum Requirement of own funds and Eligible Liabilities (MREL).
Regular Updates	• Group Performance Report; • Finance report, including budgets, forecasts and capital positions; • Risk report; • CEO's report; • Reports from chairpersons of committees.
Business environment	• Cyprus economic development; • Quarterly economic reports; • Investors and stakeholders' perspectives; • Market updates and share trading activity.
Business performance	• Review of business lines' strategies; • Review of the performance of Corporate Finance projects.
Risk management	• New Covered Bond Monitor; • Internal Capital Adequacy Assessment Process ('ICAAP') Report; • Internal Liquidity Adequacy Assessment process ('ILAAP') Report; • Group Risk Appetite Statement; • Cyber Security briefings.
Governance and regulatory compliance	• Approval of appointments to the Board; • Approval of appointments to the boards of major subsidiaries; • Replacement of the chairperson of HRRC; • Replacement of SID; • Board effectiveness and Chairman's performance reviews; • Review and approval of various Group policies; • Succession planning.

Strategy Development

The strategy to revive the Bank in the last six years, premised on a strong set of values along three constituent reform pillars. These were 1) to focus on completing its 'shrinking to strength' strategy which included the divestment of its non-core business abroad concentrating the Bank's business model and capital base on the home market 2) to repair the Bank, to restore confidence in the Bank and to gradually address the challenge of excessively high non-performing exposures (NPEs) and finally 3) to re-build the Bank.

1. Board of Directors (continued)

1.1 The Role of the Board (continued)

1.1.1 Information and Support (continued)

Strategy Development (continued)

This last pillar entailed developing an effective senior management team, improving efficiency and strengthening and diversifying revenue generation. With the first pillar completed and the second pillar well on the way to being addressed, the Bank is now concentrating on the third pillar, i.e. to re-build the Bank through improved efficiency and through strengthening and diversifying revenue income.

The Group focuses on implementing its strategic objectives and aims 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:

- Arrest any asset quality deterioration resulting from the outbreak of COVID-19 and further reduce the level of delinquent loans upon normalisation of market and operational conditions
- Further optimise the funding structure
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

To better serve its customers, the Bank intends to invest in improved products and services and to modernise its agenda. It has become a leader among all financial institutions in Cyprus on digitisation. The benefits of this transformation are already enjoyed by the Bank's customers who have online access to banking services through their computer, tablets and mobile devices. The Group retains the largest market share in outstanding deposits and loans and the lion's share in credit expansion. It is also serving the insurance needs of its clients through two very efficient and dynamic insurance companies, which themselves have the largest market share in life insurance and the second largest share in the non-life insurance market.

Detailed information relating to strategy is set out in Strategy and Outlook of the Directors' Report of the 2019 Annual Financial Report on page 28.

1.2 Composition of the Board of Directors

As at 31 December 2019, the Board comprised of eleven members: the Group Chairman who was independent on appointment, two executive directors and eight non-executive directors. According to the provisions of the CBC Governance seven of the non-executive directors are independent. However, the Board has determined all of the non-executive directors to be independent non-executives in accordance with the provisions of both the UK and the CSE Code. The names and brief biographical details including each Director's background, experience and independent status are set out in section 4 of this report.

The Board considers its current size appropriate to provide the full range of skills and experience necessary on the Board and to populate its committees while retaining a sense of accountability by each Director for Board decisions; to govern the business effectively, while enabling full and constructive participation by all directors given the size and operations of the Group and the time demands placed on the directors.

Each of the committees' structure facilitates open discussion and debate, with steps taken to ensure adequate time for members of the committees to consider proposals which are put forward.

The NCGC at least annually reviews the structure, size, and composition of the Board (including skills, knowledge, experience, independence and diversity) and recommends to the Board the skills and experience required to provide sound governance oversight. These include experience in banking, insurance, markets and regulatory environments, risk management, financial management, strategy development, technology and operations experience and knowledge of governance, compliance and audit. The assessment of the skills profile of the Board is carried out to ensure that the Board and committees comprise of members having an all-embracing perception of the Group's activities and the risks associated with them. Further, should the overall size of the Board be altered by any appointment or resignation, a review is undertaken to ensure that the composition remains appropriate. Tenure is another aspect reviewed when considering succession planning and Board renewal. The Board further ensures that all members commit the necessary time to executing their duties and responsibilities to the Group.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

The Board believes diversity of thinking is essential to sound decision-making and has therefore approved a Board Diversity Policy and is strongly committed to diversity across all dimensions. The Board has retained its gender diversity target of 40% female members by the end of 2020.

The NCGC takes into consideration succession planning and the impact of possible retirements on the skills profile of the Board. Recruitment is supported by Egon Zehnder, an international search agency. In 2019 the agency identified a range of candidates for appointment to the Board for the position of Chairperson and CEO and conducted an independent assessment of short-listed candidates, providing reports to the Board in advance of a series of interviews for each candidate with the NCGC and other directors.

The Group carries out a review of the ongoing fitness and probity of Board members on an annual basis, whereby they are required to confirm any changes in their circumstances in respect of their compliance with the CBC Fitness & Probity Directive. All changes in circumstances disclosed are assessed and their materiality determined. Following the review of 2019, certain changes to directorships were reported. The Board concluded that each of the directors has the requisite standard of fitness, probity and financial soundness to perform his/her functions effectively and commits the necessary time for the execution of his/her duties.

Executive Directors

The CEO and the First Deputy CEO (the 'FDCEO') are employees of BOC PCL. The CEO's termination of employment is subject to six months' notice to that effect to be given to the executive Director, without cause but at the sole discretion of BOC PCL. The FDCEO's employment is mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by BOC PCL based on years of service and for a four-month prior written notice by the executive director in the event of a voluntary resignation.

Non-Executive Directors

Non-executive directors are responsible for monitoring executive activity and contributing to the development of strategy of the Company. They are not Company employees and do not participate in the daily management of the Group.

Their role is to constructively challenge management, to scrutinize the performance of senior management in meeting agreed goals and objectives and to monitor the reporting of the performance. Non-executive directors must also satisfy themselves on the integrity of financial information and that the systems of financial controls, compliance and risk management frameworks and the internal control framework are robust and defensible. They bring independent challenge and judgement to the deliberations of the Board through their character, objectivity and integrity.

Regular meetings are held between the non-executive directors in the absence of the executive directors and at least once a year in the absence of the Chairman.

1.2.1. Meetings of the Board of Directors

A yearly planner is prepared by the Company Secretary, with input from all Board members, to map out the flow of key items of business to the Board. The Group has a comprehensive and continuous agenda setting and escalation process in place to ensure that the Board has the right information at the right time and in the right format to enable the directors to make the right decisions. The Chairman leads the process assisted by the Company Secretary.

The process ensures that sufficient time is being set aside for strategic discussions and business critical items. Matters may be added to agendas in response to external events, non-executive directors' requests and regulatory initiatives inter alia.

The Company Secretary is closely involved in preparing the schedule of all Board and committee meetings and the agendas for these meetings, in conjunction with the Chairman, ensuring that relevant information is dispatched timely to all members of the Board.

Agendas and papers are circulated in a timely manner prior to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them adequate time to review the relevant information and enable them to fully discharge their duties.

1. **Board of Directors** (continued)

1.2 **Composition of the Board of Directors** (continued)

1.2.1. **Meetings of the Board of Directors** (continued)

Meetings packs are typically uploaded a week in advance of the meetings and communicated to all members of the Board via a secure electronic Board portal to ensure they have sufficient time to review the matters which are to be discussed and to seek clarifications or any additional information they may require.

Board meetings have certain standing items such as a report from the CEO and the executive Director Finance on Group performance, reports from the chairmen of committees and updates from other senior management members. In addition to formal meetings, the Board meets as necessary to consider matters of a time-sensitive nature. The Chairman and the chairpersons of each committee ensure Board and committee meetings are structured to facilitate discussions.

Committee meetings are held prior to Board meetings with the chairperson of each committee then reporting matters discussed to the Board. Topics for deep dives or additional items are discussed when required and include business, governance and regulatory update.

During 2019 the Board held 12 meetings. Further details on the number of the meetings of the Board and its committees and attendance by individual directors are set out below. In March 2019 the Board held a two-day offsite meeting specifically focused on strategy. During the year, the Chairman and the non-executive directors met without the executive directors present, to discuss a range of business matters.

Board of Directors 1/1/2019-31/12/2019

Name	Board of Directors	AC	HRRC	NCGC	RC
Josef Ackermann (Chairman)[1]	7/7			5/5	
Takis Arapoglou (Chairman)[2]	4/4			5/5	
Maksim Goldman (Vice Chairman)	12/12			9/10	13/13
Anat Bar-Gera	12/12		9/9		
Arne Berggren	11/12	11/13			12/13
Lyn Grobler	12/12			10/10	
Paula Hadjisotiriou	11/12	11/13			11/13
Michael Heger	11/12	13/13	9/9		
John P. Hourican[3]	10/10				
Panicos Nicolaou[4]	2/2				
Christodoulos Patsalides	12/12				
Maria Philippou	9/12		8/9		
Michael Spanos[5]	0/1		0/1		
Ioannis Zographakis	12/12	13/13			12/13
Total meeting[6]	***12***	***13***	***9***	***10***	***13***

1 Resigned on 14 May 2019
2 Appointed on 12 June 2019
3 Resigned 30 August 2019
4 Appointed 1 September 2019
5 Resigned 21 January 2019
6 The number of Board meetings at BOC PCL level was 22 during the year 2019. The attendance of these meetings can be found on page 335.

The Board makes full use of technology such as teleconferencing, a Board portal and tablets in its meeting arrangements. This leads to greater flexibility, security and efficiency in Board paper distribution and meeting arrangements. Minutes and matters arising from the meetings are produced and circulated to the directors for review and feedback. Matters arising are followed up in subsequent meetings through relevant updates.

1. Board of Directors (continued)

1.2. Composition of the Board of Directors (continued)

1.2.2 Terms of Appointment, Retirement and Re-election of Directors

Non-executive directors are appointed for an initial three-year term and are typically expected to serve a further term of three years, assuming satisfactory performance and subject to the needs of the business, shareholder re-election and continuing fitness & probity. The Board may invite directors to serve additional periods. A non-executive's term of office will not extend beyond 12 years in total and any re-appointment beyond 6 cumulative years is subject to rigorous review and will take into account the need for progressive refreshing of the Board.

The Board may at any time appoint any person who is willing to act as Director and who fulfils the criteria as these are determined in the Board Nominations Policy, either to fill a vacancy or as an addition to the existing Board, but the total number of directors should not exceed 13. Any Director so appointed is subject to election at the Annual General Meeting (the 'AGM') following his/her appointment.

According to the Articles of Association of the Company, all directors retire each year and if eligible offer themselves for re-election. A rigorous review of their skills, experience, independence and knowledge was carried out in March 2019 and the Board concluded that all directors continue to be effective and make a valuable contribution to the deliberations of the Board.

The following directors, being eligible, offered themselves for re-election and were elected at the AGM on 14 May 2019: Maksim Goldman, Anat Bar-Gera, Arne Berggren, Lyn Grobler, Michael Heger, John Patrick Hourican, Christodoulos Patsalides, Maria Philippou, Paula Hadjisotiriou and Ioannis Zographakis. Takis Arapoglou was also elected to the Board subject to ECB consent which was received on 12 June 2019.

One of the resolutions of the AGM regarding the re-election of Maksim Goldman, received negative votes slightly exceeding 20%. The framework for sounding the views of shareholders was made public through the Chairman's speech at the AGM (available on the Group's website https://www.bankofcyprus.com/en-GB/investor-relations-new/shareholder-information/annual-general-meetings1/agm-2019/chairmans-speech/).
The Board, through the Chairman and the SID, initiated contacts with interested shareholders to sound out their views for better understanding of the result. The overall findings were communicated to the Board. The main conclusions from these interactions were that the shareholders' concerns had little to do with Mr. Goldman's person, but rather the shareholders' perceptions of how his previous association with a sanctioned entity might affect them in relation to the way markets might view any potential risks related to the Bank's capital actions or shareholder actions. These views are being seriously considered by the Board which, however, remains unanimous in their view that Mr. Goldman, apart from his official disengagement with the sanctioned entity, has practically demonstrated great commitment to his role and a high level of independence and has contributed significantly to the deliberations of the Board.

The names of directors submitted for election or re-election are accompanied by sufficient biographical and other relevant information in the AGM documentation and are available on the Group's website to enable shareholders to take an informed decision. The NCGC considers, inter alia, whether a potential Director is able to devote the requisite time and attention to the Company's affairs, prior to the Board's approval of the individual's appointment.

1.2.3 Conflicts of interest

The Group Policy on Conflict of Interests which applies to all employees and directors sets out each person's duty to avoid, manage and disclose actual, potential or perceived conflict of interests. The policy is reviewed annually and is communicated throughout the Group.

The Board Manual documents procedures specifically relating to directors' conflict of interests, and sets out how these are to be identified, reported and managed to ensure that the directors act at all times in the best interests of the Company. The Board Manual is reviewed and revised if necessary, at least annually.

The Board has adopted a Dealing Code for transactions in the Company's securities by Persons Discharging Managerial Responsibilities (PDMRs). The Dealing Code complies with the European Market Abuse Regulation. All PDMRs have been informed of their obligations under the Dealing Code in writing. All directors have complied with the Dealing Code during 2019.

1. Board of Directors (continued)

1.2 Composition of the Board of Directors (continued)

1.2.3 Conflicts of interest (continued)

None of the directors had, during the year or at year end, a material interest, directly or indirectly in any contract of significance with the Group (See Note 51 of the Consolidated Financial Statements of Bank of Cyprus Holdings).

1.2.4 Time commitment

The NCGC ensures that individual Board directors have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships which may be held by any individual Director. The Board has determined the time commitment expected of non-executive directors to be 35-40 days per annum. Time devoted to the Group can be considerably more when serving on Board committees.

BOC PCL has been classified as a 'significant institution' under the European Union (Capital Requirements) Regulation 2014. The CBC Fitness and Probity Directive which incorporates the provisions of Article 91 of the European Capital Requirements Directive ('CRD IV') on management bodies of credit institutions, determines that a Director cannot hold more than one of the following combinations:

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

Executive or non-executive directorships held within the same group, count as a single directorship. Directorships in organisations which do not pursue predominantly commercial objectives do not count for the purposes of the above guidelines.

The ECB which supervises BOC PCL following the European Union Regulation 468/2014 which established the framework for cooperation within the SSM between the ECB and national competent authorities may in exceptional cases, and taking into consideration the nature and complexity of the business of the Group, authorise members of the Board to hold one additional directorship.

In 2019 the ECB granted permission to Mr. Arapoglou to hold one additional non-executive directorship given the very limited time commitment involved in that directorship. All other directors were within the directorship limits set out for 'significant institutions'.

All newly appointed directors are provided with a comprehensive letter of appointment detailing their responsibilities as directors, the terms of their appointment and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of non-executive directors can be inspected during normal business hours by contacting the Company Secretary. Directors are required to devote adequate time to the business of the Group which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, non-executive directors are normally required to sit on at least one Board Committee, which involves the commitment of additional time.

Certain non-executive directors such as the Deputy Chairman, the SID and committee chairmen are required to allocate additional time in fulfilling those roles.

The directors hold positions on the management bodies of other companies as noted in their biographical details included in section 4 of this report. Such participation does not prevent them from devoting the necessary time and attention to their duties as members of the Board of the Company and is within the limits set by the CBC Fitness and Probity Directive. External appointments which may affect existing time commitment for the Board's business must obtain prior approval. It was estimated that in 2019, each non-executive director spent at least 40 days on board-related duties. The Board considered the time commitment of all directors and concluded that each director devotes the requisite time for the effective performance of his/her duties. The Chairman commits the appropriate amount of time to the Group. There were no material changes to the other significant commitments of the Chairman following his appointment up to 31 December 2019.

1.3 Board Balance and Independence

Both the CSE Code and the UK Code provide that at least 50% of the Board, excluding the Chairman, should be independent non-executive directors, so that no individual or small group of individuals can dominate the Board's decision-taking.

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

The NCGC and the Board determine the independence status of each Director on appointment. In addition, a review of the independence status of each Director takes place annually to ensure that the determination regarding independence remains appropriate. In 2019 the Board considered the principles relating to independence contained in the CSE Code and UK Code and concluded that the status of each Director except Mr. Goldman, as determined remained appropriate.

By reason of his employment up to June 2018 by a corporation controlled by a significant shareholder in the Company, Mr. Goldman was not considered independent by reference to the provisions of the CBC Directive on Fitness and Probity. However, both the UK Code and the CSE Code provide that notwithstanding circumstances that may appear to impair a non-executive's independence, the Board may decide that a non-executive is independent. Maksim Goldman has always exhibited and continues to exhibit an independent character and judgement. Currently there are no relationships or circumstances likely to affect his judgement and the Board therefore considers him to be independent non-executive director. The Board has initiated procedures to have Mr. Goldman determined independent as per the provisions of the CBC Fitness and Probity Directive, by the regulator as well.

Similarly, the Chairman, Mr. Arapoglou, was independent on appointment and continues to be independent having no other relationship or circumstances to affect his judgement. He commits the appropriate time for the Group's business which is slightly more than the other non-executive directors, but his time commitment does not exceed 50 days per year. He has no other remuneration from the Group other than as Chairman of the Board and chairman of the NCGC.

The status of each director is presented in the biographical details in section 4 of this report.

The Board comprises a majority of independent non-executive directors to ensure that no individual or small group can dominate its decision making. The Board considers that each non-executive director brings independent challenge and judgement to the workings of the Board, through his/her character, objectivity and integrity.

A relevant 'Confirmation of Independence' based on the independence criteria of provision A.2.3 of the CSE Code is signed annually by each of the independent non-executive directors and is submitted to the CSE together with the Corporate Governance Report.

1.3.1 Appointments to the Board

The Board is responsible for the appointment of directors and recognises the need to identify the best qualified and available people to serve on the Board. In accordance with the Board Nominations Policy and the Board Diversity Policy, all appointments are made on merit against objective criteria (including skills and experience) with due regard for the benefits of diversity on the Board. The Board plans for its own renewal with the assistance of the NCGC which regularly reviews Board composition, tenure and succession planning.

The NCGC, prior to assessing candidates, identifies the skills and experience required for the role, assesses the time commitment involved and with due regard to the formal assessment of the skills profile of the Board and succession planning, recommends the nomination to the Board.

The recruitment process for non-executive directors is supported by an experienced third-party professional search firm, which develops an appropriate pool of candidates and provides independent assessments of the candidates. The NCGC then works with that firm to shortlist candidates, conduct interviews/meetings (including meetings with members of the NCGC) and carry out comprehensive due diligence. In accordance with the Board Nominations Policy, the assessment and due diligence process is extensive and includes self-certification confirmations of probity and financial soundness as well as external checks involving a review of various publicly available sources.

The process also involves the NCGC satisfying itself as to the candidate's ability to devote sufficient time to the role, his/her independence, fitness and probity as well as assessing and documenting its consideration of possible conflicts of interest. The NCGC then makes recommendations to the Board.

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.1 Appointments to the Board (continued)

The process described above was followed in the selection and appointment of Takis Arapoglou. On 26 February 2019 he was appointed to the Board subject to ECB consent and was considered as a candidate to replace Josef Ackermann, who had previously announced his decision to retire from the Board on the date of the 2019 AGM, to the Chair. ECB consent was received on 12 June 2019 and Mr. Arapoglou was elected Chairman on the same day.

The same firm was also engaged to identify the right candidate to replace John Hourican who had given notice of his resignation in early March 2019. Several internal and external candidates were interviewed and assessed and the NCGC recommended to the Board for approval the appointment of Panicos Nicolaou, until then Director of Corporate Banking Division of the Bank. Following the selection process Panicos Nicolaou was appointed as CEO designate in May 2019 and following the relevant ECB consent he was appointed to the Board on 1 September 2019. As noted above, Egon Zehnder, an external search consultancy firm with no other connection to the Company, was engaged in respect of both Director appointments.

The Board appointed Ioannis Zographakis as SID on 26 February 2019. Michael Heger was appointed as chairman of the HRRC to replace Michael Spanos who had resigned on 21 January 2019. On 14 April 2020, the Board decided to appoint Mr. Nicos Sofianos to the Board subject to ECB approval.

Letters setting out the terms of appointment of each of the non-executive directors, including the time commitment expected of each of them, are available on request from the Company Secretary.

1.3.2 Directors' induction and ongoing development

On appointment, each Director receives a full, formal induction plan, tailored to his or her specific requirements including committee membership. It consists of meetings with senior management on Group and divisional strategy, deep dives on businesses, an overview of the Group's risk appetite and Group Risk Framework, supplemented by sessions on the management of key risks, and a comprehensive range of meetings covering the Group's regulatory environment, people strategies, technology and payments.

Deep dives on capital and liquidity management and overview of the Group's financial position are also included, along with sessions relevant to membership of specific committees. Induction programmes, with particular emphasis on risk management, corporate governance and internal control systems are arranged for newly appointed directors.

The programmes also entail a series of meetings with senior executives and other directors to enable new directors to familiarise themselves with the business, management and governance structure including the function of the Board and the role of the committees. The Company Secretary under the supervision of the Chairman develops programmes based on the directors' individual needs.

Training sessions for the Board members during 2019

Name	InfoSec Awareness Module 1*	InfoSec Awareness Module 2*	InfoSec Awareness Module 3*	Regulatory considerations of the banking system**	InfoSec Awareness Module 4*	AML Essentials 2019*	*UK Gover-nance Code**
J. Ackermann	√	√					
T. Arapoglou	N/A	N/A	√	√	√	√	√
M. Goldman	√	√	√		√	√	√
A. Bar-Gera	√	√	√		√	√	√
A. Berggren	√	√	√		√	√	√
L. Grobler	√	√	√		√	√	√
P. Hadjisotiriou	√	√	√		√	√	√
M. Heger	√	√	√		√	√	√
J. Hourican	√	√	N/A	N/A	N/A	N/A	N/A
P. Nicolaou	N/A	N/A	√	√	√	√	√
C. Patsalides	√	√	√		√	√	√
M. Philippou	√	√	√		√	√	√
Y. Zographakis	√	√	√		√	√	√

*e-learning session
** Ran by external service providers

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.2 Directors' induction and ongoing development (continued)

Ongoing education is provided for the Board, informed by the effectiveness reviews of the Board and individual directors, as well as emerging external developments. Focused training of the Board is arranged in conjunction with scheduled Board meetings where information is provided to ensure that directors receive adequate insight into a particular area through presentations by Group business units and control functions and briefings with senior management. Dedicated training sessions also take place on particular issues (refer to table above for 2019 training schedule) usually identified by the directors themselves and the Company Secretary. A training schedule is prepared at the beginning of each year and directors are expected to attend accordingly.

All the members of the Board were provided on appointment with an information pack which includes, among others, the Board Manual, key legislation, directives and regulations and the Company's Articles of Association. As demonstrated in the table above, during the year specialised training sessions with the contribution of external advisors were provided, covering issues relating to the duties and responsibilities of Board members.

The training material is distributed to all directors regardless of attendance. In 2019, most of the training was in the form of e-learning sessions on an online platform with an assessment quiz at the end of the training session. The directors can access this at any time, and once the training is completed, it is recorded on the system to provide a full audit trail.

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to directors. The Company Secretary ensures all directors are provided with relevant information on a timely basis to enable them to consider issues for decision-making and discharge of their oversight responsibilities.

In the performance of their roles, executive directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management and through presenting on the Group's business to investors and analysts. They remain abreast of developments affecting the financial services sector and banking by representing the Group's interests at conferences, advisory groups and other events and meetings with regulators and other authorities.

The Company Secretary provides the Board with comprehensive guidance on Board procedures and provides dedicated support for directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal board process.

1.3.3 Board Performance Evaluation

The Board annually reviews its effectiveness and that of its committees in order to improve its operations. The objective of these evaluations is to review past performance with the aim of identifying efficiencies, opportunities for improvement and maximizing strengths, determining whether the Board or committee as a whole is effective in discharging its responsibilities and, in the case of individual directors, to determine whether each director continues to contribute effectively and to demonstrate commitment to the role.

The Board is subject to external evaluation every three years. The last external review was in 2018. The Board conducted an internal evaluation in Spring 2019, led by the Chairman with the support of the NCGC and the CGCO. It included a review of the effectiveness of the Board, its committees and individual directors. The directors' views on a range of topics was sought including inter alia, strategy, performance, reporting, risk and control. Board composition and size, diversity, balance of skills, culture and dynamics, the Board's agenda; the quality and timeliness of information, training for directors etc. The review indicated an effective Board with a strong and diverse composition of experiences.

Executive directors' individual performance evaluation is undertaken as part of the performance management process for all employees and includes self-assessment and a discussion by the NCGC.

Recommendations emanating from the Board Performance evaluation included the following:

- Pro-active engagement with regulators;
- Enhanced participation of CEO during discussions of specific issues by Board committees;
- More concise reporting to the Board;
- Specialised training on emerging issues;
- More focus by business lines on new business opportunities.

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.3 Board Performance Evaluation (continued)

The outcome of the Board evaluation was considered by the NCGC and collectively discussed by the Board. The recommendations were intended to enhance the Board process, although they were not material to the effectiveness of the Board. The Board accepted them and set up an action plan to incorporate those recommendations. Taking into account the evaluation report, the Board concluded that it continues to be effective and that each Director continues to make a valuable contribution to the deliberations of the Board. The Board also concluded that all the members of the Board have appropriate qualifications; broad relevant experience; continue to be effective; and demonstrate continuing commitment to the role.

The Board adopted the recommendations of the 2018 Board Performance Evaluation which included the following: a) The annual retreat in March is exclusively dedicated to strategy on an open agenda including strategic business development; b) Detailed discussions on HR issues and other evolving challenges are encouraged; c) Cybersecurity and reputational risk reviews are discussed to raise awareness of the Board members; d) Closer interaction between the TC and the RC as well as the TC, RC and AC is achieved through joint meetings (two and one respectively in 2019) to discuss matters of interest to these committees; e) The outcome of decisions taken through the year is discussed to understand lessons learned.

The chairperson of each principal Board committee led the self-assessment process in respect of committee performance through discussion with all committee members. The effectiveness of each of the four principal committees was assessed as adequate. All non-executive directors provided feedback on their uptake of committee work performed and the results were satisfactory.

The Chairman's performance evaluation was carried out by the non-executive directors led by the SID and was based on a discussion during an executive session of the non-executive directors (without the Chairman). The Board concluded that Josef Ackermann created an environment that encouraged contribution from all Board members whilst maintaining an appropriately disciplined meeting structure, continued to lead the Board effectively, made valuable contribution and demonstrated strong work ethic and commitment to the job at hand, knowledge and experience on the subject matter, was future focused, with a good grasp of external trends and challenge of the status quo.

The Chairman met with directors on a one to one basis to discuss their individual performance taking into account their input, which was submitted in advance of the meetings. In each case, the Chairman assessed each director as fully effective in his or her role on the Board and as continuing to demonstrate independence of mind and therefore remain independent.

The directors are aware that in case they have material concerns about the overall governance of the Group, these should be reported without delay to the Board and, if their concerns are not satisfactorily addressed, the directors should report these concerns to the CBC.

1.3.4 Interaction with principal subsidiaries

There are close interactions between the subsidiary boards and the Group Board and their respective committees, including the requirement for appointments to subsidiary boards to be approved by the Group Board. The chairs of the subsidiary audit and risk committees submit an annual report to the respective Group Board committees. The chairpersons of the Company's AC and RC are invited, respectively, to participate occasionally in the subsidiary audit and risk committee meetings as observers. In addition, the CGCO and other heads of control functions are invited to attend these meetings as observers.

1.3.5 Loans to Directors and Other Transactions

Details of credit facilities to directors and other transactions with the Group are set out in Note 51 of the Consolidated Financial Statements for the year ended 31 December 2019.

It is hereby confirmed that the credit facilities to Company directors (and related parties) or to its subsidiary or associated company directors are granted in the normal course of the Company's business, under normal commercial and employment terms and with transparency. Furthermore, it is confirmed that all relevant cases of bank facilities to Company directors and its subsidiary company directors are forwarded for approval to the Board after the relevant proposal of the Risk Committee. The interested member of the Board is neither present nor participates in the procedure.

1. Board of Directors (continued)

1.3 Board Balance and Independence (continued)

1.3.5 Loans to Directors and Other Transactions (continued)

The Banking Law currently forbids the extension of any credit to independent members of the Board, but the CBC may exempt certain exposures from time to time having regard to the exceptionally low risk arising from the exposures concerned.

All members of the Board complied with the relevant provisions of the CSE Code and the Banking Law as at 31 December 2019.

2. Internal Controls

The Board is responsible for the adequacy and effectiveness of the system of internal controls, corporate governance and risk management processes of the Group. These ensure amongst others that:
- The governance framework is effective, monitored and periodically assessed;
- The compliance framework is appropriate;
- The integrity and internal controls of the accounting and financial reporting systems, as well as the compliance with relevant legal / supervisory requirements and reporting standards, are adequate;
- The information security framework for the protection of confidential information is appropriate;
- The process of taking appropriate steps to timely address any deficiencies is effective.

The system of internal controls, corporate governance and risk management processes 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 overall system of internal controls, corporate governance and risk management processes of the Group include amongst others:
- A transparent organisational structure with clear reporting lines to Senior Management and the Board;
- Board and executive committees with clear responsibilities;
- Three lines of defence model for the effective risk management and compliance across the Group;
- Formal policies and procedures;
- Monthly reporting by business lines to enable progress to be monitored, trends to be evaluated and variances to be acted upon;
- Monthly meetings of committees to review performance;
- Code of Conduct setting out the standards expected of all officers and employees;
- Whistleblowing policy, including processes and procedures, to be followed for independent investigation of concerns raised by staff;
- Anti-Bribery policy in line with the UK regulatory guidance as well as with ISO37001;
- Conflicts of Interest policy;
- Quarterly representations by all Divisions of the Bank to the CEO on the effectiveness of the system of internal controls (policies, procedures and monitoring activities);
- Annual representations by all control functions of the Bank (Compliance, Risk, Information Security) to the CEO on effectiveness of the system of internal controls (policies, procedures, monitoring activities).

The Board confirms that, through the AC and the RC, it has conducted reviews for the year ended 31st December 2019, regarding the effectiveness of the Group's internal control 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 covered all systems of internal controls, including financial, operational and compliance controls, as well as risk management systems. In carrying out their reviews, the AC and RC receive regular business and operational risk assessments, regular reports from the Internal Audit Director, the Compliance Director and the Chief Risk Officer, other internal memos and external audit reports, as well as regulatory reports.

The Board receives a confirmation on an annual basis by the CEO for the effectiveness of compliance, risk management and information security system of internal controls. Additionally, the Board, through the AC and RC, has received confirmation that executive management has taken or is taking the necessary actions to remedy all significant weaknesses identified through the operation of the Company's framework of internal controls, corporate governance and risk management processes.

2. Internal Controls (continued)

Based on the internal audit work carried out in 2019, reasonable assurance is provided, with emphasis on specific matters, that the system of internal controls within the Group is adequately designed and operates effectively, to address significant risks according to the risk appetite set by the Board of Directors.

Emphasis is provided on specific areas and in particular on non-performing exposures (NPEs) and Information Systems, which require management's attention to further reduce risk exposure. These are areas which were emphasised in the Annual Audit Report for the year 2018 as well and areas where ineffective controls have been identified. Nonetheless mitigating factors did exist to adequately provide to management the comfort required. As regards balance sheet de-risking through the sale of NPE portfolios, management has already taken significant steps in the right direction and should maintain this momentum. In relation to Information Systems, management should intensify its efforts towards the optimisation of the operating model, the implementation of the digitalisation strategy and the reduction of overreliance on external service providers.

Overall, the Board of Directors through its committees, has reviewed the effectiveness of the system of internal controls, corporate governance and risk management processes of the Group for the year ended 31st December 2019 and confirms their effectiveness either through the effective design and operation of controls or through mitigating factors that existed. The Board also confirms that it is not aware of any violation of the Cyprus Securities and Stock Exchange Laws and Regulations.

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.

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 supervisory requirements and relevant standards, is adequate. The Group has in place an adequate 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 which relies either on the effective design and operation of controls or other mitigating factors where these were inefficient. Where from time to time areas of improvement are identified these become the focus of management's attention in order to resolve them and thus strengthen the procedures that are in place. Areas of improvement may include the formalisation of existing controls and the introduction of new information technology controls, as dependency on information technology is ever increasing.'

The Annual Report and Interim Report prior to their submission to the Board are reviewed and approved by the ExCo. The Board, through the AC scrutinises and approves the financial statements, results, announcements and the Annual Report and ensures that appropriate disclosures have been made. Detailed papers are prepared for review and approval by the AC covering all accounting issues including presentations and disclosures. This governance process enables both management and the Board to challenge the Group's financial statements and other significant disclosures before their publication.

The Board is responsible for determining the nature and extent of the principal risks the Group is willing to take in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight process across the Group. The Board approves the Group Risk Appetite Statement on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through the Risk Report reviewed monthly. The Bank has developed an Integrated Risk Identification Framework which provides for the identification of risk and updates the Key Risk Matrix which is approved by the RC and the Board through the ICAAP process. The Group is forward looking to ensure emerging risks are identified. A consolidated risk report and risk appetite dashboard is regularly reviewed by the RC to ensure the risk profile and mitigating actions are satisfactory. The key risks with their mitigant actions are presented n Pillar 3 Disclosure Report. The Board confirms that it carries out a robust assessment of both principal and emerging risks, including risks that might threaten the Group's business model, future performance, liquidity etc.

Detailed information relating to Group risk management is set out in Notes 46 to 49 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2019 Annual Financial Report.

2. Internal Controls (continued)

2.1 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of the 2019 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. Detailed information relating to going concern is set out in Going Concern of the Directors' Report of the 2019 Annual Financial Report on page 30.

2.2 Group Code of Conduct and Whistleblowing Policy

The Group has set out the standards that are expected from all employees and directors of the Group in a Code of Conduct along with guidance on how these standards should be applicable. In 2019 the Code of Conduct was enhanced to bring focus on ethics and a new dedicated Code of Ethics will be available in mid-2020 to all staff.

The Group has a Whistleblowing Policy and relevant written procedure in place for all employees, including directors, which is in accordance with international practice. The policy is reviewed annually. Its general principles are:

- Concerns in good faith, about wrongdoing or malpractice can be raised in confidence without fear of victimisation, discrimination, disadvantage or dismissal;
- Procedures for the reporting of any matters of concern are clearly provided. The persons concerned must be able to bypass the main channels for whistleblowing if these prove inappropriate, and use the anonymous reporting line;
- Disclosures are managed in a timely, consistent and professional manner; and
- The appointment of the chairman of the AC, an independent non-executive Director as a Whistleblowing Champion with specific responsibilities.

The Board and CEO are committed to this policy, which encourages staff to raise concerns. A message from the CEO to staff to speak up was repeated in early 2020 and a number of other initiatives such as e-learning sessions have been planned to take place to further increase awareness in 2020.

3. Other matters

The table below show attendance of the directors on the meetings of BOC PCL throughout 2019.

Board of Directors of BOC PCL 1/1/2019-31/12/2019

Name	Board of Directors	AC	HRRC	NCGC	RC	AC/RC Joint	TC	ECCC
Josef Ackermann (Chairman)[1]	7/7			5/5				
Takis Arapoglou (Chaiman)[2]	12/12			6/6				
Maksim Goldman (Vice Chairman)	22/22			10/11	13/13	8/9		
Anat Bar-Gera	22/22		12/12				7/7	
Arne Berggren	21/22	11/13			12/13	9/9		
Lyn Grobler	22/22			11/11			7/7	1/1
Paula Hadjisotiriou	21/22	11/13			11/13	8/9		
Michael Heger	21/22	13/13	12/12			9/9	7/7	
John P. Hourican[3]	14/15							
Panicos Nicolaou[4]	8/8							1/1
Christodoulos Patsalides	22/22							
Maria Philippou	19/22		11/12					1/1
Michael Spanos[5]	0/1		0/1					
Ioannis Zographakis	22/22	13/13			12/13	9/9	7/7	1/1
Total meetings	***22***	***13***	***12***	***11***	***13***	***9***	***7***	***1***

1 Resigned on 14 May 2019
2 Appointed on 12 June 2019
3 Resigned 30 August 2019
4 Appointed 1 September 2019
5 Resigned 21 January 2019

3. Other matters (continued)

3.1 Company Secretary

The Board appointed Mrs Katia Santis as the Company Secretary.

3.2 Internal Audit Director

The Board appointed Mr. George Zornas as the Internal Audit Director.

3.3 Corporate Governance Compliance Officer

The Board appointed Mr. Marios Skandalis as CGCO.

4. Members of the Board of Directors

4.1 Non-Executive Directors

Efstratios-Georgios (Takis) Arapoglou (Chairman)

Takis Arapoglou is an expert financial consultant. He has served as Chairman and CEO of the National Bank of Greece Group, Chairman of the Hellenic Banks Association, Member of the Board of Eurobank and has held senior management positions with Citibank and Chase Manhattan in the UK and with American Express in Greece. Currently, he is Chairman of the Board of Titan Cement, an international cement company listed on the Athens Stock Exchange and of Tsakos Energy Navigation, a shipping company listed on the New York Stock Exchange.

Mr. Arapoglou holds an MSc in Finance and Management from the University of Brunel, London, a BSc in Naval Architecture and Ocean Engineering from the University of Glasgow and a BA in Mathematics and Physics from the University of Athens.

He has extensive experience in international capital markets and in corporate, commercial and investment banking in South East Europe, the UK, the Middle East and Africa.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in June 2019

External Appointment:

Chairman of the Board of Tsakos Energy Navigation
Chairman of the Board of Titan Cement SA
EFG Hermes Holding SAE
Bank Alfalah Ltd

Independent:

Yes on an ongoing basis.

(Mr. Arapoglou commits the appropriate time for the Group’s business which does not exceed 50 days per year. He has no other remuneration from the Group other than as Chairman of the Board and chairman of the NCGC).

Committee Membership:

Chairman of the Nominations and Corporate Governance Committee

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Maksim Goldman (Vice Chairman)

Maksim Goldman is Director of Strategic Projects at AO Complexprom since June 2018 and is responsible for oversight of various projects and investments under management of the company. Previously, from July 2007 to May 2018 he was Director of Strategic Projects at Renova Group and had served as Deputy Chief Legal Officer of the Group, responsible for implementing the investment policy and support of key mergers and acquisitions transactions. From 2005 to 2007 he worked as Vice President and International Legal Counsel of OAO Sual-Holding, which was the management company for OAO 'SUAL', the second largest aluminium producer in Russia, and also participated in the creation of UC Rusal through combination of the assets of Sual-Holding, Rusal and Glencore. From 1999 to 2005 he worked as an associate at Chadbourne & Parke LLP in New York and in Moscow.

He holds a J.D. from the School of Law, University of California (Los Angeles). He also holds a Bachelor of Arts degree in History from the University of California (Los Angeles).

Mr. Goldman has extensive experience in investments, business development and strategy formation and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed
to the Board of BOC PCL in November 2014
and the Board in October 2016

External Appointment:

Stentex s.a.r.L
United Manganese of Kalahari Ltd

Independent:

Yes

Committee Membership:

Member of the Risk Committee
Member of the Nominations and Corporate Governance Committee

Arne Berggren (Chairman of the Risk Committee)

Arne Berggren has been involved in corporate and bank restructurings, working for both the private sector as well as for international organisations since the early 90s, starting with Nordea during the Swedish financial crisis. This was followed by bank crises management and bank restructuring assignments in numerous countries in Latin America, Eastern Europe and Asia, and more recently during the recent financial crisis in the Baltics, Spain and Slovenia. He has been Head of Financial Restructuring and Recovery at Carnegie Investment Bank AB and Swedbank AB and as CEO of Swedcarrier AB he led the restructuring of parts of Swedish Rail.

Mr. Berggren has held numerous board positions in the financial and corporate sector, including a position on the Board of Directors at LBT Varlik Yönetim AS and DUTB Ldt.

He is a graduate of the University of Uppsala, Sweden and has postgraduate studies at the Universities of Amsterdam, Geneva and New York.

Arne Berggren has significant experience in corporate and bank restructurings, bank crises management and risk management and has extensive experience in oversight from a number of directorships.

Term of Office:

Appointed
to the Board of BOC PCL in November 2014
and the Board in October 2016

External Appointment:

Eusticon AB
Pireaus Bank Group
TBC Bank Group PLC

Independent:

Yes

Committee Membership:

Chairman of the Risk Committee
Member of the Audit Committee

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Anat Bar-Gera

Anat Bar-Gera is the Chairwoman of Cyverse, since 2015, a leading Switzerland-based cybersecurity company established with the aim of providing access to the most advanced cybersecurity solutions coming out of Israel and the Silicon Valley. She is currently a member of the expert network of the World Economic Forum and a former member of the Global Agenda Council on the future of the internet, of the World Economic Forum. Prior to this and for more than 20 years, she co-founded, scaled and exited a number of telecom and internet international companies operating primarily across Europe and Africa. In 1988, she joined UBS in Switzerland as an Associate in the M&As department, where she initiated and executed pan-European deals especially in the high-tech area.

Mrs. Bar-Gera holds an MBA from INSEAD, France and a Bachelor of Law (LL.B.) from the Hebrew University, Israel.

She has significant experience in start-ups and cybersecurity and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in October 2017

External Appointment:

Chairwoman of Cyverse AG
Swiss Mobile Data
Expert Network of the World Economic Forum

Independent:

Yes

Committee Membership:

Member of the Human Resources and Remuneration Committee
Member of the Technology Committee

Lyn Grobler (Chairperson of Technology Committee)

Lyn Grobler is an experienced executive with a strong track-record in technology and IT roles. She was appointed Group Chief Information Officer (CIO) at Hyperion Insurance Group in 2016. Prior to this she was Vice President and CIO Corporate Functions at BP where she led the transformation of both the organisation and the digital landscape through introducing sustained change in process, capability and technology, having held a variety of roles across IT and global trading over 16 years. Before BP, she managed large scale global technology projects and strategies within banking and trading based in both London and South Africa. She has been recognised as one of the 25 most influential women in UK IT.

She holds an HND in computer systems from Durban University in South Africa and a National Diploma in Electronic Data Processing from Cape Peninsula University (South Africa).

Mrs. Grobler has significant experience in IT and digital transformation and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in February 2017

External Appointment:

Chairwoman of the Board of Hyperion Services Ltd
Howden Broking Group
Hyperion & Partners Ltd

Independent:

Yes

Committee Membership:

Chairperson of the Technology Committee
Member of the Nominations and Corporate Governance Committee
Member of the Ethics, Conduct and Culture Committee

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Paula Hadjisotiriou

Paula Hadjisotiriou is an experienced executive with a long career in senior management roles in financial institutions. She started her accountancy career at Howard, Wade & Jacob before moving to Pricewaterhouse Coopers. Following a six-year tenor at the Latsis Group of Companies as Deputy General Manager of Internal Audit, she embarked on a career in banking, in Greece between 1990-2015, first with Eurobank Ergasias S.A as Group Chief Financial Officer and then with National Bank of Greece as Deputy Chief Executive Officer & Chief Financial Officer. Currently she serves as an advisor to the Latsis Group of Companies in the UK.

She is a Chartered Accountant (Institute of Chartered Accountants of England and Wales (ICAEW)).

Mrs. Hadjisotiriou has significant experience in financial institutions and benefits from oversight experience in a number of external directorships.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in August 2018

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Audit Committee
Member of the Risk Committee

Michael Heger (Chairman of the Human Resources and Remuneration Committee)

Michael Heger currently serves as the general manager of finance and investment and as an independent senior advisor for S.I.F. International Holding S.A., Luxembourg at its representative office in Vienna. Previously, from 2009-2012 he served as general manager and chief executive officer of Metal Trade Overseas AG in Zug, Switzerland. He began his career in 1980 as a manager in export finance and legal affairs for Waagner-Biro AG in Vienna, Austria. Having spent two years at Waagner-Biro AG, he moved to UniCredit Bank Austria Group, where he held various management positions from 1982 to 2002. Between 2001 and 2002, he served as general manager and head of structured trade finance at Bank Austria AG. From 2002 to 2003, he served as the deputy general manager and head of International division for Raiffeisenlandesbank Niederosterreich-Wien AG. Dr Heger then joined MPH Management and Participation Holding S.A., a special purpose company for equity participation in commercial and industrial companies, financial institutions and in property developments as well as for financial and consulting services for domestic and international clients and commodity trading, as the general manager of finance and investment and head of the representative office from 2004-2009.

Dr Heger holds a doctorate in law from the University of Vienna and obtained a postgraduate degree in law from the College of Europe in Bruges, Belgium.

He has extensive banking experience having spent more than 20 years in various senior positions in UniCredit Bank Austria Group and has considerable strategic knowledge of industrial and commercial companies, financial institutions and property developments.

Term of Office:

Appointed to
to the Board of BOC PCL in June 2016
and the Board in October 2016

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Human Resources and Remuneration Committee (Chairman since 21 January 2019)
Member of the Audit Committee
Member of the Technology Committee

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Maria Philippou

Maria Philippou started her career as an HR Consultant with KPMG Greece, before moving to the Lambrakis Press Group as HR Generalist. Having spent three years with Eurobank Ergasias S.A as Compensation & Benefits Manager, in 2006 she moved to the Coca Cola Company Group, progressing through various roles such as Rewards Manager and HR Business & Strategic Partner to her current position as Global Talent & Development Director.

She holds a degree in Business Administration from Nottingham Trent University and a Master of Science in Human Resources Management form Brunel University.

Mrs. Philippou is an experienced executive in human resources and brings valuable skills to the Board in people management.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in July 2018

External Appointment:

None

Independent:

Yes

Committee Membership:

Member of the Human Resources and Remuneration Committee
Member of Ethics, Conduct and Culture Committee

Nicos Sofianos

Nicos Sofianos is a qualified Chartered Accountant, member of the Institute of Chartered Accountants in England and Wales (ICAEW) and a member of the Body of Certified Public Accountants of Greece (SOEL). He was a founding partner of Deloitte Greece and representative of the firm before the regulatory, supervisory and fiscal authorities in Greece. In 2016 he retired with 40 years of audit and broader professional experience.

He holds an Honours degree in Chemical Engineering with a major in Mathematical Modelling and Computer Simulation from the University of Manchester, UK.

Mr. Sofianos has extensive experience in the coordination of accounting, auditing, tax and consulting services rendered to a wide range of companies covering nearly all sectors of industry and in particular the financial services industry sector.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in April 2020
(subject to ECB approval)

External Appointment:

Dimand SA
DoValue SA

Independent:

Yes

Committee Membership:

Member of the Audit Committee (subject to ECB approval)

4. Members of the Board of Directors (continued)

4.1 Non-Executive Directors (continued)

Ioannis Zographakis (Chairman of the Audit Committee & Senior Independent Director)

Ioannis Zographakis is a senior executive with a broad and diverse international experience in the banking industry. He started his career in 1990 with Citibank in Greece as a Management Associate for Europe, Middle East & Africa (EMEA). He then worked as the Deputy Treasurer and Treasurer for the Citibank Consumer Bank in Greece, before moving to the USA in 1996 as the Director of Finance for Citibank CitiMortgage. In 1997 he became the Financial Controller for Citigroup's Consumer Finance business in the US and then he served as the Director of Finance and Acting Chief Financial Officer for the Consumer Assets Division. From 1998 until 2004 he worked in the Student Loan Corporation (SLC), a Citigroup subsidiary and a New York Stock Exchange traded company. He started as the Chief Financial Officer, became the Chief Operations Officer and in 2001 he was named the Chief Executive Officer. In 2005 he moved back to Europe as Citibank's Consumer Lending Head for EMEA and Head of UK Retail Bank. In 2006, he took the position as Citibank's Retail Bank Head in Greece where he stayed until 2011, before moving back to Cyprus consulting on financial services when requested. He has been a Director for the Student Loan Corporation in the US, a Director for Tiresias (Greek Credit Bureau) and the Secretary of the Audit Committee, a Director and member of the Audit Committee for Diners Club Greece, the Vice-Chairman of the Citi Insurance Brokerage Board in Greece and the Chairman of the Investments and Insurance Supervisory Committee in Citibank Greece. He has also served as non-executive Director for the National Bank of Greece group during 2018-2019.

Mr. Zographakis holds an MBA from Carnegie Mellon University in the USA and a Bachelor’s degree in civil engineering from Imperial College in London.

He has an extensive background in corporate governance, business restructuring, crisis management, finance, operation & technology in the banking industry, having spent more than 20 years in various senior operational and financial roles in Citibank in the US, UK and Greece and on the Board of a number of financial entities.

Term of Office:

Appointed
to the Board of BOC PCL in September 2013
and the Board in October 2016

External Appointment:

A. Eternity Capital Management Ltd

Independent:

Yes

Committee Membership:

Chairman of the Audit Committee
Chairman of the Ethics, Conduct and Culture Committee
Member of the Risk Committee
Member of the Technology Committee

4. Members of the Board of Directors (continued)

4.2 Executive Directors

Panicos Nicolaou (CEO)

Panicos Nicolaou joined the Bank in 2001. He has previously served as the Director of Corporate Banking Division from June 2016 to August 2019, during which time he had under his supervision Corporate Banking Centres throughout Cyprus, the International Corporate Banking Centre and International Operations, as well as the Bank's Factoring Unit. Prior to becoming Director of Corporate Banking, he served as Manager, Corporate Management in the Restructuring and Recoveries Division where he managed a large portfolio of problematic exposures.

He holds a diploma (5-year degree) in Mechanical Engineering from National Technical University of Athens (Metsovio Polytechnic), Greece and an MSc in Mechanical and Industrial Engineering from University of Illinois at Urbana-Champaign, USA. He also holds a BSc in Financial Services from the School of Management, UMIST, UK, and is an Associate Member of the Chartered Institute of Bankers, Institute of Financial Services, UK since 2004.

He is an experienced financial services professional having served in a number of senior roles in the Group.

Term of Office:

Appointed to the Board of BOC PCL
and the Board in September 2019

External Appointment:

Independent:

No

Committee Membership:

Member of the Ethics, Conduct and Culture Committee

Christodoulos Patsalides (First Deputy CEO)

From 1989 to 1996, Christodoulos Patsalides worked for the Central Bank of Cyprus in the management of Government External Debt and Foreign Exchange Reserves Department. In 1996, he joined the Group where he has held several positions in corporate banking, treasury and private banking, among others. From December 2013 to April 2016, he served as Finance Director and was responsible for finance, treasury, investor relations, economic research and procurement. From May 2016 to August 2019 he served as Deputy CEO & Chief Operating Officer and was responsible for human resources, corporate affairs, central operations, legal services, organisation and change, information technology, digital transformation and administrative operations. In his current capacity as the First Deputy CEO, he is responsible for Corporate Affairs, Legal Services, Regulatory Affairs and Compliance and shall be working closely with the CEO to oversee the progress on the strategic pillars of the Group.

Dr Patsalides holds a PhD and an MSc in economics from the London School of Economics and a BSc in economics from Queen Mary College in London.

He is an experienced financial services professional having served in a number of senior roles in the Group including as Finance Director.

Term of Office:

Appointed
to the Board of BOC PCL in November 2014
and the Board in July 2016

External Appointment:

Vice-Chairman of the Association of Cyprus Banks
European Banking Federation
Cyprus Anti-Cancer Society

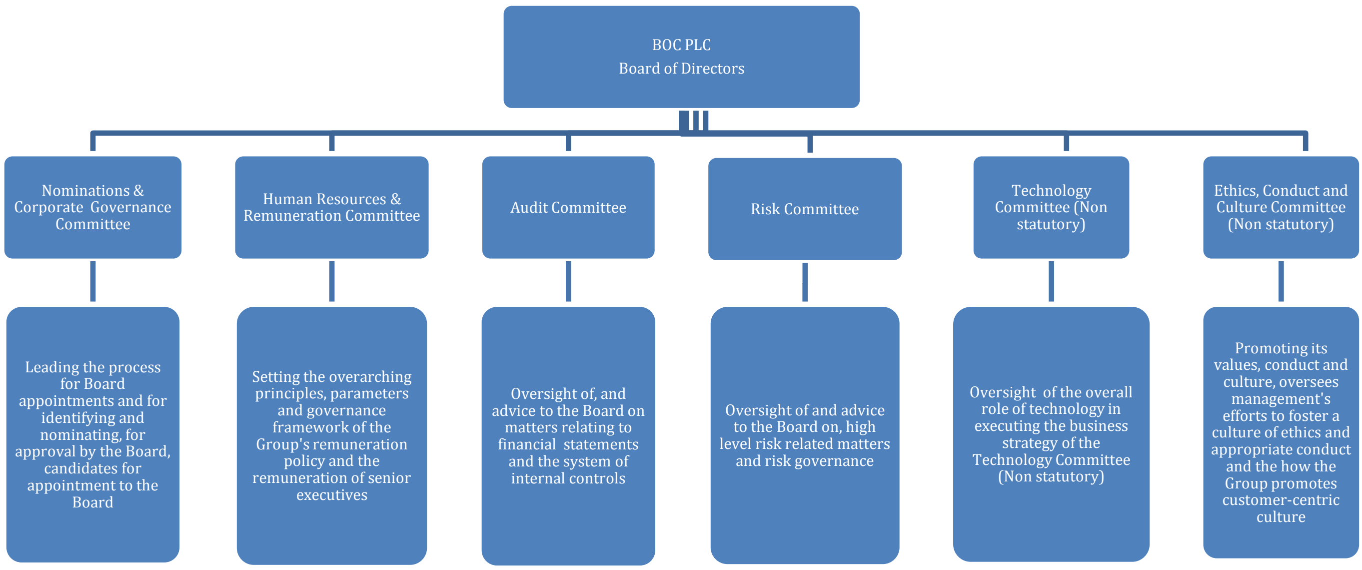
Independent:

No

Committee Membership:

None

5. Board Committees



In order to exercise proper oversight of risk and control and pursuant to authority granted under the Articles of Association, the Board has delegated certain responsibilities to committees of the Board. The statutory committees are the AC, the RC, the NCGC and the HRRC. The key roles of the Board committees are described above. Further information of the work of these committees follows in the section below. The terms of reference of the committees are based on the relevant provisions of the CSE and UK Codes and the CBC Governance Directive (where applicable) and are available on the Group's website (www.bankofcyprus.com) or by request to the Company Secretary. Each committee reviews its terms of reference annually.

The overall responsibility for approving and monitoring the Group's strategy, risk appetite and policies for managing risks lies with the Board, which exercises this responsibility through two of its main committees, namely the RC and the AC.

The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. This linkage is important between the committees given that it is impractical for independent non-executive directors to be members of all the committees.

In addition to the principal committees, the Board set up a Technology Committee in 2017 to drive the digital transformation of BOC PCL. In November 2019, the Board set up the Ethics, Conduct and Culture Committee to support it in promoting its collective vision of values, conduct and culture and oversee management effort to foster a culture of ethics and appropriate conduct within the Group.

5. Board Committees

5.1 Nominations and Corporate Governance Committee

As at 31 December 2019 the NCGC comprised of three independent non-executive directors. Its composition is fully compliant with the CSE Code, the UK Code and the CBC Governance Directive. The Chairman of the Board chairs the Committee, except when the NCGC is dealing with the appointment of a successor to the role of Chairperson.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee met 10 times in 2019. The Chairman and members of the Committee together with their attendance at meetings are shown below. The CEO attends meetings as appropriate. The NCGC meets annually with no management present.

Member attendance in 2019:

NCGC meetings* in 2019

Josef Ackermann (Chairman) resigned on 14 May 2019	5/5
Takis Arapoglou (Chairman) appointed on 12 June 2019	5/5
Maksim Goldman	9/10
Lyn Grobler	10/10

* The number of committee meetings at BOC PCL level were 11 during 2019. The attendance of these meetings can be found on page 335.

The key responsibilities of the NCGC are set out in its terms of reference, which are available on the Group's website (www.bankofcyprus.com) and are reviewed annually and approved by the Board.

The role of the Committee is to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of directors and to support and advise the Board in relation to:

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board);
- Vice-Chairperson, director and CEO development (under the overall responsibility and supervision of the Chairperson of the Board);
- Chairperson development (under the overall responsibility and supervision of the SID);
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual directors; and
- Succession planning for directors and senior management.

The Committee also:

- Oversees the adoption of appropriate internal policies on the assessment of the fitness & probity of members of the Group ExCo, other senior managers and heads of the internal control functions;
- Keeps the Board's governance arrangements under review and makes appropriate recommendations to the Board to ensure that such arrangements are consistent with best corporate governance standards and practices in place;
- Considers and authorises a situation in which a director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict with the interests of the Group, and decides on remedial action to eliminate such conflict or seeks to terminate the situation giving rise to it;
- Oversees the corporate governance arrangements of material subsidiaries and reviews the evaluation of board performance of the subsidiary boards; and
- Defines the Group's sustainability strategy aimed at achieving present and future economic prosperity environmental integrity and social equity for the Group and its stakeholders.

The matters considered and the actions taken by the NCGC during the year are set out in the following table.

5. Board Committees (continued)

5.1 Nominations and Corporate Governance Committee (continued)

Matters considered and action taken by the NCGC in 2019

Board and committee size and composition	• Recruitment of a new non-executive to the Board; • Recommendation for approval of appointments to the boards of major subsidiaries; • Replacement of the Chairperson of the HRRC; • Replacement of the SID; • Structure and composition of the Board.	• The external search firm Egon Zehnder provided shortlists of candidates for consideration, interviews with various members of the Board were held and the process resulted in the appointment of Takis Arapoglou. • Following Michael Spanos' decision to step down, the Committee recommended to the Board that Michael Heger replaces him as chairman of the HRRC. This was based on Board succession planning and the fact that Dr Heger is an experienced non-executive director and has been a member of the HRRC since his appointment in June 2016. • Ioannis Zographakis was recommended to the Board for appointment as SID based on his extensive experience as an independent non-executive director.
Executive Succession Planning	• Appointment of CEO.	• The external search firm Egon Zehnder provided shortlists of candidates for consideration, consisting of both internal and external candidates. Interviews with various members of the Board were held and the process resulted in the appointment of Panicos Nicolaou, an internal candidate.
Annual Board effectiveness Review	• Annual Board Performance Evaluation including its committees and individual directors.	• An internal process of evaluation took place in 2019 and resulted in an action plan to implement the recommendations emanating from the report.
Disclosure & Governance	• Review and approval of revision to the Corporate Governance Framework of the Group; • The 2019 Action plan for corporate governance compliance; • Review and recommendation for approval to the Board of the Group Corporate Governance Policy; • Review of the Annual Corporate Governance Report; • Review of the quarterly corporate governance reports; • Approval of the report on compliance with the CSE Code and the UK Code; • Approval of the Terms of Reference of an Ethics, Conduct and Culture Committee.	• Annual review of the Corporate Governance Framework, to incorporate requirements of recent regulatory developments including those of the revised UK Code. • A review of the Board Diversity Policy to ensure the action plan in place to achieve 40% female representation on the Board in 2020 is still appropriate. • The establishment of an Ethics, Conduct and Culture Committee was approved to support the Board in promoting its collective vision of values, conduct and culture.
Executive performance review	• Performance appraisal of the two executive directors; • Setting of KPIs of new CEO.	• The performance appraisal of the two executive directors was carried out in terms of both their role as executives and as board members

5. Board Committees (continued)

5.1 Nominations and Corporate Governance Committee (continued)

Matters considered and action taken by the NCGC in 2019 (continued)

Independence and time commitments	• Review of: • Skills, knowledge and expertise; • Independence of Non-executive members; • Review of potential conflicts of interest of directors; • Appointments to other directorships; • Attendance records and time commitment.	• All non-executive directors remained independent as to character and judgement. All directors are considered to have appropriate roles including capabilities and skills. • During the annual performance evaluation review each non-executive director and his/her ability to continue meeting their time commitments was assessed. • Approval from the NCGC was sought prior to taking on any other directorships outside the Group.
Training	• Further use of the e-learning online training.	• Any training needs of non-executive directors are identified by the directors themselves and communicated to the Chairman who then ensures that the relevant training / presentations are organised by the Company Secretary.
Subsidiary oversight	• Review and approval of the revision of the Corporate Governance Guidelines for subsidiaries.	• Alignment of the corporate governance framework of the subsidiaries with that of the Group taking into consideration proportionality.

Discussions were held on the matter of succession planning. Job specifications were prepared to be available for the external consultants who would assist in the search for potential candidates for the positions of CEO and Chairperson. Interviews were carried out once a shortlist was prepared and a recommendation was submitted to the Board. The chairman of the Committee reported to the Board after each meeting to ensure all directors were informed of the Committee's activities. The Committee's terms of reference can be found at www.bankofcyprus.com.

The Committee ensures plans are in place for the selection, appointment and orderly succession of executive directors and senior managers. The Group carries out a review of the ongoing fitness and probity of ExCo members on an annual basis, whereby they are required to confirm any changes in their circumstances in respect of their compliance with the CBC Fitness & Probity Directive. Any changes in circumstances disclosed are assessed and their materiality determined. Following the review of 2019, certain changes to directorships were reported. The Board concluded that each of the senior management members has the requisite standard of fitness, probity and financial soundness to perform his/her functions effectively.

5.1.1 Diversity

The Group recognises the importance of ensuring that there is diversity on the Board and is committed to this respect. In reviewing Board composition and identifying suitable candidates, the NCGC considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, industry experience, nationality, gender, age and other relevant qualities, in order to maintain an appropriate range and balance of skills, experience and background on the Board.

The Group's approach to Board diversity is set out in full in the Board Diversity Policy which can be found online at https://www.bankofcyprus.com/en-GB/who-we-are/corporate-governance/. The Policy recognises that a truly diverse Board will include and make good use of the differences in skills, experience, background, race, gender and other distinctions brought by each director, with such differences being considered in determining the optimum composition of the Board.

5. **Board Committees** (continued)

5.1 **Nominations and Corporate Governance Committee** (continued)

5.1.1 **Diversity** (continued)

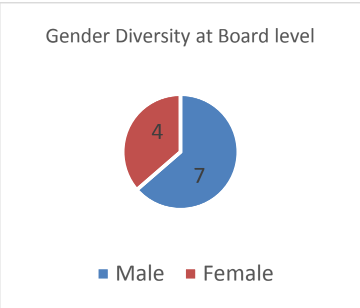
Non-executive members of the Board possess a wide range of skills, knowledge and extensive experience acquired from executive and/or non-executive appointments as directors of other companies that combine to provide independent perspective and effective board dynamics. The effectiveness of the Board depends on ensuring the right balance of directors with banking or financial services experience and broader commercial experience.

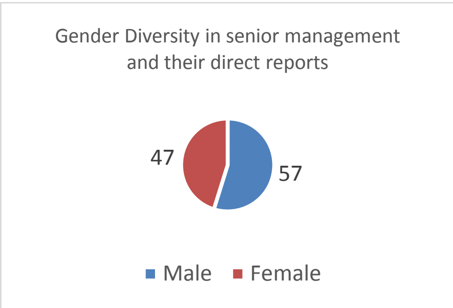
A combination of demographics, skills, experience, race, age, gender, educational and professional background and cognitive and personal strengths on the Board is important in providing a range of perspectives, insights and challenge needed to support good decision making. New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a well-rounded Board and the diversity benefits each candidate can bring to the overall board composition.

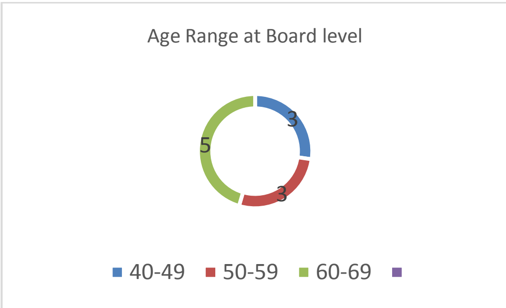
Takis Arapoglou and Panicos Nicolaou were the only two appointments made in 2019 and these were made in alignment with the strategy of the Group to concentrate on its main market, divesting itself of non-core activities. Knowledge of the area and especially the local market played a significant role in the appointment of the two directors.

Following review in 2019, the NCGC determined that the skills profile of the Board, either academically or through professional experience was appropriate and relevant to the business of the Group including inter alia, banking, insurance, manufacturing, audit and accounting, economics, risk management, dealing with competent authorities, strategy and business models, legal and consultancy services, information technology and cyber-security and human resource management.

Directors bring their individual knowledge, skills and experience to bear in discussions on the major challenges facing the Group. The participation of executives on the Board enhances the banking expertise of the Board and ensures that the Board is provided with direct, precise and up-to-date information about significant issues concerning the Group.







During 2019, the NCGC reviewed the Board Diversity Policy which aims to achieve gender diversity by 2020 with appointments based on merit in the context of the skills and experience required. The Group having recognised the benefits of a diverse Board is aiming to achieve and maintain 40% female representation by the end of 2020 and is implementing an action plan approved by the NCGC describing all key intervening milestones leading to the accomplishment of this target. Currently gender diversity is at 36.4%.

The Board also places high emphasis on ensuring the development of diversity in the senior management roles within the Group. A number of policies within the Group ensure unbiased career progression opportunities. The Code of Conduct similarly ensures equal opportunities to all members of staff and treats diversity with fairness and respect aiming to provide fair treatment for everyone at work.

5. **Board Committees** (continued)

5.2 Human Resources and Remuneration Committee

On 31 December 2019, the Committee comprised of three independent non-executive members. Its composition complied with the requirements of the CSE Code, the UK Code and the CBC Governance Directive. The Board considers that at least one member of the Committee possesses appropriate knowledge and expertise on Human Resources ('HR') and remuneration issues and that the chair has at least one year prior committee experience. The diverse backgrounds of the members of the Committee provide a balanced and independent view on remuneration matters.

The chairman of the Committee, Michael Spanos, resigned on 21 January 2019 and was replaced by Michael Heger who has been a member of the Committee since his appointment to the Board on 9 June 2016.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 9 meetings in 2019. The chairman and members of the Committee together with their attendance at meetings are shown below. The CEO and the Director of Human Resources are invited to attend meetings as appropriate.

Member attendance in 2019:

HRRC meetings* in 2019:

Michael Spanos (Chairman) (resigned 21 Jan 2019)	0/1
Michael Heger (Chairman) (appointed on 21 Jan 2019)	9/9
Anat Bar-Gera	9/9
Maria Philippou	8/9

* The number of committee meetings at BOC PCL level were 12 during 2019. The attendance of these meetings can be found on page 335.

The key responsibilities of the HRRC are set out in its terms of reference, which are available on the Group's website (www.bankofcyprus.com) and are reviewed annually and approved by the Board.

The role of the Committee is:

- To ensure that the Group is equipped with the human capital at the right size and with the right skill mix necessary for the achievement of its strategic goals. It is imperative for the Group to employ the appropriate forward-looking, commercially minded, human resources that would promote digital transformation and continuous innovation;
- To ensure that the Group is equipped with the organisational capital to be able to effect continuous improvement and elicit the right behaviour which would lead to the desired outcome;
- To ensure that the Group is equipped with the information capital and the technology necessary to facilitate process improvements that will create a comparative advantage in the market;
- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies;
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues;
- To consider the remuneration arrangements of the executive directors of the Group, other senior managers and the Group Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices, the CBC Governance Directive and the CSE Code.

The HRRC oversees the HR initiatives that foster employee engagement such as the application of a holistic internal communication programme, the implementation of the 'Well-at-Work', an employee wellbeing / care programme and the application of fair and transparent recognition initiatives across the Group.

The Committee is responsible for the development and periodic review of the Group Remuneration Policy which is proposed to the Board for ratification. In addition, the Board, through the Committee, is ultimately responsible for monitoring the implementation of the Group Remuneration Policy. More information about the role of the Committee in respect of the Remuneration Policy can be found in the Remuneration Policy Report on page 365

5. Board Committees (continued)

5.2 Human Resources and Remuneration Committee (continued)

The Committee exercises oversight of negotiations with the labour union in Cyprus and provides guidance and support to management. It advises the Board on the approval of the collective agreements and reviews the framework of industrial relations and collective agreements to ensure they are relevant to best practices and conducive to good performance. The Committee reviews any voluntary retirement/separation schemes for BOC PCL and material subsidiaries in cooperation with the Human Resources Division ('HRD') and succession planning for all divisions and subsidiaries for senior management throughout the Group.

The Committee monitors compliance with the Code of Conduct and reviews disciplinary controls and measures of the Group as presented by HRD on an annual basis. It also reviews the annual training plan as presented by HRD and approved by the CEO and ensures that it creates and/or develops the right competencies and behaviours that are necessary for meeting the Group's strategic priorities.

The Committee reviews and approves the content of any resolutions submitted for approval at the general meeting of the shareholders. These resolutions are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the CSE Code and concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

Matters considered and action taken by the HRRC in 2019

Annual Remuneration Review	• Annual review and approval of the Remuneration Policy; • Annual review of the remuneration of the senior management team.	• Given the restraints on awarding variable pay, in order to maintain motivation across the team, sensible pay awards were given bearing in mind that competitor banks do not have the same restraints on variable pay. Pay awards were biased to reflect the individual's contribution.
Disclosure and governance	• Review of the Remuneration Policy Report in the Annual Report; • Review of the Terms of Reference of the Committee; • Review of the External Recruitment Policy; • Review of the new CEO contract; • Review and approval of the revised organisation structure of the Bank; • Executive Team structure.	• The Report was reviewed and approved. • The re-organisation of the operational structure is intended to create a more functional structure taking into account the Bank's current focus areas.
Human resources review	• Monitoring of the Bank's headcount and payroll cost evolution as well as the external recruitment process; • Review of the Reorganisation Plan which formed the basis of the 2019 Voluntary Exit Plan (VEP); • Review of the VEP design and parameters and monitoring of the process.	• The Committee reviewed the reorganisation plan which identified obsolete positions emanating from changes in structure, digital transformation efficiencies, closure of branches etc. Consultation with the labour union took place to ensure its on-boarding with the plan and the VEP.
Training	• Review of the training plan of staff for the year.	• The training plan was reviewed to ensure it is appropriate and aligned to the strategy of the Group.
Engagement with labour union	• Close monitoring of the progress of the negotiations with regards to renewal of the Collective Agreement.	• The chairman of the Committee together with the Chairman of the Board and the FDCEO held a meeting with labour union representatives and agreed on a course of action to re-activate the platform of communication between the Board and the union. Collective agreement was finally signed for 2019-2020.

5. Board Committees (continued)

5.2 Human Resources and Remuneration Committee (continued)

Matters considered and action taken by the HRRC in 2019 (continued)

Performance Appraisal, Development and Succession	• Review of the performance appraisals of senior management; • Review of key findings of the 2018 Management Practices Survey process; • Review of the Performance Appraisal results and main findings; • Informed on the result of the Performance Appraisal Audit, carried out by Internal Audit; • Review of the Performance Appraisal Policy.	• Reviewed the results of the appraisal process, recommended amendments to the process based on the findings of Internal Audit. • Reviewed the findings of the Management Practices Survey whereby subordinates assess their managers across 12 management dimensions and encouraged the use of the leadership accelerator program for development interventions.
Human Resources Practices	• HRD update Report (exit statistics, disciplinary cases, financial aid and care leave; • Darewinners; • Change calendar; • Well at Work.	• Various initiatives introduced by HRD to align culture with strategy were reviewed and commented on by the Committee.

Priorities for the HRRC in 2019 were the action plan of the HRD to promote employee engagement and encourage two-way open communication. Further, the Committee was kept informed and updated on the discussions for the renewal of the collective agreement and other matters with the labour union.

The Board is informed through the HRRC on staff surveys and is updated on progress in implementing actions in response to staff feedback. The Staff Opinion Survey is run on an annual basis, aiming at evaluating employee engagement and enablement levels while identifying areas of focus and improvement going forward. In 2018 the Bank had introduced the concept of the Internal Customer Satisfaction Survey whereby employees are given the opportunity to evaluate the level of service they receive from various internal departments of the Bank.

According to the action plan set up to adhere to the revised UK Code, the Committee discussed and agreed the approach to engagement in 2019, methods of gathering and documenting workforce views, and considering how themes and viewpoints of the workforce would be presented to and considered by the Board for discussion and debate to encourage a meaningful dialogue between the Board and the workforce on a timely basis.

Information from staff surveys allowed the Bank to proceed with major changes in the way it engaged with its workforce. Initiatives emanating from the survey were the Internal Opportunities program whereby open positions are advertised on the employee portal and staff members may apply for more senior positions. Interviews are held with all applying staff that meet the qualifications and successful candidates have a second interview before a decision is reached. Decisions are justified and staff is informed whether successful or not.

A project named ‘Kill B’ was introduced to eradicate bureaucracy through workshops and recommendations made by staff. Around 30 such recommendations have already been implemented while more are being evaluated. The Appraisal Procedure was improved and enhanced to make it more objective and meritocratic through the involvement of staff. Surveys were used, workshops were ran and several in-depth personal interviews were held for understanding the challenges facing both appraisers and appraisees.

To encourage honest and two-way communication as a priority, being the best tool to face challenges for a continued development of a healthy organisation the ‘CEO Corner’ was set up on the employee portal, whereby staff can contact the CEO through the Ask the CEO email address for direct communication. Staff may participate in lunches that are organised regularly by booking a seat with the CEO. The Group’s existing whistleblowing channel provides an opportunity for all staff to raise concerns in confidence.

97% of staff were trained in 2019 amounting to about 2.5 days in training for each member of staff. A Leadership Accelerator program was attended by middle managers while other Skills Accelerator programs were attended by relevant members of staff. Several Excellence programs were also run whereby staff gained recognition and monetary awards for Change & Innovation, Outstanding Contribution, Team Spirit, Customer Centricity and Ethics.

5. Board Committees (continued)

5.2 Human Resources and Remuneration Committee (continued)

In the last two years 51 open days with senior management were organised for all staff. Internal communication is further encouraged with the quarterly financial results being presented by the Executive Director Finance through a presentation on the employee portal. New tools of internal communication are currently being evaluated through pilot groups. Directors participate in site visits and exchange views with staff or address their concerns.

The 'Darewinners' initiative intended to identify a group of individuals from across the Group and from all levels of hierarchy to facilitate the implementation of change during all the stages of the Bank's transformation.

In 2019 a program was initiated that proved popular to staff which aimed to ensure staff is well at work and in their private life by improving their health and well-being. The program, Well at Work, is based on four pillars of actions that aim to achieve balance in the people of the Company in all areas: Psychosomatic health; mental wellbeing; social activities /socialising; financial planning, all essential elements for an organisation that depends on its human resources to move forward. These goals are achieved through specific tools, initiatives, seminars and other actions that will be enriched on an on-going basis. Some of the tools already available are annual wellness check-ups for all staff; seminars on mental and physical health and an employee assistance line. An upcoming tool is the Guardian Angel mobile health application to be made available to all employees.

It is hereby confirmed that the workforce engagement method that the Board has settled on is through internal surveys carried out by the HRD overseen by the HRRC which acts as the workforce advisory panel to the Board and that regular reporting of the views expressed by staff is submitted to the HRRC which then reports through its chairman to the Board.

Safeguarding the Bank's viability is of paramount importance. In view of the international economic environment in the banking sector, where interest rates are very low and operating costs keep increasing due to the strict regulatory environment, there was a need for further specialisation, further modernisation and a reduction of the Bank's operating costs. The Company decided to invest in the digital transformation program in order to simplify the way work is carried out and to be able to deliver an improved customer experience. A reorganisation plan which described significant changes per business area and the abolition of significant number of jobs/positions was discussed with the labour union. The VEP allowed 464 employees to depart smoothly, with a generous benefits package.

Further information on the role of the Committee is presented in the Remuneration Policy Report, on page 365 of this report.

The chairman of the Committee reported to the Board after each meeting to ensure all directors were fully informed of the Committee's activities.

5.3 Audit Committee

As at 31 December 2019, the AC comprised of four independent non-executive directors. The Board considers that the AC's members, as a whole, have experience of the banking and financial services sector. The Board further believes that Ioannis Zographakis and Paula Hadjisotiriou can be regarded as having recent and relevant financial experience for the purposes of the UK Code and can be regarded as Audit Committee financial experts.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 13 meetings during 2019. The chairman and members of the Committee together with their attendance at meetings are shown below. Arne Berggren is the chairman of the RC and Ioannis Zographakis and Paula Hadjisotiriou are members of the RC. Michael Heger is also a member and chairman of the HRRC. Such common membership facilitates effective governance across all finance and risk issues. Agendas can be aligned and overlap of responsibilities can be avoided.

5. Board Committees (continued)

5.3 Audit Committee (continued)

Member attendance in 2019:

AC meetings* in 2019

Ioannis Zographakis (Chairman)	13/13
Arne Berggren	11/13
Michael Heger	13/13
Paula Hadjisotiriou	11/13

* The number of committee meetings at BOC PCL level were 13 during 2019. The attendance of these meetings can be found on page 335.

The key responsibilities of the AC are set out in its terms of reference, which are available on the Group's website (www.bankofcyprus.com) and are reviewed annually and approved by the Board.

The role of the Committee, inter alia, is:

- To review and monitor the effectiveness of the Group's system of internal controls;
- To assess the integrity of the Group's financial statements and related announcements;
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor, including monitoring their independence and objectivity;
- To review the Group's and Company's financial and accounting policies and practices;
- To monitor the effectiveness of the Group's whistle-blowing procedures and to report to the Board on its findings;
- To monitor the effectiveness of the internal audit function and the external audit process;
- To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory compliance;
- To assist the Board in meeting its obligations under relevant stock exchange listing rules and other applicable laws and regulations;

and to make recommendations to the Board on such matters.

The role of the Committee is fundamental to ensuring the integrity and accuracy of the Company's financial reporting. Good, open relationships between the Committee, the Executive Director Finance, the Internal Audit Director and the Director of Compliance as well as the external auditors, are essential to adding value to the organisation. This is achieved by holding management to account for the implementation of all audit recommendations (internal and external) and inviting appropriate senior managers to meetings to explain how they are delivering the agreed actions for which they are responsible. In addition to providing assurance within the governance and accountability structures of the Group, it is essential that the Committee contributes, delivers results and adds value to the Group.

The AC considered the following key significant accounting and other related issues in its review of the financial statements for the year ended 31 December 2019. In addressing these issues, the AC considered the appropriateness of management's judgements and estimates and where appropriate, discussed those judgements and estimates with the external auditors.

Matters considered and action taken by the AC in 2019

Allowances for impairment losses on loans and advances	• IFRS9 Impairment assessment; • Assurance that models used by the Bank cover the probability of default as required by IFRS9.	• The AC jointly with the RC considered loan impairment allowances and charges, discussing with management and consultants the basis of calculation. The AC took note of the consultants 'assessment that the impairment allowances were in accordance with the requirements of IFRS9.

5. Board Committees (continued)

5.3 Audit Committee (continued)

Matters considered and action taken by the AC in 2019 (continued)

Conversion of Deferred Tax Assets to Deferred Tax Credits	• Discussion on the amendments to the Tax Law which allow for the conversion of specific deferred tax assets into deferred tax credits.	• These amendments cover the income tax losses transferred from Laiki Bank to BOC PCL in March 2013 following its resolution. • Accounting and regulatory implications were discussed with external consultants who provided accounting and regulatory capital treatment opinions on the proposed law.
Uncertain tax positions	• Review of Tax and VAT of prior years was examined.	• The tax losses carried to BOC from Laiki were discussed with the Bank expressing its expectation that the Tax Authorities will provide final confirmation of the level of tax losses transferred soon.
One-off transactions and other matters	• Velocity I sale of loans; • Helix I sale of loans; • Estia project on NPEs; • CNP shareholding disposal; • Nicosia Mall shareholding disposal; • CYREIT AIF disposal.	• The Committee discussed the impact the sale of loans would have on the Bank as well as the project Estia on applicable NPEs. • The sale of 49% participation in CNP, the sale of the Bank's participation in the Nicosia Mall, and the sale of CYREIT were all discussed with the Executive Director Finance and the external auditors.
Future accounting standards	• Discussion of IFRS16 (Leases) applicable from January 2019; • Discussion of IFRS17 (Insurance) which is applicable from 2022.	• The impact these standards would have on the financial accounts was discussed with the statutory auditors and the Executive Director Finance. • Gap analysis was carried out by the two insurance subsidiaries and completed by end 2019. The reporting of both subsidiaries will change fundamentally and the whole period leading up to 2022 will be required for full implementation.
External Reporting	• Review and recommendation for approval of the annual and interim reporting; • Review and approval of the quarterly financial results; • Review and approval of the Group's existing accounting policies; • Approval of new and significant changes in existing policies; • Endorsement of the going concern assessment for the purposes of the basis of preparation of the financial statements.	• The AC considered management's assessment of the appropriateness of preparing the financial statements of the Group on a going concern basis. • The considerations assessed by the AC in relation to the going concern assessment are also set out in Note 3 of the Consolidated Financial Statements.
External Auditors	• Discussion of the results of the audit of the financial statements; • Assessment of the independence of the external auditors; • Assessment through Audit Quality Indicators (AQI) of the effectiveness of the external audit process; • Approval of audit, tax compliance and other assurance fees for the year; • Approval of permissible non-audit services assigned to the auditors; • Update on the 2019 External Audit Plan.	• The AC assessed through the AQIs the effectiveness of the external auditors. • The performance of the new external auditors was assessed for the first time following the issuance of the interim financial statements. • The auditors as part of their audit approach included the testing of IT general controls where financial reporting controls relied on the specific IT systems in scope. The findings were noted and these will continue to be discussed along with management's actions. • Further the auditors also presented initial findings coming from their financial reporting controls testing, being part of their audit approach. The findings were noted and these will continue to be discussed along with management's actions.

5. Board Committees (continued)

5.3 Audit Committee (continued)

Matters considered and action taken by the AC in 2019 (continued)

Compliance	• Review of the Group Financial Crime Compliance Department ('FCCD') Annual Report • Review of the Group FCCD Risk Management Report; • Review of the Regulatory & Ethics ('RECD') Annual Report; • Review and approval of the FCCD Action Plan, the RECD Action Plan, and the Data Privacy Dept. Action Plan; • Review and approval of the Anti-Money Laundering ('AML') risk appetite statement, AML Policy, Customer Acceptance Policy and Sanctions Policy; • Consideration of major compliance issues and reports submitted to it by Compliance Division; • Review and approval of the various regulatory & ethics compliance policies; • Update on important forthcoming regulatory developments; • Appraisal of the Director Compliance; • Review of the Data Privacy compliance function and the overall function of the Data Protection Officer (DPO).	• Complaints received were discussed. A 'lessons learned' approach is applied by the Complaints Management Unit to ensure the Bank improves its operations to ensure customer satisfaction. • Compliance with Best International compliance Standards for IBUs was discussed and an action plan was prepared to achieve this. Campaigns for enhanced quality of AML reviews were run across all business lines. • The progress of GDPR compliance was monitored.
Governance	• Review of the revised Terms of Reference of the AC; • Approval of the Corporate Governance Report; • Approval of the Directors' Compliance Statement.	• Relevant clarifications were sought and the AC was satisfied with respect to the Annual Corporate Governance report and the Directors' Compliance Statement.
Internal Audit	• Annual Audit Report; • Review of the Internal Audit's (IA) Triennial Audit Plan; • Review of the independence of the IA Division and the IA Director; • Appraisal of the IA Director; • Review of the self-assessment of IA conformance with IIA standards; • Approval of the IA budget; • Review of the IA quarterly activity reports; • Update on complaints received through the whistleblowing line.	• The conclusions arising from the internal audit activity as described in the 2019 Annual Audit Report were discussed. • The effectiveness of the internal audit function was assessed as adequate and recommended to the Board for discussion. • Investigation reports, internal audit report findings and recommendations were discussed as well as management's response and actions.
Litigation	• Litigation provisioning.	• The methodology used for litigation provision was revisited following the two cases where decisions issued in Cyprus courts.

5. Board Committees (continued)

5.3 Audit Committee (continued)

Matters considered and action taken by the AC in 2019 (continued)

Internal controls	• Annual review of the effectiveness of the Group's internal controls; • Quarterly updating on outstanding operational risk findings monitoring Dashboard; • Review of the Annual Information Security Assessment Report.	• The opinion provided in the 2019 Annual Audit Report on the effectiveness of the internal control framework was discussed and mutually agreed. Reasonable assurance was provided, with emphasis on specific matters, that the system of internal controls within the Group is adequately designed and operates effectively, to address significant risks according to the risk appetite set by the Board of Directors. Emphasis is provided on specific areas and in particular on non-performing exposures (NPEs) and Information Systems, which require management's attention to further reduce risk exposure. • The triennial assessment of the Group's internal control framework (ICF) was completed by KPMG. Key points were overreliance on manual work i.e. spreadsheets and procedures must be automated. In subsidiaries there is concentration risk of responsibilities and overreliance on specific staff. The ICF is considered effective, • The AC instructed the CIO to concentrate on addressing the IT audit findings with a timetable.

In assisting the Board to monitor the integrity of the financial statements, the AC has reviewed the Annual Report and monitored the appropriateness and completeness of the published financial statements and related announcements to shareholders of the Company and any formal announcements relating to the Group's financial performance, including significant financial reporting judgements and estimates made by the Group.

The Committee advised the Board that the Group Annual Financial Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee considered for disclosure all material relevant issues that have concerned management and the Group statutory auditors during the year.

The AC considered among others, the following significant issues in its review of the financial statements for the year ended 31 December 2019. In addressing these issues, the Committee discussed key areas of management's judgements and estimates with the external auditors, PricewaterhouseCoopers ('PwC'); particular areas for discussion included their findings/observations as part of their audit/review of the Group's financial statements, including inter alia, loan provisioning and impairment, going concern assessments, the conversion of deferred tax asset into deferred tax credit, litigation and claims, provision and observations in relation to the Group's controls over Information Technology. The AC in a joint meeting with the RC also considered management's recommendations in respect of provisions for impairment of loans and advances and other impairment losses and charges as reported in the Group's financial statements.

Specific matters considered by the Committee were: the effectiveness of the system of internal control, financial reporting, the major findings of internal audits and investigations into control weaknesses and management's response. The AC has received confirmation that executive management has taken or is taking the necessary actions to remedy any failings or weaknesses identified through the operation of the Group's framework of controls and will continue to reassess and remediate further as needed.

The Bank is obligated to have in place a Recovery Plan that sets out recovery options to be initiated in the event of the Group coming under severe financial stress. During 2019 the AC received updates and discussed with management the structure of the Recovery Plan.

The Committee has the responsibility for examining any significant transactions in any form, carried out by the Company and/or its subsidiary companies, where any member of the Board, CEO, senior executive officer, Secretary, auditor or large shareholder has, directly or indirectly, any significant interest. It ensures that these transactions are carried out within the framework of the Company's normal commercial practices (at arm's length).

5. Board Committees (continued)

5.3 Audit Committee (continued)

The Committee received regular reports from the Executive Director Finance, the Internal Audit Director and the Director of Compliance as well as the Chief Risk Officer who regularly attended the Committee's meetings. Reports were submitted to the Committee on internal control matters. The Committee has regular discussions with the external auditors, the Internal Audit Director and the Director of Compliance on various issues without the presence of the management.

Other responsibilities

The AC and the RC liaise closely and in joint committee meetings review the appropriateness of and completeness of the system of internal controls. The AC is primarily responsible to review the manner and framework in which management ensures and monitors the adequacy of the nature, extent and effectiveness of internal controls system, including accounting control systems, thereby maintaining an effective system of internal controls.

The Board has delegated authority to the NCGC to draw up the Annual Corporate Governance Report, but the AC retains its duty to review and approve the Annual Corporate Governance Report.

The chairman of the Committee holds the role of Whistleblower's Champion and has specific responsibility for the integrity, independence and effectiveness of the Group's policies and procedures on whistleblowing, including the procedures for protecting employees who raise concerns from detrimental treatment. He has also been named as the designated Board member responsible for the implementation of the AML Law and relevant Directives.

The Committee's performance during 2019 was assessed as part of an internal committee effectiveness review. The conclusion drawn was that the Committee is regarded as operating effectively and the Board takes assurance from the quality of the Committee's work. The chairman of the Committee reported to the Board after each meeting to ensure all directors were fully informed of the Committee's activities.

It is noted that Eurolife Ltd and General Insurance Cyprus Ltd also maintain an Audit Committee which reports to the AC on an annual basis.

5.3.1 Internal Audit & Compliance Divisions' effectiveness

The Internal Audit and Compliance Divisions report directly to the Board through the AC. They are organisationally independent of units with executive functions and are not subordinated to any other unit of the Company, except the Director of Compliance who has a dotted reporting line to the FDCEO, for administration matters. The Committee's activities included the consideration of reports submitted by the Internal Audit and Compliance Divisions.

The Committee has satisfied itself that the Internal Audit Division was effective and adequately resourced through regular meetings held with and reports provided by the Internal Audit Director on internal audit issues, including the effectiveness and adequacy of resources. The Committee received reports over the course of 2019 on the activities of the internal audit function and reviewed its planned activities for the following year. The Internal Audit Director and other senior internal audit staff met with the JST in 2019 to discuss JST's perspectives.

The AC was informed on the discussion and invited the Internal Audit Division to anticipate the focus areas that the regulator considers as important and align its audits in those areas to raise flags timely.

The report submitted by Internal Audit on its assessment of internal audit activity conformance to international internal auditing standards was also discussed by the Committee.

Management's responses to Internal Audit's findings and recommendations and mitigating actions taken were reviewed and monitored. The monthly reports issued by the Internal Audit Director and Director of Compliance enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time.

5. Board Committees (continued)

5.3 Audit Committee (continued)

5.3.1 Internal Audit & Compliance Divisions' effectiveness(continued)

Regular reports are submitted by Compliance Division to the AC on compliance risk across the Group and on AML issues. The remediation plan approved by the AC across the Group on customer due diligence is rigorously monitored. There is zero-tolerance on money laundering and terrorism financing incidents and no excuses are accepted for any violations of the relevant legislation or for breaches of the Group's internal policies, procedures and its compliance framework.

The Committee proposes to the Board the appointment, replacement, transfer or removal of the Internal Audit Director and the Director of Compliance. It submits a report to the Board on: a) the adequacy of the audits carried out, the conclusions and the proposals of the Internal Audit, and b) subjects that are related to the independence and smooth execution of audit work carried out by Internal Audit.

The AC assesses and monitors the independence, adequacy and effectiveness of the two functions as well as the independence of the Internal Audit Director.

5.3.2 Arrangements relating to the external auditors

The AC is responsible for overseeing all matters relating to the relationship between the Group and its statutory auditors, including the external audit plan, terms of engagement, audit and non-audit fee arrangements, interim findings and audit finding reports. The AC also meets semi-annually with the auditors without management present.

The Group is committed to ensuring the independence and objectivity of the statutory auditors and on an semi-annual basis the AC formally reviews the effectiveness, independence and performance of the external auditors. The AC reviews the external auditors' approach and strategy for the annual audit and audit findings. This process is supported by tailored questionnaires completed by the AC members and relevant senior management personnel. The responses received are collated and presented to the AC for discussion.

The objectivity and independence of the external auditors is safeguarded, and effectiveness of the external audit process assessed through monitoring of their relationship with the Group by the AC, including the monitoring of the balance between audit and permissible non-audit services. As an additional check on independence the AC has developed and implemented a Group Policy on the Provision of Non-Audit Services by the Group's statutory auditors in line with the EU Directive and related regulation. The Group policy ensures, among other things, that auditor objectivity and independence are not compromised. Under this policy, a key procedural control requires that any engagement of the external auditors for services must be approved in advance by the AC. The AC monitors compliance with the Group Policy and receives reports on the performance of such services.

The external auditors provide six-monthly written confirmation of their objectivity and independence to the AC. In addition, the external auditors do not provide internal audit services to the Group. The AC reviews annually a detailed analysis of the audit and non-audit fees relating to work done by the external auditors, to confirm their independence and refers this analysis to the Board. The External Recruitment Policy provides on hiring employees or former employees of the external auditor.

Information on fees paid in respect of audit and non-audit services, along with details of non-audit services provided during the year are set out in Note 16 of the Consolidated Financial Statements.

In accordance with the provisions of the European Directive on statutory audits and following a transparent and competitive tender process in 2017, the AC recommended to the Board the appointment of the audit firm of PricewaterhouseCoopers ('PwC') for accounting periods commencing 1 January 2019. The AGM held on 14 May 2019 considered the continuation in office of PricewaterhouseCoopers as Auditors of the Company and authorised the Board to fix their remuneration. The AC assessed the independence of the new statutory auditors prior to the commencement of the audit period and continues to assess their independence on a six-monthly basis. The AC closely monitored the transition period prior to the audit rotation whereby PwC shadowed EY during EY's 2018 audit. The audit firm rotation transition period was closely monitored by the AC and discussions with both statutory firms took place up to the completion of the 2018 audit engagement work. The lead partner for the audit engagement is Mr. Kevin Egan.

5. Board Committees (continued)

5.3 Audit Committee (continued)

5.3.2 Arrangements relating to the external auditors (continued)

The effectiveness of the external audit process was also assessed using AQIs and discussed with both the Internal Audit and the Executive Director Finance.

5.4 Risk Committee

The RC as at 31 December 2019 comprised of four independent non-executive directors. The Board considers that the RC, as a whole, possesses adequate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Group.

Biographical details, including each member's background, experience and independence status, are set out in section 4 of this report.

The Committee held 13 meetings during 2019. The chairman and members of the Committee together with their attendance at meetings are shown below.

Member attendance in 2019:

RC meetings* in 2019	
Arne Berggren (Chairman)	12/13
Maksim Goldman	13/13
Ioannis Zographakis	12/13
Paula Hadjisotiriou	11/13

* The number of committee meetings at BOC PCL level were 13 during 2019. The attendance of these meetings can be found on page 335.

To ensure coordination with the work of the AC, Mr. Zographakis is the chairman of the AC while Messrs Berggren and Hadjisotiriou are members of the AC. Mr. Goldman is also a member of the NCGC. Such common membership facilitates effective governance across all finance and risk issues. Agendas can be aligned and overlap of responsibilities can be avoided. There are regular joint meetings of the AC and RC to ensure there are no gaps in the oversight of internal controls and that any areas of significant overlap are appropriately addressed.

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and risk appetite remain appropriate. Specifically, it:

- Advises the Board on risk appetite and alignment with strategy;
- Monitors the effectiveness of the Group's risk management and internal control systems except from financial reporting and compliance internal control systems;
- Monitors the Group's risk appetite and risk profile against key performance/risk indicators as set out in the Group's Risk Appetite Statement;
- Identifies the potential impact of key issues and themes that may impact the risk profile of the Group;
- Ensures that the Group's overall risk profile and risk appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment;
- Seeks to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board committees;
- Advises the Board on alignment of remuneration with risk appetite (through advice to the Group HRRC); and
- Advises the Board on risks associated with proposed strategic acquisitions and disposals.

The Bank, like all other financial institutions, is exposed to risks, the most significant of which are credit risk, liquidity and funding risk, market risk, operational risk and property price risk. The Group monitors and manages these risks through various control mechanisms and reviews the mitigating actions proposed by management.

5. **Board Committees** (continued)

5.4 **Risk Committee** (continued)

At each meeting, the RC reviews the risk report which identifies key issues and includes a view of the Group's risk appetite statement, as well as top and emerging risks. The Committee provides challenge and review to the Group's regulatory submissions relating to capital management and liquidity adequacy assessments.

To ensure consistency of scope and approach by subsidiary company committees, the RC has established core terms of reference to guide subsidiary companies when adopting terms of reference for the non-executive risk committees. The Committee's endorsement is required for any proposed material changes to subsidiary company risk committee terms of reference and for appointments to such committees.

Detailed information relating to Group Risk Management is set out in Notes 46 to 49 of the Consolidated Financial Statements and the Additional Risk and Capital Management Disclosures section of the 2019 Annual Financial Report.

Key areas of focus for the Committee during the year were to set strategies and ensure compliance with reference to non-performing exposures management, review risk policies where necessary to comply with the changing regulatory environment and better support business needs. The Committee also reviewed and challenged the approach and the assumptions of the ICAAP and ILAAP. A more granular approach to legal risk in terms of ICAAP was requested and reviewed.

The Committee identified the current and potential impact of key issues and themes on the Group's risk profile and performed deep dive discussions in order to better understand and provide guidance to the management. Deep dive discussions concentrated on the new lending processes as well as the Information Security Operating Model. The Integrated Risk Identification Framework was discussed at length. Further the Committee discussed and approved or recommended for approval a large number of restructurings and contractual or non-contractual write-offs.

The RC discussed and approved the RC calendar for 2019 and undertook the following key activities:

Matters considered and action taken by the RC in 2019

Risk Strategy and Management	• Recommendation of the Risk Appetite Statement and approval of the Group Risk Framework and Policy; • Approval of risk-related limits; • Review of alignment of risk appetite and Group strategy; • Review of monthly reports from the CRO including a risk map; • Review of Shipping Loans; • Loan syndication strategy to facilitate diversification of risk; • Capital Plan and MREL Funding Plan; • Charter and Strategy of Risk Management Division. • Approval of Integrated Risk Identification Framework	• The strategy and planning to comply with MREL by the end of 2022 was discussed. • A presentation in shipping business and a discussion on risks and opportunities took place. • An integrated Risk identification framework was presented and discussed at the committee
Operational Risk	• Approval of the operational risk framework; • Review of IT risk and cybercrime and model risk; • Consideration of business continuity, information security, cybersecurity etc; • NPE curability; • Significant risk transfer methodology.	

5. Board Committees (continued)

5.4 Risk Committee (continued)

Matters considered and action taken by the RC in 2019 (continued)

Credit Risk	• Review of new lending in the period 2015-2018; • Approval of the non-performing loans strategy and operating plan; • Recommendation for approval of the Group Credit Policy; • Review of the Group Country Risk Policy and limits; • Approval/recommendation of a large number of restructurings; • Credit monitoring of healthy portfolio.	• Discussed the downward trend in non-performing exposure inflows and whether this is sustainable • External service providers were asked to review the new lending processes to provide independent view as to soundness and quality of this type of lending. Findings and recommendations were discussed. • Provisioning reviewed jointly with AC.
Market / Liquidity Risk	• Recommendation of the Group Market Risk Policy and review of controls on discretionary risk and stress testing; • Recommendation of the Group Funding and Liquidity Policy and management strategy including the Contingency Funding Plan and the Group Liquidity Stress Testing Position; • Approval of the Liquidity Adequacy Statement; • Monitor the activities and decisions of ALCO through a review of its minutes; • Liquidity and deposits update.	• The triggers and scenarios for appropriate stress tests and Reverse stress tests were discussed. • Sensitivity analysis on Liquidity risk. • Business Continuity Plan (BCP) testing.
Other Risks	• Review of top and emerging risks; • Information Security Operating Model; • Review of Reputational Risk; • Review of regulatory communication; • Review of other risk related policies; • Approval of the Capital Adequacy Statement; • Review and approval of the Recovery Plan; • CRO appointment; • REMU and RRD progress; • Property exposure analysis; • Political instability in Lebanon; • Cloud Risk Assessment; • Enhancement of the role of the RC.	• External review was carried out on the InfoSec Operating Model and findings and recommendations were discussed. • The appointment of the new CRO was discussed following the re-organisation of the operational structure. • The use of the Yammer tool was tested to satisfy the need for two-way communication internally and a pilot group was set up. The RC requested reporting on use and findings of the pilot run. • The Committee discussed how its role can be reinforced to embed a stronger review and a pro-active challenging role.
Governance	• Review of the terms of reference of the RC; • Review of the effectiveness of the Committee; • Appraisal of the Chief Risk Officer and the Information Security Manager; • Review of the reports of material subsidiaries.	• The committee discussed how the Key Risk Matrix is calculated and how it is linked to the Capital Plan.
Data Risk	• Laptops and USBs are encrypted; • Discussion of the data leakage prevention system adopted in 2019.	• The strategy the Bank has followed and the process in place for monitoring data leakage was discussed.
Regulatory communication	• Emphasis on quality reporting to the ECB; • Follow up of SREP findings and mitigating actions.	• Regulatory activity is expected to increase. RC reiterated that communication with the regulators should be enhanced and interaction be more proactive to anticipate and meet regulatory expectations.

The chairman of the Committee reported to the Board after each meeting to ensure all directors were fully informed of the Committee's activities.

5. Board Committees (continued)

5.5 Technology Committee

The Committee held 7 meetings during 2019 at BOC PCL level. The chairperson and members of the Committee together with their attendance at meetings are shown below.

Member attendance in 2019:

TC meetings in 2019	
Lyn Grobler (Chairperson)	7/7
Anat Bar-Gera	7/7
Michael Heger	7/7
Ioannis Zographakis	7/7

The purpose of the TC is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to the overall role of technology in executing the business strategy of the Group including, but not limited to, major technology investment, technology strategy, operational performance, and technology trends that may affect the Group's client portfolio and/or affairs in general.

The Committee has delegated authority by the Board of Directors and is responsible to:

- Review and approve the Group's technology planning and strategy within the overall strategy framework approved by the Board;
- Review and approve significant technology investments and expenditures as per the Committee and limit structures approved by the Board, provided they do not fall within the limits that are reserved for the Board;
- Monitor and evaluate existing and future trends in technology that may affect the Group's strategic plans, including monitoring of overall industry trends; and
- Receive reports from management concerning the Group's technology operations including, among other things, software development project performance, technical operations performance, technology architecture and significant technology investments and approve related policies.

Notwithstanding the above, responsibility for the oversight of risks associated with technology, including risk assessment and risk management, remains with the RC.

The Committee monitored the progress of the digitisation transformation of the Bank and reviewed Key Performance Indicators focused on measuring movement from branches to digital channels. Adoption rate stood at 70% towards year end. The projects running in the IT function were monitored to ensure they stayed within reasonable deadlines.

External consultants were engaged to assess the mobile application of the Bank. The Committee was informed on connectivity with UK banks as part of the Open Banking Initiative and the introduction of Apple Pay improved customers' perception of the Bank's leadership in digitisation. Finally, the TC followed-up on the ECB on-site inspection of IT function with focus on Disaster Recovery and Business Continuity.

5.6 Ethics, Conduct and Culture Committee

The Committee was established in November 2019 and held 1 meeting during 2019 at BOC PCL level. The chairman and members of the Committee together with their attendance at meetings are shown below.

Member attendance in 2019:

ECCC meetings in 2019	
Ioannis Zographakis (Chairman)	1/1
Lyn Grobler	1/1
Maria Philippou	1/1
Panicos Nicolaou	1/1

5. Board Committees (continued)

5.6 Ethics, Conduct and Culture Committee (continued)

The role of the Committee is:

- To support the Board in promoting its collective vision of values, conduct and culture;
- To oversee management's efforts to foster a culture of ethics and appropriate conduct within the Group;
- To oversee the way the Group conducts business focusing on developing a customer-centric culture with an eye on profitability in all its operations; and
- To oversee the Group's conduct in relation to its corporate and societal obligations, including setting the direction and policies for the Group's approach to customer and regulatory matters.

Its role is one of oversight, recognising that management is responsible for continuously reinforcing and championing the Group's sound ethics, responsible conduct and principled culture throughout the organisation.

The modus operandi of the Committee was discussed and how to align the culture of the Group with its strategy concentrating on risk, control and customer centric culture.

6. Remuneration Policy Report

The Remuneration Policy Report was prepared by the Board following a proposal by the HRRC in accordance with Annex 1 of the CSE Code and the UK Code. It is presented in the 2019 Annual Financial Report of the Group, after the Corporate Governance Report. Information on the remuneration of the members of the Board for the year 2019 is disclosed in Note 51 of the Consolidated Financial Statements of the Group, as well as in the Remuneration Policy Report.

7. Shareholder Relations

Mrs Annita Pavlou, Manager Investor Relations Department, has been appointed by the Board as Investor Relations Officer, responsible for the communication between shareholders and the Group since 30 August 2016. Information concerning the Group is provided to shareholders, prospective investors, brokers and analysts in a prompt and unbiased manner free of charge.

The Group uses its website (www.bankofcyprus.com) to provide shareholders and potential investors with recent and relevant financial information, including the annual, the mid-year financial report and quarterly results, announcements and presentations. The Investor Relations section of the Group's website is updated with all announcements published on the LSE and CSE as these are made. It also contains contact details for the Investor Relations Department.

Directors receive an investor relations update from management at all scheduled Board meetings. This update typically includes market updates, share price and valuation analysis, updates on analysts' reports and share register analysis.

One of the responsibilities of the Chairman of the Board is to ensure that the views, issues and concerns of shareholders are effectively communicated to the Board and to ensure that directors develop an understanding of the views of major investors. The Board considered the views of major shareholders on company strategy and performance and assessed investor sentiment more broadly in conjunction with the Group's corporate brokers. The SID, Ioannis Zographakis, is available to shareholders if they have concerns that are not resolved through the normal communication channels.

All shareholders of the Company are treated on an equal basis. There are no shareholders with special control rights. Shareholders are promptly and accurately informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

Under the Irish Companies Act 2014, one or more members holding at least 3% of the issued share capital of the Company, representing at least 3% of the total voting rights of all the members who have a right to vote at the meeting to which the request for inclusion of the item relates, has the right to: (a) put an item on the agenda of the AGM provided that the item has been accompanied by stated grounds justifying its inclusion or a draft resolution to be adopted; and (b) to table a draft resolution for an item on the agenda of a general meeting. Such a request must have been received by the Company at least 42 days prior to the relevant meeting.

7. **Shareholder Relations** (continued)

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

Major shareholders do not have different voting rights from those of other shareholders. As at 31 December 2019, the Company has been advised of the following notifiable interest in the share capital of the Company:

• Lamesa Investments Limited	9.27%
• Caius Capital	6.24%*
• European Bank for Reconstruction and Development	5.02%
• Cyprus Popular Bank Public Co Ltd	4.81%
• Senvest Management LLC	3.67%
• Eaton Vance Management	3.58%
• TD Asset Management	3.51%

* Financial Instruments with similar economic effect according to Regulation 17(1)(b) of the Transparency (Directive 2004/1109/EC) Regulations 2007 of Ireland as amended.

In accordance with the Company's Constitution, at the Company's AGM in 2019:

- The Directors were authorised to allot shares up to an aggregate of 147,245,978 ordinary shares of €0.10 each and a further 147,245,978 ordinary shares of €0.10 each in the case of a pre-emptive issue (as described in the notice for that general meeting). The Directors were authorised to issue and allot those shares as if the pre-emption provisions set out in section 1022 of the Companies Act 2014 are dis-applied in respect of:
  - (i) in the case of a pre-emptive issue, the aggregate number of ordinary shares of €0.10 each authorised to be issued pursuant to such issue (as described in the notice for that general meeting); and (ii) 22,309,997 ordinary shares of €0.10 otherwise that (i); and
  - a further 22,309,997 ordinary shares of €0.10 each for specified transactions.
- the Directors were also authorised to issue, allot, grant options over or otherwise dispose of Additional Tier 1 ("**AT1 ECNs**") and ordinary shares pursuant to the conversion or exchange of AT1 ECNS provided that this be limited to the issue, allotment, grant of options over or other disposal of ordinary shares of an aggregate nominal amount €6,662,999 and of AT1 ECNs convertible or exchangeable into ordinary shares up to such maximum aggregate nominal amount, and the pre-emption provisions set out in section 1022 of the Companies Act 2014 in respect of this authority were dis-applied.
- The Directors were also authorised to make purchases of up to 44,619,993 ordinary shares. Such purchases may be made only at price levels which the Directors considered to be in the best interests of the shareholders generally, after taking into account the Company's overall financial position. In addition, the minimum price which may be paid for such shares shall not be less than the nominal value of the shares and the maximum price will be the higher of 105% of the average market price of such shares and the amount stipulated by Article 5(1) of the EU Market Abuse (Buyback and Stabilisation) Regulation.

The authority conferred in each of the above resolutions expires on the earlier of close of business on the date of the AGM of the Company to be held in 2020 or on 13 August 2020.

The AGM was held on 14 May 2019 at the Company's headquarters. The Chairman of the Board (who is also the Chairman of the NCGC) and the chairpersons of the committees of the Board were present to hear the views of the shareholders and answer questions. As is the practice, all directors of the Board at the time of the AGM attended the AGM. At the 2019 AGM, separate resolutions were proposed on each substantially separate issue and voting was conducted by poll. To facilitate shareholder participation, electronic voting is available. Votes are taken by way of a poll to include all shareholder votes cast.

The results of every AGM of the Company including details of votes cast for and against on each resolution are posted on the Group's website (www.bankofcyprus.com) and released to the London and Cyprus Stock Exchanges.

7. Shareholder Relations (continued)

There was one resolution for which a negative vote of slightly more than 20% was cast and the Chairman of Board mentioned that '*The Company notes the votes cast in respect of resolution 4(a) which relates to the re-election of Mr. Maksim Goldman. While Mr. Goldman's re-election has been approved, the Company will be engaging with shareholders to understand their views as part of its ongoing programme of engagement'.*

Several meetings were held between the SID and major investors following the AGM during which the position of the Group was explained and views from shareholders were obtained. The result of these meetings is presented on page 327 of this report.

The Board values the AGM as a key opportunity to meet shareholders. The AGM of the Company in 2019 is scheduled to be held on 26 May 2020. The whole Board is expected to attend and will be available to answer shareholders' questions.

Remuneration Policy Report for the year 2019

1. Introduction

In accordance with the provisions of the CSE Code published by the CSE (5th Edition (Revised) January 2019) and in particular Annex 1 of the CSE Code, the HRRC prepares the Annual Board of Directors' Remuneration Policy Report which is ratified by the Board and submitted to the shareholders' AGM as part of the Annual Report of the Group. The Board of Directors Remuneration Policy Report for the year 2019 was ratified by the Board on 28 April 2020.

The Bank of Cyprus Group's objective to attract, develop, motivate and retain high value professionals is considered fundamental in achieving the goals and objectives of the Group and ensuring that the right people are in the right roles whilst managing the Group's remuneration strategy and policies in a manner aligned with the interests of the Group's shareholders.

2. Human Resources and Remuneration Committee

The Committee's primary role is to ensure that staff members contribute to sustainable growth by staying ahead of challenges and opportunities.

The Group aims to review its remuneration policies and practices on an ongoing basis and amend them where necessary, in order to ensure that they are consistent with and promote sound and effective risk management.

Every year, the Committee proposes to the Board the Annual Remuneration Policy Report as part of the Annual Report of the Group, which is submitted to the shareholders' AGM. The Committee also reviews the related party transactions note (Note 51) of the Consolidated Financial Statements of the Group and the Remuneration Policy Report itself.

2.1 Terms of Reference of the Human Resources and Remuneration Committee

The role of the Committee is described in detail in section 5.2. of the Annual Corporate Governance Report on page 348. In respect of remuneration the HRRC undertakes the following:

- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals;
- To consider the remuneration arrangements of the executive directors of the Group, senior management and the Group Remuneration policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices, the CBC Governance Directive, the CSE Code and the UK Code; and
- To review the implementation and effectiveness of the Remuneration Policy and ensure this is in compliance with the Remuneration Framework of the CBC Governance Directive.

The Committee ensures that internal control functions are involved in the design, review and implementation of the Remuneration Policy and that staff members who are involved in the design, review and implementation of the Remuneration Policy and practices have relevant expertise and are capable of forming independent judgement on the suitability of the Remuneration Policy and practices, including their suitability for risk management.

The Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CSE Code, the CBC Governance Directive which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the EBA Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions currently pertinent to the banking sector and the Group in particular.

The Committee reviews and approves the content of any resolutions submitted for approval at the AGM of the shareholders, which are prepared by the Company Secretary in cooperation with the Group's legal advisers in accordance with Annex 3 of the Code which may concern possible plans for the compensation of members of the Board in the form of shares, share warrants or share options.

Remuneration Policy Report for the year 2019 (continued)

2. Human Resources and Remuneration Committee (continued)

2.1 Terms of Reference of the Human Resources and Remuneration Committee (continued)

Senior Management

The Committee reviews and approves remuneration packages of Group divisional directors, senior managers and subsidiaries' general managers, including salary, pension policy, option plans, and other types of compensation, recommended by the CEO or by the chairmen of the Risk and Audit Committees (in the case of the heads of internal control functions) in consultation with the CEO and HRD.

The Committee also reviews the performance appraisals of Group divisional directors (except heads of internal control functions). Senior managers and subsidiaries' general managers' appraisals are performed by the CEO.

The Committee reviews and approves appointments, transfers and dismissals of Group divisional directors, senior managers and subsidiaries' general managers (except heads of internal control functions), recommended by the CEO, and ensures that all contractual obligations are adhered to.

The chairman of the Committee is available to shareholders in the AGM to answer any questions regarding the Remuneration Policy of the Group. Workforce engagement is described in section 5.2 of the Annual Corporate Governance Report.

3. Governance of Group Remuneration Policy

3.1 Principles of the CSE Code of Corporate Governance

Companies should implement official and transparent procedures for developing policies concerning the remuneration of executive directors and fixing the remuneration of each Board member separately.

The level of remuneration should be sufficient to attract and retain talent required for the efficient operation of the Company. Part of the remuneration of executive directors should be determined in such a way as to link rewards to corporate and individual performance. Resolution, or any other authority allowing, variable pay should be linked to performance.

The Company's Corporate Governance Report includes a statement of the Remuneration Report and relevant criteria, as well as the total remuneration of the executive and non-executive members of the Board.

3.2 EBA Guidelines

The EBA Guidelines aim to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. The Group seeks to ensure it implements remuneration policies which are in compliance with regulatory guidelines, while at the same time operating under legal and regulatory constraints.

In accordance with EBA guidelines for identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these employees known as Material Risk Takers which is reviewed and approved by the Board annually.

4. Remuneration

4.1 Remuneration of Non-executive Directors

The remuneration of non-executive directors is not linked to the profitability of the Group. It is related to the responsibilities and time devoted for Board meetings and decision-making for the governance of the Group, and for their participation in the committees of the Board and any participation in the boards of Group subsidiary companies. The shareholders' AGM held on 14 May 2019 approved the same levels of remuneration as those approved by the shareholders' AGM on 28 August 2018.

The remuneration of non-executive directors is determined and approved by the Board. Neither the Chairman nor any director participates in decisions relating to their own personal remuneration. The Committee proposes fees payable to the Chairman and the Vice Chairman, while the Chairman makes recommendations for the remuneration of the non-executive directors to the Board for approval by the AGM, considering the following factors:

Remuneration Policy Report for the year 2019 (continued)

4. Remuneration (continued)

4.1 Remuneration of Non-executive Directors (continued)

- The time allocated and effort exerted by non-executive directors to meetings and decision-making in the management of the Group;
- The undertaken level of risk;
- The increased compliance and reporting requirements;
- The requirement not to link remuneration of non-executive directors to the profitability of the Group;
- The requirement that non-executive directors do not participate in the pension schemes of the Group;
- The requirement not to include share options as remuneration of non-executive directors.

Neither the Chairman nor any director participates in decisions relating to their own personal remuneration.

The Chairman receives annual fees of €120,000, the Vice Chairman of €80,000, the SID of €70,000 and the members of €45,000. Additionally, the Group reimburses all directors for expenses incurred in the course of their duties.

The chairmen of the Audit and Risk Committees receive annual fees of €45,000 each and members receive €25,000. The chairmen of the HRRC, the Nominations and Corporate Governance Committee (NCGC) and the Technology Committee (TC) receive annual fees of €30,000 each. Each member of the HRRC and the TC receives €20,000 per annum, while each member of the NCGC receives €15,000 per annum.

4.2 Remuneration and Other Benefits of Executive Directors

The Committee reviews and approves the remuneration packages vis-a-vis their performance. In line with the UK Code the following factors are also considered: clarity, simplicity, risk, predictability and proportionality and finally alignment to culture. The CEO and the First Deputy CEO (FDCEO') are employees of BOC PCL.

Contracts of Employment

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

The employment contract of the CEO was extended to 31 December 2020. On 3 March 2019 the CEO John Hourican informed the Board of his decision to leave the Group in September 2019. He was succeeded to the role of CEO by Panicos Nicolaou.

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

Service Termination Agreements

The employment contract of Mr. P. Nicolaou includes a clause for termination, by service of six months' notice to that effect by either the executive director or BOC PCL, without cause and BOC PCL also maintains the right to pay to the executive director six month's salary in lieu of notice for immediate termination. There is an initial locked-in period of three years during which no such notice may be served either by BOC PCL or the executive director unless there is a change of control of BOC PCL as this is defined in the service agreement whereupon the executive director may serve the notice and is further entitled to compensation as this is determined in the service agreement.

The terms of employment of Dr Patsalides, FDCEO and executive member of the Board, are mainly based on the provisions of the collective agreement in place, which provides for notice or compensation by the BOC PCL based on years of service and for a four month prior written notice by the executive director in the event of a voluntary resignation.

Bonus

No bonus was recommended by the Company's Board for executive directors for 2019.

Remuneration Policy Report for the year 2019 (continued)

4. Remuneration(continued)

4.2 Remuneration and Other Benefits of Executive Directors (continued)

Retirement Benefit Schemes

The CEO participates in a defined contribution plan largely on the same basis as other employees. The FDCEO participates in a defined contribution plan on the same basis as other employees.

The main characteristics of the retirement benefit schemes are presented in Note 15 of the Consolidated Financial Statements for the year ended 2019.

Share Options

No share options were granted to the executive directors during 2019.

Other Benefits

Other benefits provided to the executive directors include other benefits provided to staff, medical fund contributions and life insurance. John Hourican, CEO until 30 August 2019, had been provided with other benefits related to his relocation and residence in Cyprus. The relevant costs for the executive directors are disclosed in Note 51 of the Consolidated Financial Statements for the year ended 2019.

John Hourican, received and retained fees relative to his appointment as a non-executive on the Board of Atradius N.V. of €50,000 per annum.

5. Information Regarding the Remuneration of Directors for Year 2019

	Remuneration for services* €	Remuneration for participation in the Board of Directors and its Committees €	Total remuneration for services €	Remuneration and benefits from other Group companies €	Remuneration in the form of profit and/or bonus distribution €	Assessment of the value of benefits that are considered to form remuneration €	Total remuneration and benefits €	Annual contribution to retirement benefits €
Executive Directors								
John P. Hourican	1,535,861	-	1,535,861	-	-	43,280	1,579,141	**116,755**
Panicos Nicolaou	177,240		177,240				177,240	**15,000**
Christodoulos Patsalides	245,621	-	245,621	-	-	6,292	251,913	**20,299**
Non-Executive Directors								
Josef Ackermann	-	56,661	56,661	-	-	-	56,661	-
Takis Arapoglou		84.362	84,362				84,362	
Maksim Goldman	-	122,220	122,220	-	-	-	122,220	-
Arne Berggren	-	117,128	117,128	-	-	-	117,128	-
Anat Bar-Gera		86,573	86,573				86,573	
Lyn Grobler		91,665	91,665				91,665	
Paula Hadjisotiriou		96,758	96,758				96,758	
Michael Heger		121,654	121,654	-	-	-	121,654	-
Maria Philippou	-	66,203	66,203	-	-	-	66,203	-
Michael Spanos	-	5,834	5,834	-	-	-	5,834	-
Ioannis Zographakis	-	158,999	158,999	-	-	-	158,999	-
	1,958,722	**1,008,057**	**2,966,779**	**-**	**-**	**49,572**	**3,016,351**	**152,054**

* Includes employers' contributions excluding contributions to retirement benefits.

28 April 2020

Additional Risk and Capital Management Disclosures

2019

This report includes additional risk and capital management disclosures.

1. Credit risk

According to the European Banking Authority's (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing loans (which was published in March 2017), Non-Performing Exposures (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.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.

- Material arrears/excesses are defined as follows:
  - Retail exposures: Total arrears/excesses amount greater than €100
  - Exposures other than retail: Total arrears/excesses are greater than €500

  and the amount in arrears/excess in relation to the customer's total exposure is at least 1%.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

(i) The extension of forbearance measures does not lead to the recognition of impairment or default.

(ii) One year has passed since the forbearance measures were extended.

(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

(iv) No unlikely-to-pay criteria exist for the debtor.

(v) The debtor has made post-forbearance payments of a non-insignificant amount of capital (different capital thresholds exist according to the facility type).

The tables below disclose NPEs based on the definitions of the EBA standards.

1. **Credit risk** (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

31 December 2019	Gross loans and advances to customers				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
			Of which exposures with forbearance measures				Of which exposures with forbearance measures	
	Group gross customer loans and advances[1]	Of which NPEs	Total exposures with forbearance measures	Of which NPEs	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which NPEs	Total exposures with forbearance measures	Of which NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	**56,921**	1	-	-	**3,389**	-	-	-
Other financial corporations	**124,343**	27,459	18,489	2,366	**17,542**	14,843	1,466	462
Non-financial corporations	**6,271,155**	1,382,074	1,216,902	737,602	**753,848**	686,025	348,577	337,290
Of which: Small and Medium sized Enterprises[2]	**4,662,994**	1,073,846	786,069	556,483	**636,820**	576,635	271,110	261,229
Of which: Commercial real estate[2]	**4,270,225**	858,998	767,008	480,382	**457,622**	402,751	219,952	211,902
Non-financial corporations by sector								
Construction	**823,276**	265,879			**144,336**			
Wholesale and retail trade	**1,294,815**	371,613			**185,720**			
Accommodation and food service activities	**1,055,448**	50,116			**44,823**			
Real estate activities	**1,266,772**	296,406			**153,802**			
Professional, scientific and technical activities	**425,134**	90,832			**53,916**			
Other sectors	**1,405,710**	307,228			**171,251**			
Households	**6,192,505**	2,285,998	1,577,249	1,245,937	**1,148,304**	1,080,696	526,423	513,772
Of which: Residential mortgage loans[2]	**4,808,202**	1,811,698	1,291,083	1,021,084	**842,389**	783,146	401,561	392,046
Of which: Credit for consumption[2]	**770,552**	280,584	177,047	151,313	**158,044**	156,642	71,357	70,065
	12,644,924	**3,695,532**	**2,812,640**	**1,985,905**	**1,923,083**	**1,781,564**	**876,466**	**851,524**
Loans and advances to customers classified as held for sale	**184,964**	183,974	45,191	45,028	**159,035**	158,998	37,438	37,429
Total on-balance sheet	**12,829,888**	**3,879,506**	**2,857,831**	**2,030,933**	**2,082,118**	**1,940,562**	**913,904**	**888,953**

[1] Excluding loans and advances to central banks and credit institutions.
[2] The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

1. **Credit risk** (continued)

31 December 2018	Gross loans and advances to customers				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			
	Group gross customer loans and advances[3]	Of which NPEs	Of which exposures with forbearance measures: Total exposures with forbearance measures	Of which exposures with forbearance measures: Of which NPEs	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	Of which NPEs	Of which exposures with forbearance measures: Total exposures with forbearance measures	Of which exposures with forbearance measures: Of which NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
Loans and advances to customers								
General governments	**70,638**	3	1,595	-	**3,681**	-	468	-
Other financial corporations	**167,910**	21,338	28,028	5,621	**13,378**	8,471	3,374	2,076
Non-financial corporations	**6,331,381**	1,941,479	1,682,997	1,042,164	**947,857**	864,983	367,235	347,924
Of which: Small and Medium sized Enterprises[4]	**4,573,824**	1,488,289	1,108,153	793,579	**759,484**	692,343	280,675	266,736
Of which: Commercial real estate[4]	**4,473,159**	1,284,145	1,124,078	742,839	**569,351**	501,842	231,694	216,486
Non-financial corporations by sector								
Construction	**972,059**	382,697			**184,282**			
Wholesale and retail trade	**1,431,706**	522,151			**254,823**			
Accommodation and food service activities	**1,005,691**	96,702			**58,563**			
Real estate activities	**1,140,596**	406,226			**174,269**			
Manufacturing	**428,828**	134,950			**74,884**			
Other sectors	**1,352,501**	398,753			**201,036**			
Households	**6,588,202**	2,805,496	1,924,928	1,486,583	**1,271,429**	1,208,624	481,701	471,184
Of which: Residential mortgage loans[4]	**5,022,617**	2,112,152	1,552,445	1,180,705	**828,205**	774,656	336,651	327,956
Of which: Credit for consumption[4]	**891,964**	397,747	234,572	195,422	**225,505**	221,996	79,417	77,930
	13,158,131	**4,768,316**	**3,637,548**	**2,534,368**	**2,236,345**	**2,082,078**	**852,778**	**821,184**
Loans and advances to customers classified as held for sale	**2,851,113**	2,749,301	1,492,083	1,437,851	**1,697,005**	1,646,091	825,977	797,692
Total on-balance sheet	**16,009,244**	**7,517,617**	**5,129,631**	**3,972,219**	**3,933,350**	**3,728,169**	**1,678,755**	**1,618,876**

[3] Excluding loans and advances to central banks and credit institutions.
[4] The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

2. Liquidity risk and funding

2.1 Encumbered and unencumbered assets

Asset encumbrance arises from collateral pledged against secured funding and other collateralised obligations.

An asset is classified as encumbered if it has been pledged as collateral against secured funding and other collateralised obligations and, as a result, is no longer available to the Bank of Cyprus Holdings Group (the Group) for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €2,850,429 thousand as at 31 December 2019 (31 December 2018: €3,384,455 thousand).

An asset is classified as unencumbered if it has not been pledged as collateral against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can be potentially pledged and those that are not readily available to be pledged. As at 31 December 2019, the Group held €14,408,148 thousand (31 December 2018: €12,518,132 thousand) of unencumbered assets that can be potentially pledged and can be used to support potential liquidity funding needs and €2,525,161 thousand (31 December 2018: €4,878,219 thousand) of unencumbered assets that are not readily available to be pledged for funding requirements in their current form.

Loans and advances to customers indicated as encumbered as at 31 December 2019 and 31 December 2018 are mainly used as collateral for funding from the ECB and the covered bond.

Loans and advances to customers include mortgage loans of a nominal amount €1,000 million as at 31 December 2019 (2018: €1,009 million) in Cyprus, pledged as collateral for the covered bond issued by Bank of Cyprus Public Company Ltd (BOC PCL) in 2011 under its Covered Bond Programme. Furthermore, as at 31 December 2019 housing loans of a nominal amount €1,498 million (2018: €1,543 million) in Cyprus were pledged as collateral to be available for obtaining funding from the ECB (Note 48 of the Consolidated Financial Statements for the year ended 31 December 2019).

The table below presents an analysis of the Group's encumbered and unencumbered assets and the extent to which these assets are currently pledged for funding or other purposes. The carrying amount of such assets is disclosed below:

	Encumbered	Unencumbered		
31 December 2019	**Pledged as collateral**	**Which can potentially be pledged**	**Which are not readily available to be pledged**	**Total**
	€000	**€000**	**€000**	**€000**
Cash and bank placements	90,437	4,774,845	515,641	5,380,923
Investments	222,961	1,633,571	49,298	1,905,830
Loans and advances to customers	2,537,031	6,271,879	1,912,931	10,721,841
Non-current assets held for sale	-	-	26,217	26,217
Property	-	1,727,853	21,074	1,748,927
Total on-balance sheet	**2,850,429**	**14,408,148**	**2,525,161**	**19,783,738**
31 December 2018				
Cash and bank placements	118,627	4,326,166	638,230	5,083,023
Investments	737,587	742,152	34,952	1,514,691
Loans and advances to customers	2,528,241	5,708,960	2,684,585	10,921,786
Non-current assets held for sale	-	-	1,470,038	1,470,038
Property	-	1,740,854	50,414	1,791,268
Total on-balance sheet	**3,384,455**	**12,518,132**	**4,878,219**	**20,780,806**

2. Liquidity risk and funding (continued)

2.1 Encumbered and unencumbered assets (continued)

Encumbered assets primarily consist of loans and advances to customers and investments in debt securities. These are mainly pledged for the funding facilities of the Central Banks (ECB and CBC) (Note 48 of the Consolidated Financial Statements for the year ended 31 December 2019) and 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 (Note 48 of the Consolidated Financial Statements for the year ended 31 December 2019). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions and (ii) trade finance transactions and guarantees issued. It is also used as part of the supplementary assets for the covered bond and for other operational purposes.

BOC PCL maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of CBC. Under the Covered Bond Programme, BOC PCL has in issue covered bonds of €650 million secured by residential mortgages originated in Cyprus. On 6 June 2018, the terms of the covered bond have been amended to extend the maturity date to 12 December 2021, and set the interest rate to 3 months Euribor plus 2.50% on a quarterly basis. The covered bonds are traded on the Luxemburg Bourse. The covered bonds have a conditional Pass-Through structure. All the bonds are held by BOC PCL. The covered bonds are eligible collateral for the Eurosystem credit operations and are placed as collateral for accessing funding from the ECB.

Unencumbered assets which can potentially be pledged include Cyprus loans and advances which are less than 90 days past due. Balances with central banks are reported as unencumbered and can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as unencumbered not readily available to be pledged.

Unencumbered assets that are not readily available to be pledged primarily consist of loans and advances which are prohibited by contract or law to be encumbered or which are over 90 days past due or for which there are pending litigations or other legal actions against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred in the name of the Company or a subsidiary are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table above or below as they are primarily due to the insurance policyholders.

2. Liquidity risk and funding (continued)

2.1 Encumbered and unencumbered assets (continued)

The carrying and fair value of the encumbered and unencumbered investments of the Group as at 31 December 2019 and 31 December 2018 are as follows:

31 December 2019	Carrying value of encumbered investments	Fair value of encumbered investments	Carrying value of unencumbered investments	Fair value of unencumbered investments
	€000	€000	€000	€000
Equity securities	-	-	167,823	167,823
Debt securities	222,961	223,362	1,515,046	1,531,336
Total investments	**222,961**	**223,362**	**1,682,869**	**1,699,159**
31 December 2018				
Equity securities	-	-	149,948	149,948
Debt securities	737,587	739,222	627,156	633,773
Total investments	**737,587**	**739,222**	**777,104**	**783,721**

2.2 Liquidity regulation

The Group has to comply with provisions on the Liquidity Coverage Ratio (LCR) under CRD IV/CRR (as supplemented by the Commission Delegated Regulation (EU) No 2015/61 which prescribes the criteria for liquid assets and methods of calculation as from 1 October 2015 and the Commission Implementing Regulation (EU) No 2016/322 which prescribes supervisory reporting requirements and applied from 10 September 2016). It also monitors its position against the Net Stable Funding Ratio (NSFR) as proposed under Basel III. The LCR is designed to promote short-term resilience of a Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

In October 2014, the Basel Committee on Banking Supervision proposed the methodology for calculating the NSFR. It is noted that the NSFR will become a regulatory indicator when Capital Requirements Regulation 2 (CRR2) is enforced with the limit set at 100%.

As at 31 December 2019 the Group was in compliance with all regulatory liquidity requirements. As at 31 December 2019 the LCR stood at 208% for the Group (compared to 231% at 31 December 2018) and was in compliance with the minimum regulatory requirement of 100% applicable as from 1 January 2018. As at 31 December 2019 the Group's NSFR, on the basis of the Basel III standards, was 127% (compared to 119% at 31 December 2018).

2. Liquidity risk and funding (continued)

2.3 Liquidity reserves

The below table sets out the Group's liquidity reserves:

Composition of the liquidity reserves	**31 December 2019**			31 December 2018		
	Internal Liquidity reserves	**Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible**		Internal Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible	
		Level 1	**Level 2A**		Level 1	Level 2A
	€000	**€000**	**€000**	€000	€000	€000
Cash and balances with central banks	**4,898,360**	**4,898,361**	**-**	4,447,511	4,447,511	-
Nostro and placements with banks	**147,086**	**-**	**-**	281,383	-	-
Liquid investments	**1,214,197**	**1,115,196**	**124,763**	881,091	929,380	93,165
Available ECB Buffer	**1,116,249**	**-**	**-**	108,374	-	-
Total	**7,375,892**	**6,013,557**	**124,763**	5,718,359	5,376,891	93,165

Internal Liquidity Reserves show the total liquid assets as defined in BOC PCL's Liquidity Policy. Liquidity reserves as per LCR Delegated Regulation (EU) 2015/61 show the liquid assets as per the definition of the aforementioned regulation i.e. High Quality Liquid Assets (HQLA).

Under Liquidity reserves as per LCR, Nostro and placements with banks are not included, as they are not considered HQLA (they are part of the LCR Inflows).

Liquid investments under the Liquidity reserves as per LCR are shown at market values reduced by standard weights as prescribed by the LCR regulation. Liquid investments under Internal Liquidity reserves include all LCR and/or ECB eligible investments and are shown at market values net of haircut based on ECB haircuts and methodology.

Finally, available ECB buffer is not part of the Liquidity reserves as per LCR, since the collateralised assets in the ECB pool are not LCR eligible but only ECB eligible.

The Liquidity Reserves are managed by Group Treasury.

Resulting from the outbreak of COVID-19, the ECB has announced a positive package of measures including that the ECB will allow banks to temporarily operate below the LCR. In addition, the ECB decided on additional longer-term refinancing operations (LTROs) through a full-spread fixed-rate auction equal to the average deposit facility interest rate. In addition, the ECB announced that for the TLTRO III operation in June 2020, considerably more favourable terms will be applied during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that same time.

The Governing Council of the European Central Bank on 18 March 2020 decided to launch a new Pandemic Emergency Purchase Programme (PEPP) for an amount of € 750 billion and purchases will be conducted until the end of 2020. Additionally, it was decided to expand the range of eligible assets under the corporate sector purchase programme (CSPP) to non-financial commercial paper and to ease the collateral standards by adjusting the main risk parameters of the collateral framework.

3. Other risks

3.1 Operational risk

Operational risk is defined as the risk of a direct or indirect impact loss resulting from inadequate or failed internal processes, people and systems or external events. The Group includes in this definition compliance, legal and reputational risk.

The Group recognises that the control of operational risk is directly related to effective and efficient management practices and high standards of corporate governance. To that effect, the management of operational risk is geared towards maintaining a strong internal control governance framework and managing operational risk exposures through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The main objectives of operational risk management within the Group are: (i) the development of operational risk awareness and culture, (ii) the provision of adequate and timely information to the Group's management at all levels in relation to the operational risk profile at a company, unit and activity level, so as to facilitate decision making for risk control activities, and (iii) the control of operational risk to ensure that operational losses do not cause material damage to the Group's franchise and that the impact on the Group's profitability and corporate objectives is contained.

Operational risks can arise from all business lines and from all activities carried out by the Group and are thus diverse in nature. To enable effective management of all material operational risks, the operational risk management framework adopted by the Group is based on the three lines of defence model, through which risk ownership is dispersed throughout the organisation. The first line of defence comprises of management and staff who have immediate responsibility of day-to-day operational risk management and own the risk. Each business unit owner is responsible for identifying and managing all the risks that arise from the unit's activities as an integral part of their first line responsibilities.

The second line of defence comprises of the risk management function whose role is to provide operational risk oversight and independent and objective challenge to the first line of defence, supported by other specialist control and support functions such as the Group Compliance, Legal Services, Information Security and Health and Safety functions. The third line of defence comprises of the Internal Audit function, which provides independent assurance over the integrity and effectiveness of the risk management framework throughout the Group.

During 2019, ongoing activities/initiatives towards further enhancement of Operational Risk management involved inter alia the following: (i) Enhancements introduced to the internal operational loss database (RCMS system) with regards to the automation of reports, additional control mechanisms and alerts, as well as, the enrichment of incident/loss recording module with additional fields to record mitigation action plans, (ii) Successful implementation of additional enhancements of the Alert based Fraud system (FRM), monitoring all Web & Mobile banking transactions on a 24x7 basis, through the use of models, rules and behavioural profile analytics. The implementation of Fraud Cards & ATM Module, (project in progress), will add a new layer of protection to the existing Cards & ATM fraud prevention controls, (iii) Interface of the new Legal Services System with the RCMS system, (iv) Business Continuity Management System in place for an efficient and effective response to business disruption stemming from risks and threats that could materially impact upon, disrupt or interrupt the operations of BOC PCL (i.e. the hazards of physical disasters, loss of vital information, services and materials). The Business Continuity Plans of the Business Units are gradually incorporated into the Business Continuity Management software tool-relevant training delivered and on-going, (v) on-going training offered to all staff in the form of e-learning, as well as workshop/seminar type of training, delivered to specialised members of staff.

3. **Other risks** (continued)

3.1 **Operational risk** (continued)

Operational risk loss events are classified and recorded in the Group's RCMS system, which serves as an enterprise tool integrating all risk-control data (i.e. risks, loss incidents, Key risk indicators) to provide a holistic view with regards to risk identification, corrective action and statistical analysis. An integrated risk identification approach was adopted in 2019 introducing more thorough and granular risk taxonomies leading to a more comprehensive risk reporting. During 2019, 548 loss events with gross loss equal to or greater than €1,000 each were recorded including incidents of prior years (mostly legal cases) for which losses materialised in 2019 (2018: 247 loss events).

The Group strives to continuously enhance its risk control culture and increase awareness of its employees on operational risk issues through ongoing staff training (both classroom/workshop type of training and e-learning sessions).

The Group also maintains adequate insurance policies to cover for unexpected material operational losses.

Business resilience is treated as a priority and as such the Group places significant importance on continuously enhancing the continuity arrangements, to ensure timely recovery in the case of events that may cause major disruptions to the business operations.

3.2 **Regulatory risk**

The Group's operations are supervised by the ECB as a supervisory body for all the banks in the Eurozone area (referred to as the Single Supervisory Mechanism, SSM). The ECB exercises its supervisory responsibilities in cooperation with the national central banks which together constitute the Eurosystem, the central banking system of the Eurozone. As such, in Cyprus the ECB cooperates with the CBC, as BOC PCL is considered as an Other Systemically Important Institution (O-SII) for the purposes of the ECB Regulation.

The overseas subsidiaries and branches of the Group are also supervised by the ECB and the national regulatory authorities in the countries where they operate.

In this context, the Group is exposed to a series of regulatory and legal risks:

- Legislative action and regulatory measures which may materially impact the Group and the financial and economic environment in which it operates.
- The Group's business and operations are subject to substantial regulation and supervision and can be negatively affected by its non-compliance with/non-implementation of regulatory requirements and any adverse regulatory and governmental developments.
- The implementation of SSM recommendations as well as Supervisory Review and Evaluation Process (SREP) prudential requirements, may impact the Group and its strategy.
- The implementation of a more demanding and restrictive regulatory framework (including CRD IV/CRR and upcoming new directives CRD V and BRRD II) with respect to, amongst others, capital ratios, leverage, liquidity and disclosure requirements, notwithstanding the benefit to the financial system, poses additional risks for banks.
- Changes in laws or regulations might also restrict certain types of transactions, affect the Group's strategy and lead to modification of the customer charges for banking products or transactions.
- The Group is subject to certain regulatory and legal constraints in originating new loans, managing and restructuring existing loans and foreclosing on collateral.
- The Group is exposed to tax risk and failure to manage such risk may adversely impact the Group.

The EU Bank Recovery and Resolution Directive 2014/59/EU (BRRD) establishes a framework for the recovery and resolution of European Union (EU) credit institutions. The stated aim of the BRRD is to provide supervisory resolution authorities, with common tools and powers to address banking crises pre-emptively in order to ensure the continuity of the institution's critical financial and economic functions whilst safeguarding financial stability and minimising taxpayers' exposure to losses. The BRRD includes the concept of loss absorption.

3. **Other risks** (continued)

3.2 **Regulatory risk** (continued)

The EU has also established a Single Resolution Mechanism (SRM), set up under the Single Resolution Mechanism Regulation No 806/2014 as part of the European Banking Union. Under the SRM, a single resolution process applies to all credit institutions supervised by the SSM. This process is co-ordinated by the Single Resolution Board (SRB). BOC PCL is subject to the supervision of the SSM and accordingly the SRM.

The SRM Regulation is closely connected with the BRRD. For credit institutions within the SSM, the SRB effectively takes on the role of the relevant national resolution authority established under the BRRD. BOC PCL is subject to the supervision of the SRB.

The BRRD also requires that from January 2016 EU member states apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a Minimum Requirement for Own Funds and Eligible Liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD 2 came into effect and it has to be transposed into national law. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

BOC PCL has received formal notification from the SRB, of its draft decision for the binding Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for BOC PCL, which has been determined as the preferred resolution point of entry. The MREL requirement has been set at 28.36% of risk weighted assets of the BOC Group as of 30 June 2019 and must be met by 31 December 2025. This MREL requirement would be equivalent to 18.54% of total liabilities and own funds (TLOF) as at 30 June 2019. The MREL requirement is in line with BOC PCL's expectations, and largely in line with its funding plans.

The MREL requirements remain subject to final confirmation by the SRB. This decision is based on the current legislation, which is expected to be updated annually and could be subject to subsequent changes by the resolution authorities, especially considering the developments of the BRRD and its transposition into the local legislation.

The MREL ratio of BOC PCL as at 31 December 2019, calculated according to SRB's eligibility criteria currently in effect, and based on BOC PCL's internal estimate stood at 18.54% of RWAs.

The BRRD also has significant funding implications for credit institutions, which include the establishment of pre-funded resolution funds of 1% of deposits covered under the EU Deposit Guarantee Schemes Directive (DGSD) 2014/49 to be built up by 31 December 2024.

On 1 January 2016 the Directive 2009/138/EC of the European Parliament and of the Council and the relevant Regulations on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) came in force. Additionally, on 11 April 2016 the Law on Insurance and Reinsurance Services and Other Related Issues (Law 38(I)/2016) became effective. The Insurance Companies Control Service (Ministry of Finance) supervises the required capital which should be maintained by insurance companies in order to ensure they meet the solvency requirement. Additional internal risk appetite limits are set by the insurance subsidiaries of the Group, EuroLife Ltd and General Insurance of Cyprus Ltd, in order to maintain sound capital ratios which can support operational targets. The insurance subsidiaries of the Group manage their capital base by monitoring the coverage of solvency capital requirements on a quarterly basis using high quality own funds. Both subsidiaries were compliant with the solvency capital requirements imposed by the Insurance Companies Control Service during 2019.

3. **Other risks** (continued)

3.2 **Regulatory risk** (continued)

The Cyprus Investment and Securities Corporation Ltd (CISCO) and BOC Asset Management Ltd (BOCAM) are regulated entities under the supervision of CySEC. Both entities are members of the Investor Compensation Fund (ICF) for clients of Investment Firms. The ICF was established pursuant to Article 59(1) and (2) of Law 144(I)/2007 which provides for the Provision of Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets and other Related Matters as an investor compensation fund for ICF clients other than credit institutions. In 2017 Law 144(I)/2007 was replaced by Law 87(I)/2017. The powers and functions of the ICF are regulated by the provisions of the Directive DI87-07 for the Operation of the ICF (dated 8th March 2019), which replaced Directive 144-2007-15 of the Cyprus Securities and Exchange Commission (CySEC) for the Continuance of Operation and the Operation of the CIF Investor Compensation Fund. The ICF is administered by a five-member Administrative Committee, comprised of three members designated by the Minister of Finance and two members elected by the General Meeting of the members of the Fund. CISCO is obliged to contribute annually an amount of 0.5% of the eligible funds and financial instruments of the member's covered clients and if paid by 10th July, there is a discount of 80% on the amount due. This payment no longer accrues to CISCO's already existing share at ICF which currently stands at €828 thousand and which has reached the maximum permissible level according to the previous ICF Directive. This amount is also deductible from the CET1 capital of CISCO as per CySEC's Circular C162 of 2016. CISCO is also obliged to contribute, when called upon by CySEC, an extraordinary supplementary contribution, if CySEC deems that the existing means for the payment of compensation are inadequate, particularly in the event of a liquidation procedure of a member of the ICF. The amount of the extraordinary supplementary contribution is not designated (nor capped). BOCAM is exempted from the aforementioned annual contribution since custody of these funds is held with BOC PCL and CISCO. Furthermore, CISCO is required to keep a minimum cash buffer of 0.3% of the eligible funds and financial instruments of its clients as at the previous year, in a separate bank account, in case there is a need for an extraordinary contribution and this should not be used for any other purpose. The cash buffer must be deducted from CISCO's Common Equity Tier 1 capital.

The EU Investor Compensation Schemes Directive 97/9/EC (the ICSD) requires member states to establish Investor Compensation Schemes (ICS) to protect investors with respect to firms carrying on investment business (which may be an investment firm or a credit institution). An ICS will typically make payouts if an investment firm or credit institution carrying on investment business fails.

In Cyprus, the Investor Compensation Fund for Clients of Banks (the Fund) was established under the Investment Firms (IF) Law 2002, as amended thereafter. It is governed by the establishment and operation regulations of an Investor Compensation Fund for Clients of Banks Regulations of 2004 and 2007. Such a Fund is administered by a five member Management Committee, comprised of the Governor and the Senior Manager of the Banking Supervision and Regulation Division of CBC and three other members appointed by the Governor of CBC. The Company is obligated to contribute annually an amount of up to 0.01% of the eligible funds and financial instruments of the Company's clients.

Regulation (EU) No. 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (also known as the EU General Data Protection Regulation or the 'GDPR') directly applies in all EU member states (including Cyprus) from 25 May 2018. The GDPR introduced obligations on data controllers and enhanced rights for data subjects. The requirements of the GDPR affect the Group's ability to collect, record, store, retain and use personal data as well as transfers of personal data to countries that do not have adequate data protection laws. The implementation of the GDPR required substantial amendments to the Group's procedures, systems and policies.

Directive (EU) 2015/2366 on payment services (the 'PSD II') was enacted into the Law on the Provision and Use of Payment Services and Access to Payment Systems (Law No. 31(I)/2018). The Company is fully compliant with this Law, by duly amending the agreement and relative terms and conditions applied to the payment services offered by the Company to its clients.

3. Other risks (continued)

3.2 Regulatory risk (continued)

Directive (EU) 2014/65/EU and Regulation (EU) No. 600/2014 on markets in financial instruments (the 'MiFID II and MiFIR') was transposed into national law with the enactment of the Law on the provision of investment services, the exercise of investment activities and the operation of regulated markets (Law No. 87(I)/2017). This new legislative framework strengthens investor protection and improves the functioning of financial markets. The implementation of MiFID II and MiFIR required substantial amendments to the Group's procedures, systems and policies.

On 27 June 2019, a series of measures referred to as the Banking Reform Package came into force, subject to various transitional and staged timetables. The banking reform package updated the framework of harmonized rules established following the financial crisis and introduces changes to:

- the Capital Requirements Regulation (CRR-EU/575/2013),
- the Fourth Capital Requirements Directive (CRD IV-2013/36/EU),
- the Bank Recovery and Resolution Directive (BRRD-2014/59/EU), and
- the Single Resolution Mechanism Regulation (SRMR-EU/806/2014).

The amended BRRD II and SRMR II aim to strengthen the framework for the recovery and resolution of banks in difficulty and ensure that bank failures are resolved with banks' own funds with minimum impact on taxpayers. The rules on the subordination of Minimum Requirement for Own Funds and Eligible Liabilities (MREL) instruments are tightened and a new category of large banks, the so-called 'top-tier banks' is introduced.

Additionally, during 2019 a number of laws and legislative amendments were enacted and adopted by the Group where applicable, as indicated below:

- 5th AML Directive: The CBC has issued the 5th edition of the Directive on the Prevention of Money Laundering and Terrorist Financing ('the CBC AML/CFT Directive') which replaced all previous editions and amendments. The new CBC AML/CFT Directive makes analytical reference to ways of applying various provisions of the AML/CFT Law. The CBC has also issued guidelines to credit institutions on key thematic areas, such as customer identification procedures and due diligence measures, ongoing monitoring of accounts and transactions, politically exposed persons, fraudulent tax crimes now considered as predicate offenses and risk management systems for the prevention and suppression of money laundering and terrorism financing.
- EBA guidelines on Outsourcing: The guidelines clarify that the management of each financial institution remains responsible for that institution and its activities at all times. To this end, the management should ensure that sufficient resources are available to appropriately support and ensure the performance of outsourcing responsibilities, including overseeing all risks and managing the outsourcing arrangements.
- Amendments to the legislative package for the foreclose procedure, the Estia Decree: The Estia mortgage relief scheme aims to support and protect vulnerable households who have mortgaged their primary residences for their loans and reduce the high number of bad debts. It applies to loans (mortgages) that were deemed non-performing on 30 September 2017. Loans designated as non-performing after that date are not eligible. The primary residence which is mortgaged must have a maximum market value of up to €350,000. Thresholds also apply to the total household income of the applicant. The Estia scheme applies to the first mortgage on a residence and covers loans or credit facilities regardless of currency.
- Insurance Distribution Directive: The directive lays down the information that should be given to consumers before they sign an insurance contract, imposes certain conduct of business and transparency rules on distributors, clarifies procedures and rules for cross-border business and contains rules for the supervision and sanctioning of insurance distributors in case they breach the provisions of the directive. The rules apply to the sale of all insurance products. However, more prescriptive rules apply to those distributors that sell insurance products that have an investment element, such as unit-linked life insurance contracts.

3. Other risks (continued)

3.2 Regulatory risk (continued)

- Directive on encouragement of long-term shareholder engagement: the directive introduces new provisions allowing shareholders to decide on the remuneration of the company's directors. New transparency obligations are imposed on institutional investors – such as pension funds and life insurance companies – asset managers and proxy advisory firms. In addition, certain transactions, identified as potentially prejudicial to the company, will have to be published and approved through procedures that ensure the protection of the interests of the company and its shareholders.
- Regulation 2019/2088 on sustainability-related disclosures in the financial services sector: The regulation applies to all financial market participants, including AIFMs, UCITS management companies, and investment firms, but also applies to financial advisers, and foresees new, mandatory transparency requirements both at entity/ asset manager level and at product level. The regulation affects Eurolife Ltd and BOC Asset Management Ltd and requires certain disclosures on the organization's website i.e.:
  - the way sustainability risks are integrated into their investment decisions,
  - the likely impacts of sustainability risks on the returns of the financial products made available, and
  - how the financial products made available consider principal adverse impacts on sustainability factors.

  The regulation will apply from 10th March 2021, with product rules to be implemented by 30 December 2022.

3.3 Intensity of competition

The Group faces intense competition in the markets in which it operates in the Cyprus economy. Competition primarily originates from other commercial banks, branches and subsidiaries of foreign banks, and insurance companies offering savings and investment products.

During 2016 the Group's market share in deposits increased significantly and continued to increase in 2017 and 2018 as well. The Group remains today the biggest and most systemically important local banking organisation in Cyprus.

Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Group, may create pressure on Group profitability.

3.4 Litigation risk

The Group may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Group (Note 40 of the Consolidated Financial Statements for the year ended 31 December 2019) and in the event that legal issues are not properly dealt with by the Group, this may result in financial and/or reputational loss to the Group.

3.5 Political risk

External factors which are beyond the control of the Group, such as developments in the European and the global economy, as well as political and government actions in Cyprus can affect the operations of the Group, its strategy and prospects, either directly or indirectly through their possible impact on the domestic economy.

Cyprus is a small open economy with a large external sector. Exports of goods and services were about 60% of Gross Domestic Product (GDP) in 2017 and 2018. As a result, the Cyprus economy is exposed to developments outside its borders, particularly in Russia, the UK and Greece. Cyprus is also exposed to developments in the European Union and the Eurozone that might impact bond markets and interest rates, as well as to developments in the global economy at large, including trade.

3. Other risks (continued)

3.5 Political risk (continued)

While Cyprus has had a five-year streak of strong economic recovery in 2015-2019, the COVID-19 pandemic can lead to a significant slowdown in 2020 and even to recession. The pandemic has also altered the global economic outlook, where earlier favorable forecasts are now being replaced by fears for a global recession which can be relatively deep for some countries. The recovery will depend on the speed and effectiveness of policy responses by the fiscal and monetary authorities at both the national and international levels, and on success in containing virus.

In China, one of the major economies, economic growth will continue to slow in the years ahead and may aggravate the global economic slowdown and increase financial uncertainty affecting capital flows and currency markets.

What started as a massive supply shock in China is now morphing into a global demand shock after governments around the world, imposed quarantines and social distancing to contain the spread of the virus. Governments and central banks are acting proactively and decidedly to support consumers and businesses and to limit financial disruptions. The pandemic is having (and will continue to have) an impact on consumer spending, which is the primary driver of economic growth in most parts of the world. The pandemic is also expected to affect corporate profits causing businesses to cut back further on investment and ultimately to affect the ability of companies to repay their debts. Primary credit markets are essentially frozen, which means that some companies will not be able to roll-over liabilities without increasing their refinancing costs.

Social instability is already observed in various parts of the world including Hong Kong, Russia, parts of Latin America and even in the US. Instability and tensions can be disruptive in trade and capital flows and economic policy coordination.

The risk of disruption from Brexit-related developments remains. The UK has left the EU at the end of January 2020, but trade negotiations with the EU are unlikely to be concluded in the transition period and the country will remain vulnerable to political instability long after exiting. The UK economy slowed significantly in 2019 and will slow further in 2020. Tourist arrivals from the UK stagnated in 2019 whilst overall spending dropped. Arrivals from the UK may be affected more significantly in 2020 and beyond if Brexit-related uncertainty increases and the UK economy suffer as a result.

Instability in the UK will likely have implications for the EU, leading to decline in confidence in the European Union and its institutions. In addition, Italy remains a main source of financial risk within the Eurozone. The real threat to the country's financial stability comes from the financial markets. Italian banks have considerable holdings in government debt and the government fiscal policies may create uncertainty on the government debt.

Global uncertainties and the slowing economic activity, will sustain for a longer period the low interest rates in the euro area, which in turn will continue compressing bank interest margins and profitability, as well as straining the pension systems.

Trade frictions and the exports crisis will affect Germany which exports about half of its GDP, and other countries that form Germany's supply chain in eastern and central Europe. Given a relatively high degree of Euroscepticism in these countries, economic problems are likely to create political challenges for the EU.

The Russian economy may continue to deteriorate. Russia is impacted negatively by persistent sanctions and by low oil prices. Given that the banking sector has linkages with business and professional services with Russia and that Russia has become a major market for Cypriot tourism, any events and developments on the Russian economy may potentially have an impact on the Cyprus economy as well.

Cyprus is less exposed to Greece than it was prior to the crisis in 2013. Greece's departure from the Eurozone is no longer a short-term risk and the country's growth outlook has improved. However, Greece continues to face challenges and long-term risks.

3. **Other risks** (continued)

3.5 **Political risk** (continued)

Developments in other non-EU countries with which Cyprus maintains significant economic links, the unresolved Cyprus problem, and political and social unrest or escalation of military conflict in neighboring countries and/or other overseas areas may adversely affect the Cyprus economy. Political risk remains at an elevated level due to the de facto division of the island and the potential for tension with Turkey over hydrocarbons explorations in Cyprus' Exclusive Economic Zone (EEZ).

Given the above, the Group recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties, which may have a significant impact on the Group's activities, operating results and position.

4. **Capital management**

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

With the exception of certain specified provisions, the CRR and Capital Requirements Directive IV (CRD IV) came into effect on 1 January 2014. The CRR and CRD IV transposed the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage for credit institutions and investment firms. It is directly applicable in all EU member states. CRD IV governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, member states were required to transpose the CRD IV into national laws and it allowed national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, which are largely fully effective as from 2019.

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRDV) came into force. As an amending regulation, the existing provisions of CRR apply unless they are amended by CRR II. Member states are required to transpose the CRDV into national law. Certain provisions took immediate effect (primarily relating to MREL) but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the European Banking Authority (EBA) and adopted by the European Commission. The key changes introduced consist of among others changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and a Net Stable Funding Ratio (NSFR).

In addition, the Regulation (EU) 2016/445 of the ECB on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

The CET1 ratio of the Group at 31 December 2019 stands at 14.8% and the total capital ratio at 18.0% on a transitional basis.

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

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

4. Capital management (continued)

Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 and based on the final 2019 ECB decision received on 4 December 2019, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the Other Systemically Important Institution Buffer (O-SII buffer). The Group's phased-in CET1 capital ratio will be 11.0%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement (P2R), the Capital Conservation Buffer of 2.5% (fully phased-in as of 1 January 2019) and the O-SII buffer of 1.0%. The Group's Total Capital requirement will be 14.5%, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the O-SII buffer of 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. The final 2019 SREP decision is effective from 1 January 2020.

In April 2020, BOC PCL received a decision from the ECB amending the composition of the Pillar II additional own funds requirement, compared to the 2019 final SREP decision received in December 2019 which requested P2R to be met in full with CET1. This decision is effective as from 12 March 2020 and follows the announcements by the ECB on the capital relief measures as a result of COVID-19. As a result, the minimum phased-in CET1 requirement decreased to 9.7%, comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the Capital Conservation Buffer (CCB) of 2.5% (fully phased in as of 1 January 2019) and the O-SII buffer of 1.0%. There is no change on the Total Capital requirement.

The EBA final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar I, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice. Following the Annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 and based on the final 2019 ECB decision received on 4 December 2019, the new provisions are effective from 1 January 2020.

The Group's minimum phased-in CET1 capital ratio for 2019 is 10.5%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the CCB of 2.5% and the O-SII buffer of 0.5%. The Group's minimum phased-in CET1 capital ratio for 2018 was 9.375%, comprising a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875%. The ECB had also provided non-public guidance for an additional Pillar II CET1 buffer.

The Group's minimum phased-in Total capital ratio requirement for 2019 is 14.0%, comprising a 8.0% Pillar I requirement (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 3.0% Pillar II requirement, the CCB of 2.5% and the O-SII buffer of 0.5%.

The minimum phased-in Total capital ratio requirement for 2018 was 12.875% comprising a 8.00% Pillar I requirement (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 3.00% Pillar II requirement (in the form of CET1) and the CCB of 1.875%, applicable for 2018.

The above minimum ratios apply for both BOC PCL and the Group. BOC PCL is 100% subsidiary of the Company and its principal activities are the provision of banking, financial services and management and disposal of property predominately acquired in exchange of debt.

The capital position of the Group and BOC PCL at 31 December 2019 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.

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

4. Capital management (continued)

In accordance with the provisions of the above law, the CBC sets, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined for all the countries in the European Economic Area (EEA) by their local competent authorities ahead of the beginning of each quarter. The CBC has set the level of the CCyB for Cyprus at 0% for the years of 2018 and 2019 and the six months up to June 2020.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are O-SIIs and for the setting of the O-SII buffer requirement for these systemically important banks. BOC PCL has been designated as an O-SII and the CBC set the O-SII buffer for BOC PCL and the Group at 2.0%. This buffer will be phased-in gradually, having started from 1 January 2019 at 0.5% and set to be increasing by 0.5% every year thereafter, until being fully implemented (2.0%) on 1 January 2022. In April 2020, the CBC decided to delay the phasing-in (0.5%) of the O-SII buffer on 1 January 2021 and 1 January 2022 by 12 months. Consequently, the O-SII buffer will be fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set.

The Capital Conservation Buffer (CCB) was gradually phased-in at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018 and has been fully implemented on 1 January 2019 at 2.5%.

The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio as at 31 December 2019 and during the year. The regulated UCITS management company of the Group, BOC Asset Management Ltd complies with the regulatory capital requirements of the Cyprus Securities and Exchange Commission (CySEC) laws and regulations as at 31 December 2019. The regulated investment firm (CIF) of the Group, The Cyprus Investment and Securities Corporation Ltd (CISCO), meets the minimum total capital ratio hurdle of CySEC but lacks behind the minimum initial capital requirement and the additional capital conservation buffer as at 31 December 2019. As a result a business and capital plan was submitted to CySEC in December 2019. CISCO also submitted to CySEC its Internal Capital Adequacy Assessment Process (ICAAP) Report in September 2019. It is expected that CySEC will provide CISCO a reasonable timeframe, based on the capital/business plan submitted, to comply, as per its Supervisory Review and Evaluation Process (SREP).

4. Capital management (continued)

The capital position of the Group and the BOC PCL under CRD IV/CRR basis as amended by CRR II applicable as at the reporting date (after applying the transitional arrangements) is presented below:

Regulatory capital	Group		BOC PCL	
	31 December 2019	31 December 2018[5]	**31 December 2019**	31 December 2018
	€000	€000	**€000**	€000
Transitional Common Equity Tier 1 (CET1)[6,7]	**1,909,049**	1,864,000	**1,869,105**	1,861,098
Transitional Additional Tier 1 capital (AT1)	**220,000**	220,000	**220,000**	220,000
Tier 2 capital (T2)	**189,955**	212,000	**250,000**	250,000
Transitional total regulatory capital[7]	**2,319,004**	2,296,000	**2,339,105**	2,331,098
Risk weighted assets – credit risk[8]	**11,547,303**	13,832,589	**11,518,932**	13,820,385
Risk weighted assets – market risk	**-**	2,182	**-**	-
Risk weighted assets – operational risk	**1,342,700**	1,538,588	**1,255,875**	1,411,788
Total risk weighted assets	**12,890,003**	15,373,359	**12,774,807**	15,232,173
	%	%	**%**	%
Transitional Common Equity Tier 1 ratio	**14.8**	12.1	**14.6**	12.2
Transitional total capital ratio	**18.0**	14.9	**18.3**	15.3

Fully loaded	Group		BOC PCL	
	31 December 2019[9]	31 December 2018[10]	**31 December 2019[9]**	31 December 2018[10]
	%	%	**%**	%
Common Equity Tier 1 ratio	**13.1**	10.1	**12.9**	10.2
Total capital ratio	**16.5**	13.2	**16.6**	13.4

During the year ended 31 December 2019, the CET1 was positively affected primarily from the legislative amendments allowing for the conversion of deferred tax assets into tax credits for regulatory purposes (Note 18 of the Consolidated Financial Statements) and negatively affected mainly by the phasing-in of transitional adjustments (mainly the IFRS 9), the cost of voluntary staff exit plan, property impairments and ECL charges.

The RWAs were positively affected mainly by the sale of loans in 2019 (Projects Helix and Velocity 1), the disposal of the associate CNP Cyprus Insurance Holdings Ltd, which was completed in October 2019 and the Group's ongoing efforts for risk weighted assets optimization.

As a result of the above, the CET1 ratio increased by 270 bps during the year.

[5] As per Annual Report 2018 and Pillar III Disclosures 2018.
[6] CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €51,204 thousand and €43,364 thousand as at 31 December 2019 and 31 December 2018 respectively. At 31 December 2018 CET1 included regulatory deductions comprising deferred tax assets amounting to €163,082 thousand.
[7] Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the deferred tax asset was phasing-in for 5 years, with effect as from the reporting of 31 December 2016, and fully phased-in on 1 January 2019.
[8] Includes Credit Valuation Adjustments (CVA).
[9] IFRS 9 fully loaded.
[10] IFRS 9 & Deferred Tax Asset fully loaded.

4. **Capital management** (continued)

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 is phased-in gradually over a five year period. The amount added back over the transitional period decreases based on a weighting factor of 95% in 2018, 85% in 2019, 70% in 2020, 50% in 2021 and 25% in 2022. The impact of IFRS 9 is fully absorbed after the five year transitional period.

Following the COVID-19 outbreak, on 12 March 2020, the ECB and the EBA announced the following relaxation measures for the minimum capital requirements for banks:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar II Guidance, the Capital Conservation Buffer and the Countercyclical Buffer. The Countercyclical Buffer is 0% for Cypriot Banks.
- Banks are allowed to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET1; this brings forward a measure that was scheduled to come into effect in January 2021 with CRD V.

The ECB's capital easing measures for COVID-19 will increase the Group's CET1 buffer by 131 bps following the frontloading of the new rules on the Pillar II Requirement composition, initially scheduled to come into effect in January 2021. The Total SREP capital requirement remains unchanged.

In addition, in April 2020 the CBC decided to delay the phasing-in of the 1 January 2021 O-SII buffer (0.5% for BOC PCL) by 12 months. Consequently, the O-SII buffer will be fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set.

Further information is disclosed in Note 56.1 of the Consolidated Financial Statements.

5. **Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP)**

The Group prepares the ICAAP and ILAAP reports annually. Both reports for 2019 are in progress and will be submitted to the ECB in end of April 2020 once approved by the Board of Directors. Further information on 2019 ICAAP/ILAAP is disclosed in the Directors' Report and specifically within 'Viability statement' section.

The Group also undertakes a quarterly review of its ICAAP results (as at the end of June and as at the end of September) considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration. The ICAAP process demonstrates that the Group has sufficient capital under both the base case and stress scenarios under the normative internal perspective. Under the Economic internal perspective there are shortfalls in the adverse scenario, which however can be largely neutralised by the available mitigants.

The Group also undertakes a quarterly review for the ILAAP through quarterly stress tests submitted to the ALCO and the Risk Committee of the Board of Directors. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. Any material changes since the year-end are assessed in terms of liquidity. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows. The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate.

5. Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP) (continued)

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

Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 and based on the final 2019 ECB decision received on 4 December 2019, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the O-SII buffer.

The EBA final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar I, Pillar II requirement or the combined buffer requirements), and therefore cannot be used twice. Following the annual Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2019 and based on the final 2019 ECB decision, the new provisions are effective from January 2020. Following the COVID-19 outbreak, the ECB in March 2020 announced certain relaxation measures to the minimum capital requirements, described in Section 4 above, which provide capital relief. In April 2020, BOC PCL received a decision from the ECB amending the composition of the Pillar II additional own funds requirement, compared to the 2019 final SREP decision received in December 2019 which requested P2R to be met in full with CET1. This decision is effective as from 12 March 2020.

The Group was to participate in the ECB SREP stress test of 2020 which was launched in January 2020 and was to be concluded by end of July 2020. However due to the outbreak of COVID–19 and its global spread, EBA decided to postpone until 2021 the EU-wide Stress Test Exercise of 2020 to allow banks to focus on and ensure continuity of their core operations. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information on banks' exposures and asset quality to market participants. The ECB announced that it supports the decision of EBA to postpone the stress tests exercise and will extend the postponement to all banks subject to the 2020 stress test.

DEFINITIONS

Allowance for expected loan credit losses	Allowance for expected loan credit losses comprises: (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
Cost to income ratio	Cost to income ratio is calculated as the total staff costs (excluding costs relating to the Voluntary Exit Plan) (on an underlying basis as reconciled in the table further below), special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund (excluding other levies) (on an underlying basis as reconciled in the table further below), and other operating expenses (excluding 'Advisory and other restructuring costs-organic', any restructuring costs and other operating expenses relating to NPE sales, and provisions for litigation, claims, regulatory and other matters) (on an underlying basis as reconciled in the table further below) divided by total income on the underlying basis (as defined below).
Gross loans	Comprises: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment. Gross loans are reported before the residual fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired). This applies for loans and advances measured at amortised cost on the statutory basis.
Interest earning assets	Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus investments (excluding equities and mutual funds).
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan credit losses	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL, for the reporting year.
Loan credit losses charge (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the loan credit losses (as defined) (annualised based on year to date days) divided by the average gross loans (as defined). The average balance is calculated as the average of the opening balance and the closing balance for the reporting year.
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).

Net Interest Margin	Net interest margin is calculated as the net interest income (per the underlying basis) (annualised based on year to date days) divided by the quarterly average interest earning assets. Quarterly average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable.
Net loans and advances to customers	Comprises gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures).
Net loans to deposits ratio	Net loans to deposits ratio is calculated as the gross loans (as defined) net of allowance for expected loan credit losses (as defined), divided by customer deposits.
New lending in the Directors' Report	New lending includes the average YTD change (if positive) for overdraft facilities.
Non-performing exposures (NPEs)	As per the EBA standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (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. When a specific part of the exposures of a customer that fulfils the NPE criteria set out above is 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 specific part of the exposure is classified as non-performing. The NPEs are reported before the deduction of allowance for expected loan credit losses (as defined).
Non-recurring items	Non-recurring items as presented in the 'Unaudited Consolidated Income Statement on the underlying basis' relate to: (i) Advisory and other restructuring costs – organic, (ii) Restructuring costs – Voluntary Exit Plan (VEP), (iii) Provisions/net loss relating to NPE sales, (iv) (Loss)/profit on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates, (v) Reversal of impairment/(impairment) of deferred tax assets (DTA) and impairment of other tax receivables, and (vi) Profit from discontinued operations (UK) (in 2018 only).
NPE coverage ratio	The NPE coverage ratio is calculated as the allowance for expected credit losses (as defined) over NPEs (as defined).
NPE ratio	The NPE ratio is calculated as the NPEs (as defined) divided by gross loans (as defined).

Operating profit	Operating profit comprises profit before loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for litigation, claims, regulatory and other matters, tax, profit attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised (based on year to date days) operating profit (on an underlying basis) (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Profit/(loss) after tax – organic (attributable to the owners of the Company)	Profit/(loss) after tax - organic (attributable to the owners of the Company) is the profit after tax and before non-recurring items (as defined above) (attributable to the owners of the Company), except for the 'Advisory and other restructuring costs – organic'.
Total income	Total income under the underlying basis 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 and associates (excluding net gains on loans and advances to customers at FVPL), insurance income net of claims and commissions, net gains/(losses) from revaluation and disposal of investment properties, net gains on disposal of stock of property and other income (on the underlying basis). A reconciliation of these amounts between the statutory and the underlying bases is disclosed in the Directors' Report under section 'Financial Results on the underlying basis'.

RECONCILIATIONS

For the purpose of the Definitions and explanations of Alternative Performance Measures Disclosures, reference to 'Note' relates to the respective note in the Consolidated Financial Statements for the year ended 31 December 2019.

1. Reconciliation of Gross loans and advances to customers

	2019	2018
	€000	€000
Gross loans and advances to customers (as defined above)	**12,821,838**	15,900,427
Reconciling items:		
Residual fair value adjustment on initial recognition (Note 46.2)	**(201,999)**	(262,049)
Loans and advances to customers classified as held for sale (Note 46.7)	**(173,881)**	(2,711,960)
Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale (Note 46.7)	**(11,083)**	(139,153)
Reclassification between gross loans and allowance for expected credit losses on loans and advances to customers classified as held for sale	**-**	99,000
Loans and advances to customers measured at fair value through profit and loss (Note 24)	**(369,293)**	(395,572)
Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss	**(57,436)**	(60,326)
Gross loans and advances to customers at amortised cost as per the Consolidated Financial Statements (Note 24)	**12,008,146**	12,430,367

2. Reconciliation of Allowance for expected credit losses on loans and advances to customers (ECL)

	2019	2018
	€000	€000
Allowance for expected credit losses on loans and advances to customers (as defined above)	**2,096,180**	3,852,218
Reconciling items:		
Residual fair value adjustment on initial recognition (Note 46.2)	**(201,999)**	(262,049)
Aggregate fair value adjustment on loans and advances to customers measured at fair value through profit or loss	**(57,436)**	(60,326)
Allowance for expected credit losses on loans and advances to customers classified as held for sale (Note 46.9)	**(147,952)**	(1,557,852)
Residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale (Note 46.7)	**(11,083)**	(139,153)
Reclassification between gross loans and allowance for expected credit losses on loans and advances to customers classified as held for sale	**-**	99,000
Provisions for financial guarantees and commitments (Note 35)	**(22,112)**	(27,685)
Allowance for ECL for impairment of loans and advances to customers as per the Consolidated Financial Statements (Note 24)	**1,655,598**	1,904,153

3. Reconciliation of NPEs

	2019	2018
	€000	€000
NPEs (as defined above)	**3,879,508**	7,418,613
Reconciling items:		
Loans and advances to customers (NPEs) classified as held for sale *(Note 1 below)*	**(172,880)**	(2,613,603)
Residual fair value adjustment on initial recognition on loans and advances to customers (NPEs) classified as held for sale *(Note 2 below)*	**(11,096)**	(135,697)
Reclassification between gross loans and allowance for expected credit losses on loans and advances to customers classified as held for sale	**-**	99,000
Loans and advances to customers measured at fair value through profit and loss (NPEs)	**(144,866)**	(160,907)
POCI (NPEs) *(Note 3 below)*	**(511,933)**	(691,815)
Stage 3 gross loans and advances to customers at amortised cost as per the Consolidated Financial Statements (Note 46.6)	**3,038,733**	3,915,591
NPE ratio		
NPEs (as per table above) (€000)	**3,879,508**	7,418,613
Gross loans and advances to customers (as per table above) (€000)	**12,821,838**	15,900,427
Ratio of NPE/Gross loans (%)	**30.3%**	46.7%

Note 1: Gross loans at amortised cost after residual fair value adjustment on initial recognition classified as held for sale include an amount of €150,206 thousand Stage 3 loans (2018: €2,198,360 thousand Stage 3 loans) and an amount of €22,674 thousand POCI – Stage 3 loans (out of a total of €22,679 thousand POCI loans) (2018: €415,243 thousand POCI – Stage 3 loans (out of a total of €415,308 thousand POCI loans) as disclosed in Note 46.7 of the Consolidated Financial Statements for the year ended 31 December 2019.

Note 2: Residual fair value adjustment on initial recognition of loans and advances to customers classified as held for sale includes an amount of €3,402 thousand for Stage 3 loans (2018: €24,571 thousand for Stage 3 loans) and an amount of €7,694 thousand for POCI – Stage 3 loans (2018: €111,126 thousand for POCI – Stage 3 loans) as disclosed in Note 46.7 of the Consolidated Financial Statements for the year ended 31 December 2019.

Note 3: Gross loans and advances to customers at amortised cost before residual fair value adjustment on initial recognition include an amount of €511,933 thousand POCI – Stage 3 loans (out of a total of €627,212 thousand POCI loans) (2018: €691,815 thousand POCI – Stage 3 loans (out of a total of €819,789 thousand POCI loans)) as disclosed in Note 46.6 of the Consolidated Financial Statements for the year ended 31 December 2019.

4. Reconciliation of Loan credit losses

	2019	2018*
	€000	€000
Loan credit losses per the underlying basis	**145,498**	135,290
Reconciling items:		
Loan credit losses relating to Helix portfolio and NPE sales, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis	**87,481**	149,843
One off charge disclosed in 'Net interest income' under the statutory basis and in 'Loan credit losses' under the underlying basis, given that this was a non-recurring item which is related to a change in the method of amortising arrangement fees	**(11,606)**	-
	221,373	285,133
Loan credit losses (as defined) are reconciled to the statutory basis as follows:		
Credit losses to cover credit risk on loans and advances to customers (Note 17)	**232,451**	329,083
Net gains on derecognition of financial assets measured at amortised cost (Consolidated Income Statement)	**(8,187)**	(27,825)
Net gains on loans and advances to customers at FVPL (Note 12)	**(2,891)**	(16,125)
	221,373	285,133

*Refer to section 'Comparative information' for details on the reclassifications made to comparative information.

RATIO INFORMATION

For the purpose of the Definitions and explanations of Alternative Performance Measures Disclosures, reference to 'Note' relates to the respective note in the Consolidated Financial Statements for the year ended 31 December 2019.

1. Net Interest Margin

Reconciliation of the various components of net interest margin from the underlying basis to the statutory basis is provided below:

	2019	2018*
1.1. Reconciliation of Net interest income	**€000**	€000
Net interest income as per the underlying basis	**343,620**	330,549
Reclassifications for:		
Net interest income relating to the Helix portfolio, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis	**33,962**	88,504
One off charge disclosed in 'Net interest income' under the statutory basis and in 'Loan credit losses' under the underlying basis, given that this was a non-recurring item which is related to a change in the method of amortising arrangement fees	**(11,606)**	-
Net interest income as per the statutory basis	**365,976**	419,053
Net interest income used in the calculation of NIM	**343,620**	330,549

1.2. Interest earning assets	**31 December 2019**	30 September 2019	30 June 2019	31 March 2019	31 December 2018
	€000	€000	€000	€000	€000
Cash and balances with central banks	**5,060,042**	4,412,542	5,261,896	3,913,391	4,610,491
Loans and advances to banks	**320,881**	427,966	403,041	448,043	472,532
Loans and advances to customers	**10,721,841**	10,970,923	10,949,002	10,954,529	10,921,786
Loans and advances to customers held for sale (Note 30)	**25,929**	-	5,891	1,108,440	1,154,108
Investments					
Debt securities (Note 21)	**1,738,007**	1,808,891	1,720,231	1,556,668	1,364,743
Less: Investments which are not interest bearing	**(23,593)**	(22,345)	(13,563)	(10,181)	(8,606)
Total interest earning assets	**17,843,107**	17,597,977	18,326,498	17,970,890	18,515,054
1.3. Quarterly average interest earning assets (€000)					
- as at 31 December 2019	**18,050,705**				
- as at 31 December 2018	18,190,281				

*Refer to section 'Comparative information' for details on the reclassifications made to comparative information.

2. Cost to income ratio

2.1. Reconciliation of the various components of total expenses used in the cost to income ratio calculation from the underlying basis to the statutory basis is provided below:

	2019	2018*
	€000	€000
2.1.1. Reconciliation of Staff costs		
Total Staff costs as per the underlying basis	**219,983**	211,540
Reclassifications for:		
Staff costs relating to the Helix portfolio, reclassified under the underlying basis to 'Provisions/net loss relating to NPE sales'	**5,564**	5,200
Staff costs-voluntary exit plan and other termination benefits, separately presented under the underlying basis (Note 15)	**81,166**	-
Total Staff costs as per the statutory basis	**306,713**	216,740
2.1.2. Reconciliation of Other operating expenses		
Total Other operating expenses as per the underlying basis	**165,493**	156,297
Reclassifications for:		
Operating expenses relating to the Helix portfolio, presented within 'Provisions/net loss relating to NPE sales' under the underlying basis	**20,021**	1,620
Provisions for litigation, claims, regulatory and other matters, separately presented under the underlying basis	**10,451**	22,784
Advisory and other restructuring costs – organic, separately presented under the underlying basis	**21,590**	42,051
Restructuring costs relating to the Helix portfolio and NPE sales, presented within 'Provisions/net loss relating to NPE sales' under the underlying basis	**25,067**	18,420
Fee and commission expense on the amounts deposited in regards to AT1 issue, included within 'Advisory and other restructuring costs – organic' under the underlying basis (Note 10)	**-**	(11,215)
Expenses relating to UK regulatory matters included within 'Other operating expenses' under the statutory basis are disclosed within 'Profit from discontinued operations (UK)' under the underlying basis	**-**	3,586
Restructuring costs relating to the disposal of the UK group included within 'Other operating expenses' under the statutory basis are disclosed within 'Profit from discontinued operations (UK)' under the underlying basis	**-**	1,348
Total Other operating expenses as per the statutory basis	**242,622**	234,891

2.1.3. Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies		
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund (SRF) per the underlying basis	**24,854**	25,095
Reclassification for:		
Levy fee relating to the revised income tax legislation, which has been disclosed within 'Reversal of impairment/(impairment) of deferred tax assets (DTA) and impairment of other tax receivables' under the underlying basis	**18,755**	-
Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution fund and other levies as per the statutory basis	**43,609**	25,095

*Refer to section 'Comparative information' for details on the reclassifications made to comparative information.

2.2. Reconciliation of the various components of total income (as defined) used in the cost to income ratio calculation from the underlying basis to the statutory basis is provided below:

	2019	2018*
	€000	€000
2.2.1. Reconciliation of Net fee and commission income		
Total Net fee and commission income as per the underlying basis	**149,960**	162,486
Reclassifications for:		
Fee and commission income relating to Helix portfolio, disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis	**11,934**	4,000
Fee and commission expense on the amounts deposited in regards to the AT1 issue disclosed within 'Advisory and other restructuring costs – organic' under the underlying basis (Note 10)	**-**	(11,215)
Total net fee and commission income as per the statutory basis	**161,894**	155,271
2.2.2. Reconciliation of Net foreign exchange gains and Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates		
Total Net foreign exchange gains and net gains on financial instruments transactions and disposal/dissolution of subsidiaries and associates as per the underlying basis	**38,494**	67,106
Reclassifications for:		
Net gains on loans and advances to customers measured at fair value through profit or loss (FVPL), disclosed within 'Loan credit losses' under the underlying basis (Note 12)	**2,891**	16,125
Profit relating to the disposal of UK operations, disclosed within 'Profit from discontinued operations (UK)' under the underlying basis	**-**	3,817
Impairment of other financial instruments relating to UK have been disclosed as a cost within 'Profit from discontinued operations (UK)' per the underlying basis	**-**	(2,690)
Profit relating to the disposal of subsidiary, disclosed within 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' under the underlying basis	**3,886**	-
Total Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates as per the statutory basis (see below)	**45,271**	84,358
Net foreign exchange gains as per the statutory basis	**26,596**	37,688
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates as per the statutory basis	**18,675**	46,670
Total Net foreign exchange gains and Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates as per the statutory basis	**45,271**	84,358
Reconciliation of Net interest income between the underlying and the statutory basis has been provided in the tables above.		

*Refer to section 'Comparative information' for details on the reclassifications made to comparative information.

3. Operating profit return on average assets

The various components used in the determination of the operating profit return on average assets are provided below:

	31 December 2019	30 September 2019	30 June 2019	31 March 2019	31 December 2018
	€000	€000	€000	€000	€000
Total assets used in the computation of the operating profit return on average assets/per the Consolidated Balance Sheet	**21,122,822**	21,114,340	21,887,186	21,745,438	22,075,271

	2019	2018*
	€000	€000
Operating profit	**240,429**	264,316
Quarterly average total assets	**21,589,011**	21,675,817

The reconciliation of the various components of operating profit between the underlying and the statutory basis has been provided in the tables above.

*Refer to section 'Comparative information' for details on the reclassifications made to comparative information.

COMPARATIVE INFORMATION

Comparative information has been restated as noted within the Directors' Report for the purposes of the underlying basis. The restatements relate to the project Helix impact as a non-recurring event and impacts the lines noted in the table below. Amounts were reclassified out of the below lines and into the line 'Provisions/net loss relating to NPE sales' in order to match the current year underlying basis treatment.

	2018
	€000
Items relating to Project Helix:	
Net interest income (table 1.1 refers)	88,504
Net fee and commission income (table 2.2.1 refers)	4,000
Other operating expenses (table 2.1.2 refers)	(1,620)
Staff costs (table 2.1.1 refers)	(5,200)
Loan credit losses (table 4 refers)	(149,843)

Reclassifications to comparative information were also made for unrecognised interest on previously credit impaired loans which cured during the year ended 31 December 2018, amounting to €32,538 thousand. This was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC agenda decision (tentative agenda decision in November 2018 finalised in March 2019) (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)). This is presented in the table below:

	Net interest income (Table 1.1)	Credit losses to cover credit risk on loans and advances to customers (Table 4)
	€000	€000
Amounts reported in the Annual Report 2018 – Directors' report – Consolidated Income Statement underlying basis	451,591	(167,828)
IFRIC adjustment	(32,538)	32,538
Net interest income relating to Project Helix (per table above)	(88,504)	-
Amounts reported in the Annual Report 2019 – Directors' Report - Unaudited Consolidated Income Statement on the underlying basis – 2018	**330,549**	**(135,290)**

The changes in presentation did not have an impact on the loss after tax of the Group for the year. However the net interest margin, the cost to income and the cost of risk ratios were recalculated to account for these reclassifications.