

**Mid-Year Financial Report** **30 June**  
**2016**

**Bank of Cyprus**



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# BANK OF CYPRUS PUBLIC COMPANY LTD

## Statement by the Members of the Board of Directors and the Company Officials Responsible for the Drafting of the Interim Consolidated Financial Statements

(in accordance with the provisions of Cyprus Law 190(I)/2007 on Transparency Requirements as amended)

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We, the members of the Board of Directors and the Company officials responsible for the drafting of the interim consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') for the six months ended 30 June 2016, the names of which are listed below, confirm that, to the best of our knowledge:

- (a) the interim consolidated financial statements on pages 13 to 176
  - (i) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU)
  - (ii) give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the interim consolidated financial statements taken as a whole, and
- (b) the Interim Management Report on pages 2 to 12 provides a fair overview on information required as per section 6 of article 10 of Law 190(I)/2007 as amended.

Prof. Dr. Josef Ackermann	Chairman
Wilbur L. Ross Jr.	Vice Chairman
Maksim Goldman	Vice Chairman
Arne Berggren	Non-executive Director
Marios Kalochoiritis	Non-executive Director
Michalis Spanos	Non-executive Director
Ioannis Zographakis	Non-executive Director
Michael Heger	Non-executive Director
John Patrick Hourican	Executive Director
Dr. Christodoulos Patsalides	Executive Director
Eliza Livadiotou	Finance Director

30 August 2016

**A. Analysis of the Financial Results for the six months ended 30 June 2016**

**A.1 Balance Sheet Analysis**

**A.1.1 Capital Base**

Shareholders' equity totalled €3.054 mn at 30 June 2016. The CET1 ratio<sup>1</sup> totalled 14,4% at 30 June 2016, compared to 14,3% at 31 March 2016 and to 14,0% at 31 December 2015. Adjusting for Deferred Tax Assets<sup>2</sup>, the CET1 ratio on a fully-loaded basis totalled 13,6% at 30 June 2016.

**A.1.2 Customer Deposits and Loans**

Group customer deposits totalled €14.746 mn at 30 June 2016, compared to €14.128 mn at 31 March 2016 and to €14.181 mn at 31 December 2015. Customer deposits in Cyprus increased by €621 mn during the quarter and by €620 mn during the six month period and stood at €13.311 mn at 30 June 2016, accounting for 90% of Group customer deposits. The Company's deposit market share<sup>3</sup> in Cyprus reached 29,0% at 30 June 2016, compared to a low of 24,6% at 30 November 2014.

Customer deposits are the primary source of funding, with their contribution towards the Group's overall funding gradually increasing. Customer deposits accounted for 65% of total assets at 30 June 2016, compared to 62% of total assets at 31 March 2016 and a low of 48% at 31 March 2014. The Loans to Deposits ratio (L/D) improved to 110% at 30 June 2016, compared to 119% at 31 March 2016 and a high of 151% at 31 March 2014.

Group gross loans<sup>4</sup> totalled €21.083 mn at 30 June 2016, compared to €21.849 mn at 31 March 2016 and €22.592 mn at 31 December 2015. The reduction in gross loans is, to a large extent driven by the restructuring activity, including debt for property and debt for equity swaps. Gross loans in Cyprus totalled €19.274 mn at 30 June 2016 and accounted for 91% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a 41,4% loan market share<sup>5</sup> at 30 June 2016, compared to 40,4% at 31 March 2016. Loans in the UK amounted to €1.179 mn and accounted for 6% of total Group loans, compared to €1.174 mn at 31 March 2016.

**A.1.3 Eurosystem Funding**

At 30 June 2016, the Bank's Eurosystem funding totalled €3,1 bn (31 December 2015: €4,5 bn), comprising Emergency Liquidity Assistance (ELA) of €2,4 bn (31 December 2015: €3,8 bn) and European Central Bank (ECB) funding of €700 mn (31 December 2015: €651 mn). Post 30 June 2016, ELA funding was reduced by €900 mn to a current level of €1,5 bn mainly due to increased customer and government deposits. In total, ELA has been reduced by €9,9 bn since its peak of €11,4 bn in April 2013.

After taking into consideration the significant reduction of ELA funding, the Board of Directors decided to proceed with the cancellation of the €1 bn of government guaranteed bonds that were acquired from Laiki in 2013, which was completed on 25 August 2016. These bonds were retained by the Bank and were used as collateral for ELA funding.

**A.1.4 Loan portfolio quality**

Addressing the asset quality remains the Group's main priority. The main priority of the Bank's Restructuring and Recoveries Division (RRD) is the delivery of asset quality improvement. The new foreclosure legislation and insolvency framework, together with the intensive restructuring and workout activity implemented by RRD, the effective interaction with borrowers and the improving fundamentals of the Cypriot economy, are playing a significant role in reducing the level of problem loans.

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<sup>1</sup> Transitional basis; includes audited profits for the six months ended 30 June 2016.

<sup>2</sup> The DTA adjustments relate to Deferred Tax Assets totalling €451 mn and recognised on tax losses totalling €3,6 bn and can be set off against future profits of the Company until 2028 at a tax rate of 12,5%. Furthermore, there are tax losses of c. €8,5 bn for which no deferred tax asset has been recognised. The recognition of deferred tax assets is supported by the Company's business forecasts and takes into account the recoverability of the deferred tax assets within their expiry period.

<sup>3</sup> Based on data from the Central Bank of Cyprus.

<sup>4</sup> Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €1.043 mn at 30 June 2016 (compared to €1.130 mn at 31 March 2016).

<sup>5</sup> See note 3.

**A. Analysis of the Financial Results for the six months ended 30 June 2016 (continued)**

**A.1 Balance Sheet Analysis (continued)**

**A.1.4 Loan portfolio quality (continued)**

Loans in arrears for more than 90 days (90+ DPD)<sup>6</sup> were reduced by €1,0 bn (10% reduction qoq) in 2Q2016. Since December 2014, 90+ DPD were reduced by €3,4 bn or by 27%. The decrease was primarily due to the restructuring activity, including debt for property and debt for equity swaps. 90+ DPD stood at €9.269 mn at 30 June 2016, accounting for 44% of gross loans (90+ DPD ratio), compared to 47% at 31 March 2016 and 50% at 31 December 2015. 90+ DPD were reduced by €2 bn or by 18% in the first half of 2016. The provisioning coverage ratio of 90+ DPD loans<sup>7</sup> increased to 53% at 30 June 2016 (31 December 2015: 48%). When taking into account tangible collateral at fair value, 90+ DPD loans are fully covered. The provisioning coverage ratio of 90+ DPD, calculated with reference to the contractual balances of customers, totalled 64%<sup>8</sup> at 30 June 2016, compared to 61% at 31 March 2016.

	30 June 2016		31 December 2015	
	(€mn)	% of gross loans	(€mn)	% of gross loans
<b>90+ DPD</b>	<b>9.269</b>	<b>44,0%</b>	11.329	50,1%
Of which:				
- impaired with no arrears	647	3,1%	875	3,9%
- impaired with arrears less than 90 days	66	0,3%	103	0,5%

Non-performing exposures<sup>9</sup> (NPEs) as defined by the European Banking Authority (EBA) were reduced by €834 mn or 6% during 2Q2016 to €12.493 mn at 30 June 2016, accounting for 59% of gross loans. Since December 2014, NPEs were reduced by €2,5 bn or by 16%. The provisioning coverage ratio of NPEs stood at 39% at 30 June 2016, up from 38% at 31 March 2016. The provisioning coverage ratio of NPEs, calculated with reference to the contractual balances of customers, stood at 51%<sup>10</sup> at 30 June 2016, compared to 49% at 31 March 2016. The provisioning coverage ratio of NPEs after excluding the NPEs with forbearance measures, for which no impairments and no arrears existed at 30 June 2016 stood at 48%, compared to 45% at 31 March 2016.

	30 June 2016		31 December 2015	
	(€mn)	% of gross loans	(€mn)	% of gross loans
<b>NPEs as per EBA definition</b>	<b>12.493</b>	<b>59,3%</b>	13.968	61,8%
Of which:				
- NPEs with forbearance measures, no impairments and no arrears	2.436	11,6%	1.862	8,2%

**A.1.5 Real Estate Management Unit (REMU)**

The Real Estate Management Unit (REMU) was set up at the beginning of this year to on-board assets through debt for property swaps, to manage these assets (including selective investment and development) and to execute exit strategies in order to monetise these assets, thus achieving an accelerated and cheaper foreclosure process. During 1H2016, REMU acquired €691 mn of assets via the execution of debt for property swaps. During the first six months of 2016, the Company completed the disposal of real estate assets amounting to €94 mn. As at 30 June 2016, REMU was managing properties with a total carrying value of €1,1 bn.

<sup>6</sup> Loans in arrears for more than 90 days (90+ DPD) are defined as loans past-due for more than 90 days and loans that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses existed at their initial recognition or customers in Debt Recovery).

<sup>7</sup> Provisioning coverage ratio for 90+ DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, over 90+ DPD.

<sup>8</sup> This ratio is calculated by adjusting both the provisions stock and the customer balances to include any unrecognised interest income due on contractual balances.

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

<sup>10</sup> See Note 8.

**A. Analysis of the Financial Results for the six months ended 30 June 2016 (continued)**

**A.1 Balance Sheet Analysis (continued)**

**A.1.6 Non-core overseas exposures**

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

The remaining non-core overseas exposures at 30 June 2016 are as follows:

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €13 mn (compared to €16 mn at 31 March 2016), (b) 639 foreclosed properties with a book value of €164 mn (compared to 640 foreclosed properties with a book value of €168 mn at 31 March 2016), (c) off-balance sheet exposures totalling €119 mn (compared to €122 mn at 31 March 2016) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €81 mn (compared to €87 mn at 31 March 2016) and lending exposures in Cyprus with collaterals in Greece totalling €144 mn (compared to €71 mn at 31 March 2016).
- Romania: The overall net exposure is €262 mn (compared to €274 mn at 31 March 2016).
- Serbia: The overall net exposure is €42 mn (compared to €54 mn at 31 March 2016).
- Russia: The remaining net exposure (on and off balance sheet) in Russia was significantly reduced to €45 mn during the second quarter, (down from €119 mn at 31 March 2016) following the full settlement in cash of the deferred component included in the agreement made for the disposal of the Russian operations<sup>11</sup>.

As part of the Group's strategy of focusing on its core businesses and markets, the Group decided to close the operations of Bank of Cyprus (Channel Islands) Ltd (BOC CI) and to relocate its business to other Group locations. As at 30 June 2016, the gross loans and deposits of BOC CI amounted to €24,5 mn and €69,4 mn respectively. BOC CI operates through one branch and has one employee.

**A.2 Income Statement Analysis**

Net interest income (NII) and net interest margin (NIM) for 1H2016 amounted to €360 mn and 3,59% respectively. NII for 2Q2016 was €175 mn and was 5% lower, compared to €185 mn for 1Q2016, reflecting the reduction in customer loan balance primarily as a result of the elevated loan restructuring activity. The NIM for 2Q2016 was at 3,55% compared to 3,63% for 1Q2016. NII for 1H2016 is lower than NII of 1H2015 by 18% mainly due to lower loan balances, partly due to restructurings and deleveraging actions and the effect of the early repayment of a high-yielding bond acquired from Laiki.

The NIM for 1H2016 decreased by 20 basis points (bps) from the NIM of 1H2015 which was at 3,79%.

Non-interest income for 1H2016 was €122 mn, with recurring income comprising net fee and commission income of €74 mn and net insurance income of €25 mn. Non-interest income for 2Q2016 was €63 mn (in line with 1Q2016), with recurring income comprising net fee and commission income of €38 mn and net insurance income of €11 mn. The remaining component of non-interest income (comprising net foreign exchange gains/(losses), net gains/(losses) on other financial instruments, gains/(losses) from revaluation of investment properties and disposal of stock of properties and other income) for 2Q2016 was a net profit of €14 mn, compared to a net profit of €9 mn for 1Q2016.

Total income<sup>12</sup> for 1H2016 amounted to €482 mn, compared to €535 mn for 1H2015 (10% reduction yoy). Total income for 2Q2016 amounted to €238 mn, compared to €244 mn for 1Q2016 (3% reduction qoq) with the reduction of total income primarily reflecting to the reduction in NII.

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<sup>11</sup> See relevant announcement

[http://www.bankofcyprus.com/globalassets/investor-relations/press-releases/eng/20150928completionofthesaleofroeng\\_final.pdf](http://www.bankofcyprus.com/globalassets/investor-relations/press-releases/eng/20150928completionofthesaleofroeng_final.pdf)

<sup>12</sup> Total income includes Net Interest Income and Non-Interest Income.

**A. Analysis of the Financial Results for the six months ended 30 June 2016 (continued)**

**A.2 Income Statement Analysis (continued)**

Total expenses for 1H2016 were €202 mn, 58% of which related to staff costs (€117 mn) and 42% to other operating expenses (€85 mn). The cost to income ratio for 1H2016 stood at 42%. Total expenses for 2Q2016 were €103 mn, compared to €99 mn a quarter earlier (5% increase qoq) with staff costs remaining relatively stable. The increase in other operating expenses primarily relates to higher marketing, consultancy and professional expenses and increased provisions for litigation and legal settlements during 2Q2016. Following the completion of the Voluntary Exit Plan (VEP) during the first half of 2016, an annual saving of 12% of personnel expenses is expected. The cost to income ratio for 2Q2016 was 43%, compared to 40% for 1Q2016. Total expense for 1H2016 increased by 4% from 1H2015.

Profit before provisions and impairments<sup>13</sup>, advisory, VEP, other restructuring costs and discontinued operations for 1H2016 was €280 mn, compared to €341 mn in 1H2015, primarily reflecting the lower level of NII. Profit before provisions and impairments<sup>14</sup>, advisory, VEP, other restructuring costs and discontinued operations for 2Q2016 was €135 mn, compared to €145 mn for 1Q2016.

Provisions for impairment of customer loans (continuing operations) net of gains/(losses) on derecognition of loans and changes in expected cash flows for 1H2016 totalled €158 mn. Provisions for impairment of customer loans (continuing operations) net of gains/(losses) on derecognition of loans and changes in expected cash flows for 2Q2016 amounted to €96 mn, compared to €62 mn for 1Q2016. The annualised provisioning charge for 1H2016 accounted for 1,4%<sup>15</sup> of gross loans, compared to 1,1% for 1Q2016 and 2,2% in 1H2015. At 30 June 2016, accumulated provisions, including fair value adjustment on initial recognition<sup>16</sup>, totalled €4.875 mn<sup>17</sup> (compared to €5.076 mn at 31 March 2016) and accounted for 23,1% of gross loans (compared to 23,2% at 31 March 2016).

Impairments of other financial and non-financial assets for 1H2016 totalled €22 mn, compared to €31 mn in 1H2015. Impairments of other financial and non-financial assets for 2Q2016 totalled €14 mn, compared to €8 mn for 1Q2016. Impairments for 2Q2016 were primarily affected by impairment charges relating to legacy Laiki-related exposures<sup>18</sup> of €12 mn, the reversal of impairment upon the full settlement of receivable included in the agreement made for the disposal of the Russian operations<sup>19</sup> of €3 mn and the impairment of stock of properties in Cyprus and Greece of €2 mn.

Profit after tax excluding advisory, VEP, other restructuring costs, discontinued operations and net profit on disposal of non-core assets for 1H2016 totalled €84 mn. Profit after tax excluding advisory, VEP, other restructuring costs, discontinued operations and net profit on disposal of non-core assets for 2Q2016 totalled €17 mn compared to €67 mn in 1Q2016.

Advisory, VEP and other restructuring costs<sup>20</sup> for 1H2016 totalled €87 mn. Advisory, VEP and other restructuring costs for 2Q2016 totalled €70 mn, of which €57 mn related to the VEP and €13 mn to other professional and restructuring costs. Adjusting for the one-off cost of the VEP, restructuring costs remained at similar level as 1Q2016 (€11 mn for 1Q2016).

Net gains on disposals of non-core assets for 1H2016 of €59 mn primarily relate to the gain on disposal of the investment in Visa Europe.

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<sup>13</sup> Comprising provisions for impairments of customer loans and impairments of other financial and non-financial assets, net of gains/(losses) on derecognition and changes in expected cash flows.

<sup>14</sup> See Note 13

<sup>15</sup> That is Provisions for impairment of customer loans and gains/(losses) on derecognition of loans and changes in expected cash flows over average gross loans (as defined in Note 4).

<sup>16</sup> Including the fair value adjustment on initial recognition (difference between the outstanding contractual amount and the fair value of loans acquired from Laiki Bank) and provisions for off balance sheet exposures.

<sup>17</sup> The decrease in accumulated provisions of €201 mn primarily relates to increased restructuring activity for the quarter. (The reduction in the previous quarter amounted to €369 mn).

<sup>18</sup> The ex Laiki exposure relates to legacy Laiki Serbian exposures.

<sup>19</sup> See Note 11

<sup>20</sup> Advisory, VEP and other restructuring costs comprise mainly: 1) fees of external advisors in relation to: (i) disposal of operations (ii) customer loan restructuring activities which are not part of the effective interest rate and (iii) the contemplated listing on the London Stock Exchange and 2) voluntary exit plan cost

**A. Analysis of the Financial Results for the six months ended 30 June 2016 (continued)**

**A.2 Income Statement Analysis (continued)**

Profit after tax attributable to the owners of the Company for 1H2016 was €56 mn compared to €60 mn for 1H2015. Profit after tax attributable to the owners of the Company for 2Q2016 totalled €6 mn, compared to a profit of €50 mn for 1Q2016.

**B. Outlook**

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

The key pillars of the Group's strategy are to:

- Materially reduce the level of delinquent loans
- Normalise the funding structure and fully repay ELA funding
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market and on the UK operations
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders

The Group is now focused on its core operations in Cyprus, which account for 91% and 90% of gross loans and customer deposits respectively. The financial performance of the Group and the economic recovery of Cyprus are mutually reinforced. The Cypriot economy continues to see strong improvement, particularly against a backdrop of falling unemployment rate, reducing consumer price inflation, improving fiscal environment and improving credit ratings. According to the flash estimate<sup>21</sup> published on 12 August 2016, real GDP in Cyprus increased by 2,7% yoy in the second quarter of 2016 (when seasonally adjusted). The outlook for the Cypriot economy for 2016 remains positive and is underpinned by improving tourist arrivals, and its unique position as a regional centre for business services for companies and investors in the Middle East, Eastern Mediterranean, Russia and Eastern Europe.

However, the direct consequences on Cyprus of the UK referendum to exit the EU, will mostly emanate from tourist activity depending on the extent and durability of depreciation of the British Pound against the Euro, or from a possible economic recession in the UK. The possible loss of UK tourist arrivals may be mitigated at least in part by increases in arrivals of tourists from other destinations, as tourist traffic may continue to divert away from other regional destinations. Downside risks to growth projections relate to the high level of non-performing loans and the worsening of the external environment.

Tackling the Group's loan portfolio quality is a top priority for management. The Group continues to make steady progress across all asset quality metrics and the strong momentum in the loan restructuring activity continues. The Group has been successful in engineering sustainable restructuring solutions at an average of €1 bn a quarter since January 2015 across the spectrum of its loan portfolio. This has resulted in a reduction of the loans in arrears for more than 90 days (90+ DPD) for fifth consecutive quarter. Overall, the Company is responsible for two thirds of the reduction of NPEs in Cyprus since January 2015, demonstrating the effectiveness of its strategy to tackle non-performing loans via a dedicated RRD division. Further reduction of the Group's 90+ DPD may be expected in the forthcoming quarters, on the back of slower creation of 90+ DPD loans, restructuring momentum, implementation of regulatory reforms particularly the insolvency framework, foreclosure law and sale of loans bill, tax incentives to support debt restructuring and the improving economic and operating conditions in Cyprus.

In order to normalise its funding structure and to fully repay ELA, the Company is stepping up its efforts to attract deposits, leveraging on increasing customer confidence towards the Company and improving macroeconomic conditions. During 1H2016, the Company introduced new deposit products aiming at attracting local and international depositors. The Company's strong capital position and overall improvement in its financial position enhance its funding options and facilitate access to the debt capital markets for wholesale funding, subject to market conditions and investor appetite. So far, the Company has been successful in reducing its reliance on ELA funding, with the quantum coming down by €9,9 bn as at today or over 86% since its peak in 2013.

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<sup>21</sup> Based on the Statistical Service of the Republic of Cyprus.



## B. Outlook (continued)

The Company considers that it is adequately capitalised, taking into account its risk profile, level of non-performing loans, the macroeconomic environment and applicable regulatory requirements. Whilst the Company considers that its current levels of Common Equity Tier 1 capital are appropriate for its circumstances, the Company continues to seek opportunities to optimise the level and composition of its liabilities in light of existing and upcoming regulatory requirements, including the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). Although the precise calibration and ultimate designation of the Company's MREL liabilities have not yet been finalised, the Company continues to consider various funding opportunities (including both senior debt and/or subordinated capital instruments) in anticipation of such requirements and in order to further strengthen its balance sheet.

Strategic focus and reshaping of business model to grow in core Cypriot market are through prudent new lending and developing the UK franchise. Growth in new lending is focused on selected industries that are more in line with the Company's target risk profile, such as tourism, trade, professional services, information/communication technologies, energy, education and green projects. Management is also focused on developing a lean bank by disposing non-core assets in addition to placing emphasis on diversifying income streams by boosting fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife and General Insurance of Cyprus operating in the Life and Non-Life sectors respectively, constitute a core pillar of the Group's operations and hold a leading position in the insurance industry. The insurance income net of insurance claims for the 1H2016 amounted to €25 mn compared to €20 mn for 1H2015.

The Group is also aiming to pursue a focused growth strategy in the UK, targeting entrepreneurs and owner-managed businesses. With selective presence in London and Birmingham and a predominantly retail funded franchise, the UK strategy is to support its core proposition in the property market, specifically targeting the professional buy-to-let market and further expanding its mortgage business and its savings, current accounts and trade-related products for SMEs, professionals and Cypriot residents.

The Company continues to have a leading position in the Cypriot banking system. The Group's strengthened capital position and its improving liquidity, supports its efforts to provide credit to promising sectors of the domestic economy and deliver value to shareholders and other stakeholders.

## C. Key Performance Indicators

The below table shows the Group's performance vis-à-vis the set of Medium Term Targets, including targets relating to 90+ DPD ratio, ELA, Loans to Deposits ratio and Total Assets.

Group Key Performance Indicators		Actual Dec-2015	Actual Jun-2016	Medium-Term Targets
Asset Quality	90+Days Past Due ratio	50%	44%	<30%
	90+ Days Past Due coverage	48%	53%	>50%
	Provisioning charge <sup>22</sup> (Cost of Risk) annualised	4,3%	1,4% <sup>23</sup>	<1,0%
Funding	ELA % Assets; €bn	16% €3,8 bn	11% €2,4 bn	Fully Repay
	Net Loans % Deposits	121%	110%	100%-120%
Capital	CET 1 (transitional) <sup>24</sup>	14,0%	14,4%	>15%
Efficiency	Net interest margin	3,8%	3,6%	~3,0%
	Fee and Commission income/total income	15%	15%	>20%
	Cost to Income ratio	40%	42%	40%-45%
Balance Sheet	Total assets	€23,3 bn	€22,7 bn	>€25 bn

<sup>22</sup> IFRS 9 impact, which is effective as from 1 January 2018, has not been taken into account for the purpose of the targets. Targets are set on the basis of the present regulatory environment.

<sup>23</sup> See Note 15.

<sup>24</sup> See Note 1.

## D. Financial Results

### Interim Condensed Consolidated Income Statement

€ mn	1H2016	1H2015 (represented) <sup>25</sup>	yoy +/-%	2Q2016	1Q2016	qoq +/-%
Net interest income	360	439	-18%	175	185	-5%
Net fee and commission income	74	79	-7%	38	36	5%
Net foreign exchange gains and net gains on other financial instruments	15	11	39%	9	6	30%
Insurance income net of insurance claims	25	20	22%	11	14	-19%
Gains/(losses) from revaluation and disposal of investment properties and stock of properties	2	(23)	-110%	1	1	-21%
Other income	6	9	-42%	4	2	83%
<b>Total income</b>	<b>482</b>	<b>535</b>	<b>-10%</b>	<b>238</b>	<b>244</b>	<b>-3%</b>
Staff costs	(117)	(118)	-1%	(59)	(58)	1%
Other operating expenses	(85)	(76)	12%	(44)	(41)	10%
<b>Total expenses</b>	<b>(202)</b>	<b>(194)</b>	<b>4%</b>	<b>(103)</b>	<b>(99)</b>	<b>5%</b>
<b>Profit before provisions and impairments, gains/(losses) on derecognition of loans and changes in expected cash flows, restructuring costs and discontinued operations</b>	<b>280</b>	<b>341</b>	<b>-18%</b>	<b>135</b>	<b>145</b>	<b>-7%</b>
Provisions for impairment of customer loans net of gains/(losses) on derecognition of loans and changes in expected cash flows	(158)	(234)	-33%	(96)	(62)	53%
Impairments of other financial and non-financial assets	(22)	(31)	-31%	(14)	(8)	71%
Share of profit from associates and joint ventures	2	3	-53%	1	1	1%
<b>Profit before tax, restructuring costs and discontinued operations</b>	<b>102</b>	<b>79</b>	<b>29%</b>	<b>26</b>	<b>76</b>	<b>-65%</b>
Tax	(12)	(10)	17%	(4)	(8)	-49%
(Loss)/profit attributable to non-controlling interests	(6)	1	-	(5)	(1)	-
<b>Profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets</b>	<b>84</b>	<b>70</b>	<b>20%</b>	<b>17</b>	<b>67</b>	<b>-75%</b>
Advisory, VEP and other restructuring costs <sup>26</sup>	(87)	(22)	302%	(70)	(17)	301%
Loss from disposal groups held for sale/discontinued operations	-	(29)	-100%	-	-	-
Net gain on disposal of non-core assets	59	41	45%	59	-	-
<b>Profit after tax</b>	<b>56</b>	<b>60</b>	<b>-6%</b>	<b>6</b>	<b>50</b>	<b>-88%</b>

<sup>25</sup> See Note 2.32 to the Interim Consolidated Financial Statements for the six months ended 30 June 2016, Comparative information.

<sup>26</sup> See Note 20.

**D. Financial Results (continued)**

*Interim Condensed Consolidated Balance Sheet*

€ mn	30.06.2016	31.12.2015	+/- %
Cash and balances with central banks	1.519	1.423	7%
Loans and advances to banks	1.174	1.314	-11%
Debt securities, treasury bills and equity investments	840	1.009	-17%
Net loans and advances to customers	16.253	17.192	-5%
Other assets	2.883	2.284	26%
Non-current assets and disposal group held for sale	11	49	-76%
<b>Total assets</b>	<b>22.680</b>	<b>23.271</b>	<b>-3%</b>
Deposits by banks	343	242	42%
Funding from central banks	3.101	4.453	-30%
Repurchase agreements	398	368	8%
Customer deposits	14.746	14.181	4%
Debt securities in issue	-	1	-100%
Other liabilities	996	944	5%
Non-current liabilities and disposal group held for sale	-	4	-100%
<b>Total liabilities</b>	<b>19.584</b>	<b>20.193</b>	<b>-3%</b>
Share capital	892	892	0%
Capital reduction reserve and share premium	2.505	2.505	0%
Revaluation and other reserves	240	259	-7%
Accumulated losses	(583)	(601)	-3%
<b>Shareholders' equity</b>	<b>3.054</b>	<b>3.055</b>	<b>0%</b>
Non-controlling interests	42	23	89%
<b>Total equity</b>	<b>3.096</b>	<b>3.078</b>	<b>1%</b>
<b>Total liabilities and equity</b>	<b>22.680</b>	<b>23.271</b>	<b>-3%</b>

#### D. Financial Results (continued)

##### Key Balance Sheet figures and ratios

	30.06.2016	31.12.2015	+/- %
Gross loans (€ mn)	21.083	22.592	-7%
Customer deposits (€ mn)	14.746	14.181	4%
Loans to deposits ratio (net)	110%	121%	-11 p.p.*
90+ DPD ratio	44%	50%	-6 p.p.*
90+ DPD provisioning coverage ratio <sup>27</sup>	53%	48%	+5 p.p.*

\*p.p. = percentage points, bps=basis points, 100 basis points = 1 percentage point

Capital	30.06.2016	31.12.2015	+/- %
Common Equity Tier 1 capital ratio (CET1) (transitional) <sup>28</sup>	14,4%	14,0%	+0,4 p.p.*
Total capital ratio	14,5%	14,1%	+0,4 p.p.*
Risk weighted assets (€ mn)	18.968	19.666	-4%

\*p.p. = percentage points, bps=basis points, 100 basis points = 1 percentage point

Key performance ratios	1H2016	1H2015	yoy +/- %	2Q2016	1Q2016	qoq +/- %
Net interest margin (annualised)	3,59%	3,88%	-29 bps*	3,55%	3,63%	-8 bps*
Cost to income ratio	42%	36%	+6 p.p.*	43%	40%	+3 p.p.*
Return on average assets (annualised)	0,5%	0,5%	-	0,1%	0,9%	-0,8 p.p.*
Return on average equity (annualised)	3,7%	3,4%	0,3 p.p.*	0,8%	6,5%	-5,7 p.p.*
Basic earnings/(losses) per share (€cent)	0,63	0,68	(0,05)	0,07	0,56	(0,49)

\*p.p. = percentage points, bps=basis points, 100 basis points = 1 percentage point

#### Going concern

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

The Group's management, taking into consideration the factors and uncertainties that existed at the reporting date, is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out below, despite the fact that, as disclosed in Notes 4.2.3 and 45 it is currently in breach of the regulatory liquidity ratios in Cyprus, which can be considered as a material uncertainty as its ability to continue as a going concern.

- The Group's CET1 ratio at 30 June 2016 stands at 14,4% (transitional), higher than the minimum required ratio of 11,75% (Note 4.2.1).
- The improving liquidity position of the Group as a result of the continuing positive customer flows in Cyprus.
- The significant decrease of its reliance on ELA funding, which on 30 August 2016 stands at €1,5 billion, compared to €3,8 billion at 31 December 2015 and €11,4 billion at its peak level in April 2013 (Note 4.2.3).

<sup>27</sup> See Note 7.

<sup>28</sup> See Note 1.

**Going concern (continued)**

- The improved ratings of both the Company (Fitch upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit rate from Caa3 with stable outlook to Caa3 with positive outlook in June 2016) and the Republic of Cyprus (Fitch upgrade by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB- with a positive outlook in September 2015 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015). In February 2016 and March 2016 Moody's Investors Service and S&P Global Rating respectively affirmed their long and short-term ratings on the Republic of Cyprus with a stable and positive outlook respectively. Moody's Investors Service revised the outlook for the Republic of Cyprus to positive from stable in August 2016.

**Risk management**

Like other financial organisations, the Group is exposed to risks, the most significant of which arise from the financial instruments it holds and relate to credit risk, liquidity risk and market risk (arising from adverse movements in exchange rates, interest rates and security prices), as described in Notes 43 to 46 of the Interim Consolidated Financial Statements. Information about additional risks which the Group is exposed to is disclosed in the Additional Risk and Capital Management Disclosures section of this Mid-Year Financial Report. The Group monitors and manages these risks through various control mechanisms. Further information relevant to risk management is provided elsewhere in this Mid-Year Financial 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 Interim Consolidated Financial Statements.

**Events after the reporting date**

*Contemplating listing in London Stock Exchange*

As previously announced on 30 June 2016, the Company is considering a premium listing on the London Stock Exchange (LSE). The Group also intends to maintain a listing on the Cyprus Stock Exchange. In order to achieve such a listing and to be eligible for inclusion in the FTSE UK index series, the Company is considering the incorporation of a new holding company. Although no decision has been taken, the Company confirms that after examining a number of potential Eurozone jurisdictions, the Republic of Ireland is currently considered to be the most suitable jurisdiction as it is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for a listing on the LSE.

Bank of Cyprus Holdings PLC was incorporated in the Republic of Ireland on 11 July 2016 for this purpose. Should the listing proceed, the Company's headquarters, management and operations would all remain in Cyprus. The new holding company would be, and the Company would remain, tax resident in Cyprus. The Company would continue to be regulated by the European Central Bank and the Central Bank of Cyprus.

The Company continues to monitor market conditions and to consult with its shareholders and other stakeholders in determining the appropriate course of action.

*Other events after the reporting date*

The material events which occurred after the reporting date are disclosed in Notes 45 and 49 of these interim consolidated financial statements.

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

As at 30 June 2016 and 30 August 2016, the following shareholders held more than 5% of the share capital at the Company:

	<b>30 June 2016</b>	<b>30 August 2016</b>
Cyprus Popular Bank Public Co Ltd	9,62%	9,62%
Lamesa Holding S.A. (affiliate of Renova Group)	9,88%	9,88%
TD Asset Management	5,24%	5,24%
European Bank for Reconstruction and Development	5,02%	5,02%

**Prof. Dr. Josef Ackermann**

Chairman

30 August 2016

**Interim Consolidated Financial Statements** **30 June**  
**for the six months ended** **2016**

**BANK OF CYPRUS GROUP**  
**Interim Consolidated Financial Statements**  
**For the six months ended 30 June 2016**

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**BANK OF CYPRUS GROUP**  
Interim Consolidated Income Statement

		Six months ended 30 June		Three months ended 30 June	
		2016	2015 (represented)	2016	2015 (represented)
	Notes	€000	€000	€000	€000
<b>Continuing operations</b>					
Turnover	2.9	640.822	765.436	321.482	388.001
Interest income	7	467.658	591.115	227.645	286.030
Interest expense	8	(107.196)	(152.529)	(51.976)	(74.239)
Net interest income		360.462	438.586	175.669	211.791
Fee and commission income	9	78.412	83.258	40.614	38.299
Fee and commission expense	9	(4.544)	(4.141)	(2.712)	(2.481)
Net foreign exchange gains	10	16.313	23.292	8.884	25.540
Net gains on financial instrument transactions	11	57.389	28.717	58.044	29.965
Insurance income net of claims and commissions	12	24.633	20.269	11.040	8.382
Gains/(losses) from revaluation and disposal of investment properties		5.806	(23.384)	2.114	(15.795)
(Losses)/gains on disposal of stock of property		(3.533)	243	(1.111)	35
Other income	13	7.577	8.846	5.731	6.162
		542.515	575.686	298.273	301.898
Staff costs	14	(179.279)	(118.017)	(115.196)	(58.902)
Other operating expenses	15	(109.556)	(97.401)	(57.606)	(46.253)
		253.680	360.268	125.471	196.743
Gain on derecognition of loans and advances to customers and changes in expected cash flows	16	22.166	230.039	37.607	187.033
Provisions for impairment of loans and advances to customers and other customer credit losses	16	(179.925)	(463.926)	(133.033)	(310.481)
Impairment of other financial instruments	16	(12.228)	(31.168)	(11.252)	(30.355)
Impairment of non-financial instruments	16	(9.362)	-	(2.359)	-
<b>Profit before share of profit from associates and joint ventures</b>		74.331	95.213	16.434	42.940
Share of profit from associates and joint ventures	51	1.606	3.438	805	1.598
<b>Profit before tax from continuing operations</b>		75.937	98.651	17.239	44.538
Income tax	17	(13.695)	(10.475)	(5.559)	(2.501)
<b>Profit after tax from continuing operations</b>		62.242	88.176	11.680	42.037
<b>Discontinued operations</b>					
Loss after tax from discontinued operations	6	-	(36.267)	-	(13.774)
<b>Profit for the period</b>		62.242	51.909	11.680	28.263
<b>Attributable to:</b>					
Owners of the Company – continuing operations		56.372	89.325	6.147	42.882
Owners of the Company – discontinued operations		-	(29.105)	-	(11.186)
<b>Total profit attributable to the owners of the Company</b>		56.372	60.220	6.147	31.696
Non-controlling interests – continuing operations		5.870	(1.149)	5.533	(845)
Non-controlling interests – discontinued operations		-	(7.162)	-	(2.588)
Total profit/(loss) attributable to non-controlling interests		5.870	(8.311)	5.533	(3.433)
<b>Profit for the period</b>		62.242	51.909	11.680	28.263
<b>Basic and diluted earnings per share (cent) attributable to the owners of the Company - continuing operations</b>					
	18	0,6	1,0	0,1	0,5
<b>Basic and diluted earnings per share (cent) attributable to the owners of the Company</b>					
	18	0,6	0,7	0,1	0,4

BANK OF CYPRUS GROUP  
Interim Consolidated Statement of Comprehensive Income

		Six months ended 30 June		Three months ended 30 June	
		2016	2015	2016	2015
	Notes	€000	€000	€000	€000
<b>Profit for the period</b>		<b>62.242</b>	51.909	<b>11.680</b>	28.263
<b>Other comprehensive income (OCI)</b>					
<i>OCI to be reclassified in the consolidated income statement in subsequent periods</i>					
<b>Foreign currency translation reserve</b>					
(Loss)/profit on translation of net investment in foreign branches and subsidiaries		<b>(33.993)</b>	(12.642)	<b>(14.997)</b>	821
Profit/(loss) on hedging of net investments in foreign branches and subsidiaries	21	<b>36.286</b>	7.771	<b>16.960</b>	(5.259)
Transfer to the consolidated income statement on dissolution/disposal of foreign operations		<b>1.049</b>	(10.062)	<b>371</b>	(10.062)
		<b>3.342</b>	(14.933)	<b>2.334</b>	(14.500)
<b>Available-for-sale investments</b>					
Net (losses)/gains from fair value changes before tax		<b>(1.181)</b>	(1.650)	<b>39</b>	(4.696)
Share of net gains from fair value changes of associates		<b>662</b>	-	<b>836</b>	-
Transfer to the consolidated income statement on impairment		<b>530</b>	2.252	<b>6</b>	1.930
Transfer to the consolidated income statement on sale		<b>(51.264)</b>	(2.667)	<b>(51.264)</b>	(2.232)
		<b>(51.253)</b>	(2.065)	<b>(50.383)</b>	(4.998)
		<b>(47.911)</b>	(16.998)	<b>(48.049)</b>	(19.498)
<i>OCI not to be reclassified in the consolidated income statement in subsequent periods</i>					
<b>Property revaluation</b>					
Tax	17	<b>(21)</b>	178	<b>(21)</b>	178
		<b>(21)</b>	178	<b>(21)</b>	178
<b>Actuarial loss for the defined benefit plans</b>					
Remeasurement losses on defined benefit plans	14	<b>(15.143)</b>	-	<b>(11.442)</b>	-
		<b>(15.164)</b>	178	<b>(11.463)</b>	178
<b>Other comprehensive loss after tax</b>		<b>(63.075)</b>	(16.820)	<b>(59.512)</b>	(19.320)
<b>Total comprehensive (loss)/income for the period</b>		<b>(833)</b>	35.089	<b>(47.832)</b>	8.943

<b>Attributable to:</b>					
Owners of the Company		<b>(2.004)</b>	47.415	<b>(48.671)</b>	11.697
Non-controlling interests		<b>1.171</b>	(12.326)	<b>839</b>	(2.754)
<b>Total comprehensive (loss)/income for the period</b>		<b>(833)</b>	35.089	<b>(47.832)</b>	8.943

BANK OF CYPRUS GROUP  
Interim Consolidated Balance Sheet

		30 June 2016	31 December 2015
<b>Assets</b>	<i>Notes</i>	€000	€000
Cash and balances with central banks	19	1.518.663	1.422.602
Loans and advances to banks	19	1.174.123	1.314.380
Derivative financial assets	21	14.303	14.023
Investments	20	316.357	588.255
Investments pledged as collateral	20	523.386	421.032
Loans and advances to customers	23	16.253.237	17.191.632
Life insurance business assets attributable to policyholders	24	481.409	475.403
Prepayments, accrued income and other assets	28	238.118	281.780
Stock of property	27	1.128.793	515.858
Investment properties	22	37.505	34.628
Property and equipment	25	282.640	264.333
Intangible assets	26	138.537	133.788
Investments in associates and joint ventures	51	110.009	107.753
Deferred tax assets	17	451.126	456.531
Non-current assets and disposal group held for sale	29	11.460	48.503
<b>Total assets</b>		<b>22.679.666</b>	<b>23.270.501</b>
<b>Liabilities</b>			
Deposits by banks		342.762	242.137
Funding from central banks	30	3.100.667	4.452.850
Repurchase agreements		398.408	368.151
Derivative financial liabilities	21	59.037	54.399
Customer deposits	31	14.746.473	14.180.681
Insurance liabilities	32	569.681	566.925
Accruals, deferred income and other liabilities	33	321.435	282.831
Debt securities in issue		-	712
Deferred tax liabilities	17	45.211	40.807
Non-current liabilities and disposal group held for sale	29	-	3.677
<b>Total liabilities</b>		<b>19.583.674</b>	<b>20.193.170</b>
<b>Equity</b>			
Share capital	34	892.294	892.294
Share premium	34	552.618	552.618
Capital reduction reserve	34	1.952.486	1.952.486
Revaluation and other reserves		240.004	258.709
Accumulated losses	36	(583.710)	(601.152)
<b>Equity attributable to the owners of the Company</b>		<b>3.053.692</b>	<b>3.054.955</b>
<b>Non-controlling interests</b>		<b>42.300</b>	<b>22.376</b>
<b>Total equity</b>		<b>3.095.992</b>	<b>3.077.331</b>
<b>Total liabilities and equity</b>		<b>22.679.666</b>	<b>23.270.501</b>

Prof. Dr. J. Ackermann Chairman  
Mr. I. Zographakis Director

Mr. J. P. Hourican Chief Executive Officer  
Mrs. E. Livadiotou Finance Director

BANK OF CYPRUS GROUP  
Interim Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company												Non-controlling interests	Total equity
	Share capital (Note 34)	Share premium (Note 34)	Capital reduction reserve (Note 34)	Treasury shares (Note 34)	Accumulated losses (Note 36)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale (Note 29)	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>1 January 2016</b>	<b>892.294</b>	<b>552.618</b>	<b>1.952.486</b>	<b>(41.301)</b>	<b>(601.152)</b>	<b>99.218</b>	<b>47.125</b>	<b>6.059</b>	<b>99.050</b>	<b>30.939</b>	<b>17.619</b>	<b>3.054.955</b>	<b>22.376</b>	<b>3.077.331</b>
Profit for the period	-	-	-	-	56.372	-	-	-	-	-	-	56.372	5.870	62.242
Other comprehensive (loss)/income after tax for the period	-	-	-	-	(15.137)	(21)	(46.554)	-	-	3.336	-	(58.376)	(4.699)	(63.075)
Total comprehensive income /(loss) for the period	-	-	-	-	41.235	(21)	(46.554)	-	-	3.336	-	(2.004)	1.171	(833)
Increase in value of in-force life insurance business	-	-	-	-	(852)	-	-	-	852	-	-	-	-	-
Disposal of subsidiary (Note 50.2.1)	-	-	-	-	17.619	-	-	-	-	-	(17.619)	-	-	-
Acquisition of subsidiary (Note 50.1.1)	-	-	-	-	-	-	-	-	-	-	-	-	18.753	18.753
Disposals of treasury shares	-	-	-	41.301	(40.560)	-	-	-	-	-	-	741	-	741
<b>30 June 2016</b>	<b>892.294</b>	<b>552.618</b>	<b>1.952.486</b>	<b>-</b>	<b>(583.710)</b>	<b>99.197</b>	<b>571</b>	<b>6.059</b>	<b>99.902</b>	<b>34.275</b>	<b>-</b>	<b>3.053.692</b>	<b>42.300</b>	<b>3.095.992</b>

**BANK OF CYPRUS GROUP**  
**Interim Consolidated Statement of Changes in Equity**

	Attributable to the owners of the Company													Non-controlling interests	Total equity
	Share capital (Note 34)	Share premium (Note 34)	Capital reduction reserve (Note 34)	Shares subject to interim orders	Treasury shares (Note 34)	Accumulated losses (Note 36)	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale (Note 29)	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
<b>1 January 2015</b>	<b>892.238</b>	<b>552.539</b>	<b>1.952.486</b>	<b>441</b>	<b>(88.051)</b>	<b>(79.021)</b>	<b>115.830</b>	<b>2.226</b>	<b>6.059</b>	<b>97.698</b>	<b>22.929</b>	<b>(9.882)</b>	<b>3.465.492</b>	<b>15.555</b>	<b>3.481.047</b>
Profit/(loss) for the period	-	-	-	-	-	60.220	-	-	-	-	-	-	60.220	(8.311)	51.909
Other comprehensive income/(loss) after tax for the period	-	-	-	-	-	-	178	(2.124)	-	-	(9.659)	(1.200)	(12.805)	(4.015)	(16.820)
Total comprehensive income/(loss) for the period	-	-	-	-	-	60.220	178	(2.124)	-	-	(9.659)	(1.200)	47.415	(12.326)	35.089
Issue of share capital	56	79	-	-	-	-	-	-	-	-	-	-	135	-	135
Transfer of realised profits on sale of property	-	-	-	-	-	(1.563)	1.641	-	-	-	-	(78)	-	-	-
Acquisition of non-controlling interests	-	-	-	-	-	(68)	-	-	-	-	-	-	(68)	68	-
Debt capitalisation for subsidiary non-controlling interests	-	-	-	-	-	(9.544)	-	-	-	-	-	-	(9.544)	9.544	-
Increase in value of in-force life insurance business	-	-	-	-	-	(518)	-	-	-	518	-	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	-	-	18	-	-	-	(18)	-	-	-	-	-
Disposals of treasury shares	-	-	-	(441)	42.242	(38.934)	-	-	-	-	-	-	2.867	-	2.867
<b>30 June 2015</b>	<b>892.294</b>	<b>552.618</b>	<b>1.952.486</b>	<b>-</b>	<b>(45.809)</b>	<b>(69.410)</b>	<b>117.649</b>	<b>102</b>	<b>6.059</b>	<b>98.198</b>	<b>13.270</b>	<b>(11.160)</b>	<b>3.506.297</b>	<b>12.841</b>	<b>3.519.138</b>

BANK OF CYPRUS GROUP  
Interim Consolidated Statement of Cash Flows

		Six months ended 30 June	
		2016	2015 (represented)
	Notes	€000	€000
<b>Net cash flow from operating activities</b>	39	<b>1.150.538</b>	<b>577.959</b>
<b>Cash flows from investing activities</b>			
Purchases of debt securities, treasury bills and equity securities		(10.302)	(13.734)
Proceeds on disposal/redemption of investments:			
- debt securities and treasury bills		130.521	784.127
- equity securities		46.650	1.527
Interest received from debt securities and treasury bills		9.420	17.396
Dividend income from equity securities		119	273
Proceeds on disposal of disposal group held for sale		26.500	-
Proceeds on disposal of joint ventures		-	83.742
Purchase of property and equipment		(6.539)	(4.734)
Proceeds on disposal of property and equipment and intangible assets		216	250
Purchase of intangible assets		(7.561)	(5.045)
Proceeds on disposal of investment properties and investment properties held for sale		13.790	16.365
<b>Net cash flow from investing activities</b>		<b>202.814</b>	<b>880.167</b>
<b>Cash flows from financing activities</b>			
Net repayment of funding from central banks		(1.352.183)	(1.880.595)
Interest on funding from central banks		(21.483)	(45.242)
Proceeds from disposal of treasury shares		741	2.867
Proceeds from the issue of shares		-	135
Redemption of debt securities in issue		(712)	(1.780)
Interest on debt securities in issue		-	(22)
<b>Net cash flow used in financing activities</b>		<b>(1.373.637)</b>	<b>(1.924.637)</b>
<b>Net decrease in cash and cash equivalents for the period</b>		<b>(20.285)</b>	<b>(466.511)</b>
<b>Cash and cash equivalents</b>			
1 January		2.406.344	2.238.601
Foreign exchange adjustments		6.421	(24.116)
Net decrease in cash and cash equivalents for the period		(20.285)	(466.511)
<b>30 June</b>	40	<b>2.392.480</b>	<b>1.747.974</b>

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

## **1. Corporate information**

Bank of Cyprus Public Company Ltd (the 'Company') is the holding company of the Bank of Cyprus Group (the 'Group'). The principal activities of the Company and its subsidiary companies during the period continued to be the provision of banking, financial, insurance services and management and disposal of property.

The Company is a limited liability company incorporated in 1930 under the Cyprus Companies Law. The Company has a primary listing on the Cyprus Stock Exchange and a secondary listing on the Athens Exchange. It is also a public company for the purposes of the Cyprus Income Tax Laws.

### *Interim consolidated financial statements*

The interim consolidated financial statements of Bank of Cyprus Public Company Ltd for the period ended 30 June 2016 were authorised for issue by a resolution of the Board of Directors on 30 August 2016.

## **2. Summary of significant accounting policies**

### **2.1 Basis of preparation**

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

### *Presentation of interim consolidated financial statements*

The interim consolidated financial statements are presented in Euro (€) and all amounts are rounded to the nearest thousand, except where otherwise indicated.

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

### *Statement of compliance*

The interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

### **2.2 Changes in accounting policies and disclosures**

The accounting policies adopted are consistent with those followed for the preparation of the annual Consolidated Financial Statements for the year ended 31 December 2015, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 below.

#### **2.2.1 New and amended standards and interpretations**

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

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

**2. Summary of significant accounting policies (continued)**

**2.2 Changes in accounting policies and disclosures (continued)**

**2.2.1 New and amended standards and interpretations (continued)**

*IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets (Amendment): Clarification of Acceptable Methods of Depreciation and Amortisation*

This amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.

*IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations*

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions.

*IAS 27 Separate Financial Statements*

This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors.

*IAS 1: Disclosure Initiative (Amendment)*

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

*Annual Improvements IFRSs 2012-2014 Cycle*

The IASB has issued the Annual Improvements IFRSs 2012-2014 Cycle which is a collection of amendments to IFRSs. They include:

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* The amendment clarifies that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, but rather as a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *IFRS 7 Financial Instruments - Disclosures:* The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. Also, the amendment clarifies that the IFRS 7 disclosures relating to the offsetting of financial assets and financial liabilities are not required in the condensed interim financial report.
- *IAS 19 Employee Benefits:* The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *IAS 34 Interim Financial Reporting:* The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g. in the management commentary or risk report). The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.



**2. Summary of significant accounting policies (continued)**

**2.2 Changes in accounting policies and disclosures (continued)**

**2.2.1 New and amended standards and interpretations (continued)**

*IAS 19 Employee benefits (Amended): Employee Contributions*

The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Group does not expect this amendment to have a material impact on its results and financial position.

*Annual Improvements IFRSs 2010 – 2012 Cycle*

The IASB has issued the Annual Improvements IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. They include:

- *IFRS 2 Share-based Payment:* This improvement amends the definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition' (which were previously part of the definition of 'vesting condition').
- *IFRS 3 Business combinations:* This improvement clarifies that contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments.
- *IFRS 8 Operating Segments:* This improvement requires an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments and clarifies that an entity shall only provide reconciliations of the total of the reportable segments' assets to the entity's assets if the segment assets are reported regularly.
- *IFRS 13 Fair Value Measurement:* This improvement in the Basis of Conclusion of IFRS 13 clarifies that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting if the effect of not discounting is immaterial.
- *IAS 16 Property Plant & Equipment:* The amendment clarifies that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.
- *IAS 24 Related Party Disclosures:* The amendment clarifies that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.
- *IAS 38 Intangible Assets:* The amendment clarifies that when an intangible asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount.

**2.3 Standards and Interpretations that are issued but not yet effective**

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

*IFRS 9 Financial Instruments – Classification and measurement*

In July 2014, the IASB issued IFRS9 Financial Instruments, which is the comprehensive standard to replace IAS 39 Financial Instruments: Recognition and Measurement, and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

**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 but not yet adopted by the EU (continued)**

*IFRS 9 Financial Instruments – Classification and measurement (continued)*

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

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

**Classification and measurement**

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

**Impairment**

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

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

**Hedge accounting**

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

**2. 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 but not yet adopted by the EU (continued)**

*IFRS 9 Financial Instruments – Classification and measurement (continued)*

*Transition*

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

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments. The Group is in the process of assessing the impact of this standard on its results and financial position.

*IFRS 15: Revenue from Contracts with Customers (Clarifications)*

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

*IFRS 16 Leases*

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

*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 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)**

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

*Amendments to IAS 12: Income Taxes. Recognition of Deferred Tax Assets for Unrealised Losses*

The amendment addresses how to account for deferred tax assets related to debt instruments measured at fair value which give rise to a deductible temporary difference when the holder expects to recover the carrying amount of the asset by holding it to maturity and collecting all the contractual cash flows. IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendment clarifies the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. The Group does not expect these amendments to have a material impact on its results and financial position. The amendment is effective for annual periods beginning on or after 1 January 2017.

*Amendments to IAS 7: Disclosure Initiative*

The IASB added an initiative on disclosure to its work programme in 2013 to complement the work being done in the Conceptual Framework project. The initiative is, inter alia, made up of a number of smaller projects that aim at exploring opportunities to see how presentation and disclosure principles and requirements in existing standards can be improved short-term. Among them was a narrow scope project on IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financing activities and liquidity.

The objective of the amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The amendments to IAS 7 respond to investors' requests for information that helps them better understand changes in an entity's debt, which is important to their analysis of financial statements. These amendments are effective for annual periods beginning on or after 1 January 2017.

*Amendments IFRS 2: Classification and Measurement of Share based Payment Transactions*

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

**2.4 Basis of consolidation**

The interim consolidated financial statements comprise the interim consolidated financial statements of the Group as at and for the six months ended 30 June 2016. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Company, using consistent accounting policies.

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

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

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

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

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

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

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

### **2.5 Business combinations**

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

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.

#### *Contingent consideration*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured and subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is subsequently measured at fair value through profit or loss.

#### *Provisional accounting*

If the initial accounting for a business combination is incomplete at the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Such provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets and liabilities are recognised to reflect the new information obtained about facts and circumstances that existed at the acquisition date that if known, would have affected the amounts recognised as at that date.

## **2. Summary of significant accounting policies (continued)**

### **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.

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

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

### **2.7 Foreign currency translation**

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

#### **2.7.1 Transactions and balances**

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

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



## **2. Summary of significant accounting policies (continued)**

### **2.7 Foreign currency translation (continued)**

#### **2.7.1 Transactions and balances (continued)**

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

#### **2.7.2 Subsidiary companies and branches**

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

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

### **2.8 Segmental reporting**

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

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

### **2.9 Turnover**

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

### **2.10 Revenue recognition**

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

#### **2.10.1 Interest income**

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

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

#### **2.10.2 Fee and commission income**

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

#### **2.10.3 Dividend income**

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

## **2. Summary of significant accounting policies (continued)**

### **2.10 Revenue recognition (continued)**

#### **2.10.4 Rental income**

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

#### **2.10.5 Income from the disposal of investment property**

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

#### **2.10.6 Income from the disposal of stock of property**

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

### **2.11 Retirement benefits**

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

#### *Defined contribution plans*

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

#### *Defined benefit plans*

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

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 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 balance sheet with a corresponding debit or credit in other comprehensive income. Re-measurements are not reclassified to profit or loss in subsequent periods.

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

### **2.12 Tax**

#### *Current income tax and deferred tax*

Tax on income is provided in accordance with the fiscal regulations and rates which apply in the countries where the Group operates and is recognised as an expense in the period in which the income arises. Deferred tax is provided using the liability method. Current income tax 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.



## **2. Summary of significant accounting policies (continued)**

### **2.12 Tax (continued)**

#### *Current income tax and deferred tax (continued)*

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

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

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

#### *Indirect Tax Value Added Tax (VAT)*

Expenses and assets are recognised net of the amount of VAT, except:

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

### **2.13 Financial instruments**

#### **2.13.1 Date of recognition**

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

#### **2.13.2 Initial recognition and measurement of financial instruments**

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

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

#### **2.13.3 Derivative financial instruments**

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.13 Financial instruments (continued)**

#### **2.13.4 Financial assets or financial liabilities held for trading**

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

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

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

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

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

#### **2.13.6 Held-to-maturity investments**

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

#### **2.13.7 Loans and receivables**

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

## **2. Summary of significant accounting policies (continued)**

### **2.13 Financial instruments (continued)**

#### **2.13.7 Loans and receivables (continued)**

##### *Renegotiated loans*

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

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

#### **2.13.8 Available-for-sale investments**

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

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

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

#### **2.13.9 Other financial liabilities at amortised cost**

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

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

### **2.14 Derecognition of financial assets and financial liabilities**

#### **2.14.1 Financial assets**

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

**2. Summary of significant accounting policies (continued)**

**2.14 Derecognition of financial assets and financial liabilities (continued)**

**2.14.2 Financial liabilities**

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

**2.15 Impairment of financial assets**

**2.15.1 Loans and receivables**

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

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

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

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

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

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.15 Impairment of financial assets (continued)**

#### **2.15.1 Loans and receivables (continued)**

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non contractual write-offs, may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. If, in a subsequent period, the amount of the estimated impairment loss decreases and the decrease is due to an event occurring after the impairment was recognised, when the creditworthiness of the customer has improved to such an extent that there is reasonable assurance that all or part of the principal and interest according to the original contract terms of the loan will be collected timely, the previously recognised impairment loss is reduced by adjusting the impairment provision account. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to 'Provisions for impairment of loans and advances and other customer credit losses' in the consolidated income statement.

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

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

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

#### **2.15.3 Available-for-sale investments**

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

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

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

### **2.16 Hedge accounting**

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.16 Hedge accounting (continued)**

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

#### **2.16.1 Fair value hedges**

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

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

#### **2.16.2 Cash flow hedges**

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

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

#### **2.16.3 Hedges of a net investment 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 of an overseas branch or subsidiary, the cumulative gains or losses recognised in other comprehensive income are transferred in the consolidated income statement.

### **2.17 Offsetting financial instruments**

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

### **2.18 Cash and cash equivalents**

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



## **2. Summary of significant accounting policies (continued)**

### **2.19 Insurance business**

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

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

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

#### **2.19.1 Life insurance business**

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

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

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

#### **2.19.2 Life insurance in-force business**

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

#### **2.19.3 General insurance business**

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

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

#### **2.19.4 Investment contracts**

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

## **2. Summary of significant accounting policies (continued)**

### **2.19 Insurance business (continued)**

#### **2.19.5 Liability adequacy test**

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

#### **2.20 Repurchase and reverse repurchase agreements**

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

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

#### **2.21 Finance leases – The Group as lessor**

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

#### **2.22 Operating leases**

##### **2.22.1 Group as lessee**

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

##### **2.22.2 Group as lessor**

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

#### **2.23 Property and equipment**

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



## **2. Summary of significant accounting policies (continued)**

### **2.23 Property and equipment (continued)**

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

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

The cost of adapting/improving leasehold property is amortised over 3 to 5 years or over the period of the lease if this does not exceed 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 3 to 10 years.

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

### **2.24 Investment properties**

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

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

### **2.25 Stock of property**

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

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

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

## **2. Summary of significant accounting policies (continued)**

### **2.26 Non-current assets held for sale and discontinued operations**

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

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

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

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

If fair value less costs to sell of the disposal group is below the aggregate carrying amount of all of the assets and liabilities included in the disposal group, the disposal group is written down. The impairment loss is recognised in profit or loss for the period. 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 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 statement of profit or loss.

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

### **2.27 Intangible assets**

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

## **2. Summary of significant accounting policies (continued)**

### **2.27 Intangible assets (continued)**

Amortisation is calculated on a straight line basis over the estimated useful life of the assets which is 10 years for license fees, 7 to 10 years for customer relationships, 8 years for brands and 3 to 5 years for computer software. For the accounting policy of in-force life insurance business, refer to Note 2.19.2.

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

### **2.28 Share capital**

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

### **2.29 Treasury shares**

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

### **2.30 Provisions**

#### **2.30.1 Provisions for pending litigation or claims**

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

#### **2.30.2 Provisions for undrawn loan commitments**

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

### **2.31 Financial guarantees**

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

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

### **2.32 Comparative information**

Comparatives have been reclassified to reflect the change in presentation of 'Gains/(losses) from revaluation and disposal of investment properties', '(Losses)/gains on disposal of stock of property' and the change in presentation of 'Gain on derecognition of loans and advances to customers and changes in expected cash flows' within the interim consolidated income statement.

In addition, comparatives have been represented for the results of the Russian loan portfolio, not disposed of together with the rest of the Russian operations in September 2015, from discontinued operations to continuing operations.

These changes in presentation did not have an impact on the results of the period.

### 3. Going concern

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

The conditions that existed during the six months ended 30 June 2016 and the developments up to the date of approval of these interim consolidated financial statements that have been considered in management's going concern assessment include, amongst others, the operating environment in Cyprus and of the Group (Note 4).

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

The Group's management, taking into consideration the factors and uncertainties that existed at the reporting date, is satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, the going concern principle is appropriate for the reasons set out below, despite the fact that, as disclosed in Notes 4.2.3 and 45 it is currently in breach of the regulatory liquidity ratios in Cyprus, which can be considered as a material uncertainty as its ability to continue as a going concern.

- The Group's CET1 ratio at 30 June 2016 stands at 14,4% (transitional), higher than the minimum required ratio of 11,75% (Note 4.2.1).
- The improving liquidity position of the Group as a result of the continuing positive customer flows in Cyprus.
- The significant decrease of its reliance on ELA funding, which on 30 August 2016 stands at €1,5 billion, compared to €3,8 billion at 31 December 2015 and €11,4 billion at its peak level in April 2013 (Note 4.2.3).
- The improved ratings of both the Company (Fitch upgrade of Long-term Issuer Default Rating from 'CCC' to 'B-' in April 2016 with stable outlook, and Moody's Investor Service upgrade of long-term deposit rate from Caa3 with stable outlook to Caa3 with positive outlook in June 2016) and the Republic of Cyprus (Fitch upgrade by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB- with a positive outlook in September 2015 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015). In February 2016 and March 2016 Moody's Investors Service and S&P Global Rating respectively affirmed their long and short-term ratings on the Republic of Cyprus with a stable and positive outlook respectively. Moody's Investors Service revised the outlook for the Republic of Cyprus to positive from stable in August 2016.

### 4. Operating environment

#### 4.1 Cyprus

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

Unemployment dropped to 12,9% in the first quarter of the year on a seasonally adjusted basis, and further to 11,9% in the second quarter compared to an average unemployment rate of 14,9% for 2015 as a whole and a peak of 16,5% in the fourth quarter of 2014 as per the Cyprus statistical service.

Real GDP rose by 2,6% in the first quarter of 2016 and by 2,9% in the second quarter according to the Cyprus Statistical Service, leading to a half yearly increase of 2,8% year-on-year or by 2,7% on a seasonally adjusted basis. This follows a yearly increase of 1,6% in 2015.

Consumer prices continued to decline for the fourth consecutive year, down by 2,2% year-on-year in the first half of 2016, as per the Cyprus Statistical service.

Tourist arrivals increased significantly in the first half of 2016, up by 21,2% year-on-year. Industrial activity as measured by the index of industrial production continued to expand, up by 9,48% in the five months to May, as per the Cyprus Statistical service.

#### **4. Operating environment (continued)**

##### **4.1 Cyprus (continued)**

Downside risks to the growth projections are associated with high levels of non-performing loans, prolonged uncertainties in property markets, loss of momentum in structural reforms with associated risks for public finances and the credibility of the government. Downside risks may also be associated with a deterioration of the external environment for Cyprus. This would involve a continuation of the recession in Russia in conditions of protracted declines in oil prices, weaker than expected growth in the euro area as a result of worsening global economic conditions and slower growth in the UK with a weakening of the pound following the Brexit referendum. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Upside risks to the outlook relate to a longer period of low oil prices, better growth performance in the EU and investment decisions in tourism and energy and in public projects.

The international credit rating agencies have upgraded the rating of the country. Fitch Ratings upgraded the rating of the Republic of Cyprus by two notches to B+ with a positive outlook in October 2015, S&P Global Rating by one notch to BB- with a positive outlook in September 2015 and Moody's Investors Service by two notches to B1 with a stable outlook in November 2015. In February 2016 and March 2016 Moody's Investors Service and S&P Global Rating respectively affirmed their long and short-term ratings on the Republic of Cyprus with a stable and positive outlook respectively. Moody's Investors Service revised the outlook for the Republic of Cyprus to positive from stable in August 2016.

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

##### **4.2 The Group**

###### **4.2.1 Regulatory capital ratios**

The Common Equity Tier 1 (CET1) ratio of the Group at 30 June 2016 stands at 14,4% (transitional).

The minimum CET1 ratio under the Capital Requirements Regulation (CRR) and the Capital Requirements Directive IV (CRD IV) was set by the Central Bank of Cyprus (CBC) at 8% on a transitional basis (Pillar I capital requirement). The Group is also subject to additional capital requirements for risks which are not covered by the Pillar I capital requirements (Pillar II add-ons). The Pillar II CET1 capital requirement was determined by the European Central Bank (ECB) to be at 3,75%, resulting in a total minimum CET1 of 11,75%. The Group's capital position at 30 June 2016 exceeds its Pillar I and its Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group. However, the Group's Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time. The Group expects that the results of the current supervisory review and evaluation process (SREP) cycle will be communicated by the ECB in September 2016.

###### **4.2.2 Asset quality**

The Group's loans that are impaired or past due for more than 90 days (90+ DPD) have decreased by 18% during the six months ended 30 June 2016 and totalled €9.269 million at 30 June 2016, representing 44% of gross loans (Note 43). The provisioning coverage ratio improved to 53% compared to 48% at 31 December 2015. The Group non-performing exposures (NPEs), as defined by the EBA, totalled €12.493 million at 30 June 2016 and accounted for 59% of gross loans. The provisioning coverage ratio of NPEs totalled 39% at 30 June 2016.

The Group is currently addressing the asset quality challenge through the operation of independent, centralised and specialised restructuring and recovery units to manage large or distressed exposures. As a result of these efforts, 90+ DPD have decreased by 28% over the past five quarters since the peak of €12.789 million as at 31 March 2015. NPEs have decreased by 17,6% over the past five quarters since their peak of €15.175 million as at 31 March 2015. NPEs adhere to the technical reporting requirements of the EBA standards and the Loan Provisioning Directive. The NPE amounts form a lagging indicator in circumstances where 90+ DPD loan balances indicate improvements.

The recently enacted foreclosure and insolvency framework and the law governing the sale of loans provide the Group with additional tools and power to address its asset quality challenges.

**4. Operating environment (continued)**

**4.2 The Group (continued)**

**4.2.3 Liquidity**

The Group's funding position continues to improve with customer deposits increasing by €566 million or 4% in the first six months of 2016.

Group customer deposits totalled €14.746 million at 30 June 2016 compared to €14.181 million at 31 December 2015. Customer deposits in Cyprus reached €13.311 million at 30 June 2016 and €12.691 million at 31 December 2015. Customer deposits accounted for 65% of total assets as at 30 June 2016 (compared to 61% at 31 December 2015 and a low of 48% at 31 March 2014).

The level of ELA funding at 30 June 2016 amounted to €2,4 billion (Note 30), down from €3,8 billion at 31 December 2015 and its peak level of €11,4 billion in April 2013. As at 30 August 2016, the level of ELA funding has been further reduced by €900 million to €1,5 billion represented an 87% reduction since peak. The Group intends to continue with further ELA repayments, the pace of which will be dependent on both the pace of increase in customer deposits and the prevailing market conditions which affect the Company's ability to raise wholesale funding. In this context, the Company successfully accessed the international markets for financing in May 2016 for the first time since the events of March 2013, completing a secured financing transaction (in the form of a repurchase agreement transaction) with a major international bank. The Group also intends to resume issuing debt instruments in the capital markets as part of its funding strategy going forward, subject to market conditions and investor appetite. It is noted that the Group's Restructuring Plan approved in 2013 by the CBC included ELA funding throughout the Restructuring Plan period (2013-2017).

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

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cyprus Government bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives have approved in January 2014 the issuance of up to €2,9 billion of guarantees for bonds/loans issued by credit institutions under the 'Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012'. It is expected that the Group will be able to make use of the above guarantees if the need arises, subject to the approval of the Ministry of Finance. Furthermore, the Company maintains the rights and obligations as issuer of two bonds guaranteed by the Republic of Cyprus of €500 million each maturing in November 2017. On 16 August 2016, the Board of Directors decided to proceed with the cancellation of the two bonds. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.



**4. Operating environment (continued)**

**4.2 The Group (continued)**

**4.2.4 Pending litigation and claims**

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

Despite the novelty of the said claims and the uncertainties inherent in a unique situation, on the information available at present and on the basis of the law as it currently stands, the management considers that the said claims are considered unlikely to have a material adverse impact on the financial position and capital adequacy of the Group (Note 38).

**5. Significant judgements, estimates and assumptions**

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

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

**5.1 Provision for impairment of loans and advances to customers**

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

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

A very important factor for the estimation of provisions is the timing and net recoverable amount from repossession of collaterals which mainly comprise land and buildings. The Group may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates and as the profile of the population of loans changes from period to period.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases where a different period has been used, based on specific facts and circumstances and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero. On average, the realisable value of the collateral is estimated to be 10% lower than the projected open market value of the collateral.

## **5. Significant judgements, estimates and assumptions (continued)**

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

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

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

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

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

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

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

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

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

### **5.2 Fair value of investments and derivatives**

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



## **5. Significant judgements, estimates and assumptions (continued)**

### **5.2 Fair value of investments and derivatives (continued)**

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

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

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

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

### **5.3 Impairment of available-for-sale investments**

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

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

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

### **5.4 Retirement benefits**

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

Further details on retirement benefits are disclosed in Note 14.

## **5. Significant judgements, estimates and assumptions (continued)**

### **5.5 General insurance business**

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

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

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

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

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

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

### **5.6 Life insurance business**

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

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

#### **5.6.1 Value of in-force business**

The value of the in-force business asset represents the present value of future profits expected to arise from the portfolio of in-force life insurance. The valuation of this asset requires assumptions to be made about future economic and operating conditions which are inherently uncertain and changes could significantly affect the value attributed to these assets. The methodology used and the key assumptions that have been made in determining the carrying value of the in-force business asset at 30 June 2016, are set out in Note 24.

#### **5.6.2 Insurance liabilities**

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

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

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

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

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

**5.6 Life insurance business (continued)**

**5.6.2 Insurance liabilities (continued)**

*Mortality and morbidity rates*

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

*Investment return and discount rate*

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

*Management expenses*

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

*Lapses*

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

Further details on insurance liabilities are disclosed in Note 32.

**5.7 Tax**

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

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

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

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

**5.8 Classification of property**

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

- Investment property comprises land and buildings that are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.
- Stock of property comprises land and buildings held with an intention to be disposed of. This principally relates to repossessed properties and properties acquired through the acquisition of certain operations of Laiki Bank in 2013, which as a result of the formation of the 'Real Estate Management Unit (REMU) and Overseas Rundown' by the Group in 2015, are being managed with an intention to be disposed of.

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

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

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

Further information on inputs used is disclosed in Note 22.

**5.10 Stock of property – estimation of net realisable value**

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

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

**5.11 Provisions**

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

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

**5.12 Exercise of significant influence**

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

## 6. Segmental analysis

The Group is organised into operating segments based on the geographic location of each unit.

In addition, the Cyprus segment is further organised into operating segments based on the line of business.

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

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

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

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

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

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

The loans and advances to customers, the customer deposits and the related income and expense are generally included in the segment where the business is originated, instead of the segment where the transaction is recorded.

**6. Segmental analysis (continued)**

*Continuing operations*

	Cyprus	Other countries	Total continuing operations
<b>Six months ended 30 June 2016</b>	€000	€000	€000
Net interest income	336.440	24.022	<b>360.462</b>
Net fee and commission income	70.512	3.356	<b>73.868</b>
Net foreign exchange gains	4.997	11.316	<b>16.313</b>
Net gains/(losses) on financial instrument transactions	57.856	(467)	<b>57.389</b>
Insurance income/(loss) net of claims and commissions	24.646	(13)	<b>24.633</b>
Gains/(losses) from revaluation and disposal of investment properties	6.147	(341)	<b>5.806</b>
Losses on disposal of stock of property	(3.428)	(105)	<b>(3.533)</b>
Other income	6.628	949	<b>7.577</b>
	<b>503.798</b>	<b>38.717</b>	<b>542.515</b>
Staff costs (excluding Voluntary exit plan) (Note 14)	(108.661)	(8.205)	<b>(116.866)</b>
Staff costs – Voluntary exit plan (Note 14)	(62.413)	-	<b>(62.413)</b>
Other operating expenses (excluding advisory and other restructuring costs) (Note 15)	(71.942)	(12.655)	<b>(84.597)</b>
Other operating expenses - Advisory and other restructuring costs (Note 15)	(23.666)	(1.293)	<b>(24.959)</b>
	<b>237.116</b>	<b>16.564</b>	<b>253.680</b>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	22.137	29	<b>22.166</b>
Provisions for impairment of loans and advances to customers and other customer credit losses	(148.024)	(31.901)	<b>(179.925)</b>
(Impairment)/reversal of impairment of other financial instruments	(12.895)	667	<b>(12.228)</b>
Impairment of non-financial instruments	(4.112)	(5.250)	<b>(9.362)</b>
Share of profit from associates and joint ventures	1.606	-	<b>1.606</b>
<b>Profit/(loss) before tax</b>	<b>95.828</b>	<b>(19.891)</b>	<b>75.937</b>
Income tax	(12.453)	(1.242)	<b>(13.695)</b>
<b>Profit/(loss) after tax</b>	<b>83.375</b>	<b>(21.133)</b>	<b>62.242</b>
Non-controlling interests - profit	(5.870)	-	<b>(5.870)</b>
<b>Profit/(loss) after tax attributable to the owners of the Company</b>	<b>77.505</b>	<b>(21.133)</b>	<b>56.372</b>

**6. Segmental analysis (continued)**

*Continuing operations (continued)*

	Cyprus	Other countries	Total continuing operations
<b>Six months ended 30 June 2015 (represented)</b>	€000	€000	€000
Net interest income	410.900	27.686	<b>438.586</b>
Net fee and commission income	75.697	3.420	<b>79.117</b>
Net foreign exchange gains	19.689	3.603	<b>23.292</b>
Net gains on financial instrument transactions	28.567	150	<b>28.717</b>
Insurance income net of claims and commissions	19.939	330	<b>20.269</b>
Losses from revaluation and disposal of investment properties	(4.357)	(19.027)	<b>(23.384)</b>
Gains/(losses) on disposal of stock of property	281	(38)	<b>243</b>
Other income	2.806	6.040	<b>8.846</b>
	<b>553.522</b>	<b>22.164</b>	<b>575.686</b>
Staff costs	(109.542)	(8.475)	<b>(118.017)</b>
Other operating expenses	(67.865)	(8.083)	<b>(75.948)</b>
Other operating expenses – advisory and other restructuring costs (Note 15)	(18.086)	(3.367)	<b>(21.453)</b>
	<b>358.029</b>	<b>2.239</b>	<b>360.268</b>
Gain on derecognition of loans and advances to customers and changes in expected cash flows	228.911	1.128	<b>230.039</b>
Provisions for impairment of loans and advances to customers and other customer credit losses	(409.818)	(54.108)	<b>(463.926)</b>
Impairment of other financial instruments	(20.031)	(11.137)	<b>(31.168)</b>
Share of profit from associates and joint ventures	3.438	-	<b>3.438</b>
<b>Profit/(loss) before tax</b>	<b>160.529</b>	<b>(61.878)</b>	<b>98.651</b>
Income tax	(10.995)	520	<b>(10.475)</b>
<b>Profit/(loss) after tax</b>	<b>149.534</b>	<b>(61.358)</b>	<b>88.176</b>
Non-controlling interests – (profit)/loss	(225)	1.374	<b>1.149</b>
<b>Profit/(loss) after tax attributable to the owners of the Company</b>	<b>149.309</b>	<b>(59.984)</b>	<b>89.325</b>

6. Segmental analysis (continued)

*Discontinued operations*

	Russia	Subsidiary acquired with the view to sale	Total discontinued operations
<b>Six months ended 30 June 2015 (represented)</b>	€000	€000	€000
Net interest income	11.540	-	<b>11.540</b>
Net fee and commission income	5.355	-	<b>5.355</b>
Net foreign exchange gains	1.050	-	<b>1.050</b>
Losses from revaluation and disposal of investment properties	(178)	-	<b>(178)</b>
Losses on disposal of stock of property	(47)	-	<b>(47)</b>
Other income	731	9.929	<b>10.660</b>
	18.451	9.929	<b>28.380</b>
Staff costs	(12.120)	(3.173)	<b>(15.293)</b>
Other operating expenses	(12.562)	(4.931)	<b>(17.493)</b>
	<b>(6.231)</b>	<b>1.825</b>	<b>(4.406)</b>
Provisions for impairment of loans and advances to customers and other customer credit losses	(29.464)	-	<b>(29.464)</b>
Impairment upon re-measurement of disposal group at fair value less costs to sell	(2.215)	-	<b>(2.215)</b>
<b>(Loss)/profit before tax</b>	<b>(37.910)</b>	<b>1.825</b>	<b>(36.085)</b>
Income tax	(182)	-	<b>(182)</b>
<b>(Loss)/profit after tax</b>	<b>(38.092)</b>	<b>1.825</b>	<b>(36.267)</b>
Non-controlling interests – loss/(profit)	7.618	(456)	<b>7.162</b>
<b>(Loss)/profit after tax attributable to the owners of the Company</b>	<b>(30.474)</b>	<b>1.369</b>	<b>(29.105)</b>



**6. Segmental analysis (continued)**

**Analysis of total revenue**

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

*Continuing operations*

	Cyprus	Other countries	Total continuing operations
<b>Six months ended 30 June 2016</b>	€000	€000	€000
Banking and financial services	469.414	46.091	<b>515.505</b>
Insurance services	23.088	55	<b>23.143</b>
Property and hotel business	3.867	-	<b>3.867</b>
Total revenue from third parties	496.369	46.146	<b>542.515</b>
Inter-segment revenue/(expense)	7.429	(7.429)	-
<b>Total revenue</b>	<b>503.798</b>	<b>38.717</b>	<b>542.515</b>

<b>Six months ended 30 June 2015 (represented)</b>			
Banking and financial services	525.112	29.401	<b>554.513</b>
Insurance services	19.312	427	<b>19.739</b>
Property and hotel business	518	(38)	<b>480</b>
Total revenue from third parties	544.942	29.790	<b>574.732</b>
Inter-segment revenue/(expense)	8.580	(7.626)	<b>954</b>
<b>Total revenue</b>	<b>553.522</b>	<b>22.164</b>	<b>575.686</b>

*Discontinued operations*

	Russia	Subsidiary acquired with the view to sale	Total discontinued operations
<b>Six months ended 30 June 2015 (represented)</b>	€000	€000	€000
Banking and financial services	19.405	-	<b>19.405</b>
Property and hotel business	-	9.929	<b>9.929</b>
Total revenue from third parties	19.405	9.929	<b>29.334</b>
Inter-segment expenses	(954)	-	<b>(954)</b>
<b>Total revenue</b>	<b>18.451</b>	<b>9.929</b>	<b>28.380</b>

## 6. Segmental analysis (continued)

### Analysis of assets

	Cyprus	Other countries	Total
<b>30 June 2016</b>	€000	€000	€000
<b>Assets</b>	21.270.964	2.571.815	<b>23.842.779</b>
Inter-segment assets			<b>(1.163.113)</b>
<b>Total assets</b>			<b>22.679.666</b>

<b>31 December 2015</b>			
<b>Assets</b>	21.666.656	2.746.202	<b>24.412.858</b>
Inter-segment assets			<b>(1.142.357)</b>
<b>Total assets</b>			<b>23.270.501</b>

### Analysis of liabilities

	Cyprus	Other countries	Total
<b>30 June 2016</b>	€000	€000	€000
<b>Liabilities</b>	18.192.911	2.555.973	<b>20.748.884</b>
Inter-segment liabilities			<b>(1.165.210)</b>
<b>Total liabilities</b>			<b>19.583.674</b>

<b>31 December 2015</b>			
<b>Liabilities</b>	18.665.209	2.672.612	<b>21.337.821</b>
Inter-segment liabilities			<b>(1.144.651)</b>
<b>Total liabilities</b>			<b>20.193.170</b>

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

### Analysis by business line

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

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

The business line 'Other' includes Group and head office functions such as treasury, finance, risk management, compliance, legal, corporate affairs and human resources. Head office functions provide services to the operating segments. From 2016 onwards, following the establishment of REMU in December 2015 (Note 27) real estate management results are also presented as a separate business line, as REMU is considered a separate operating segment and reported as such to management. No comparative information has been disclosed for the results of this new business line as this was only set up in December 2015.

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6. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	REMU	Insurance	Other	Total Cyprus
<b>Six months ended 30 June 2016</b>	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income/(expense)	39.099	32.459	126.092	114.361	31.405	3.631	(4.982)	199	(5.824)	<b>336.440</b>
Net fee and commission income/(expense)	4.639	4.231	22.168	6.499	24.971	1.090	-	(2.140)	9.054	<b>70.512</b>
Total other operating income/(expense)	350	284	2.114	302	3.473	2.022	(3.111)	25.029	66.383	<b>96.846</b>
	44.088	36.974	150.374	121.162	59.849	6.743	(8.093)	23.088	69.613	<b>503.798</b>
Staff costs and other operating expenses	(5.286)	(5.958)	(59.799)	(17.634)	(12.986)	(2.538)	(4.888)	(7.007)	(64.507)	<b>(180.603)</b>
Restructuring costs – voluntary exit plan	(968)	(1.139)	(22.930)	(8.237)	(4.468)	(224)	(97)	(3.230)	(21.120)	<b>(62.413)</b>
Restructuring costs – other operating expenses	(16)	(3)	(54)	(6.047)	(44)	(3)	(1.857)	-	(15.642)	<b>(23.666)</b>
	37.818	29.874	67.591	89.244	42.351	3.978	(14.935)	12.851	(31.656)	<b>237.116</b>
Gain/(loss) on derecognition of loans and advances to customers and changes in expected cash flows	3.342	2.184	6.019	9.622	1.731	868	-	-	(1.629)	<b>22.137</b>
Reversal of provisions/(provisions) for impairment of loans and advances to customers and other customer credit losses	8.049	(19.789)	21.706	(157.815)	329	(1.081)	-	-	577	<b>(148.024)</b>
Impairment of other financial instruments	-	-	-	-	-	-	-	-	(12.895)	<b>(12.895)</b>
Impairment of non-financial instruments	-	-	-	-	-	-	(3.726)	-	(386)	<b>(4.112)</b>
Share of profit from associates and joint ventures	-	-	-	-	-	-	-	-	1.606	<b>1.606</b>
<b>Profit/(loss) before tax</b>	<b>49.209</b>	<b>12.269</b>	<b>95.316</b>	<b>(58.949)</b>	<b>44.411</b>	<b>3.765</b>	<b>(18.661)</b>	<b>12.851</b>	<b>(44.383)</b>	<b>95.828</b>
Income tax	(6.151)	(1.534)	(11.914)	7.369	(5.551)	(471)	2.333	(1.390)	4.856	<b>(12.453)</b>
<b>Profit/(loss) after tax</b>	<b>43.058</b>	<b>10.735</b>	<b>83.402</b>	<b>(51.580)</b>	<b>38.860</b>	<b>3.294</b>	<b>(16.328)</b>	<b>11.461</b>	<b>(39.527)</b>	<b>83.375</b>
Non-controlling interests - profit	-	-	-	-	-	-	-	-	(5.870)	<b>(5.870)</b>
<b>Profit/(loss) after tax attributable to the owners of the Company</b>	<b>43.058</b>	<b>10.735</b>	<b>83.402</b>	<b>(51.580)</b>	<b>38.860</b>	<b>3.294</b>	<b>(16.328)</b>	<b>11.461</b>	<b>(45.397)</b>	<b>77.505</b>

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

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6. Segmental analysis (continued)

Analysis by business line (continued)

	Corporate	Small and medium-sized enterprises	Retail	Restructuring and recoveries	International banking services	Wealth management	Insurance	Other	Total Cyprus
Six months ended 30 June 2015 (represented)	€000	€000	€000	€000	€000	€000	€000	€000	€000
Net interest income	33.350	32.484	114.103	166.377	30.185	2.910	366	31.125	410.900
Net fee and commission income/(expense)	3.868	4.550	27.252	7.133	27.090	939	(1.430)	6.295	75.697
Total other operating income	333	307	2.208	149	3.478	1.812	20.376	38.262	66.925
	37.551	37.341	143.563	173.659	60.753	5.661	19.312	75.682	553.522
Staff costs and other operating expenses	(5.206)	(6.115)	(58.789)	(17.682)	(8.896)	(2.441)	(7.784)	(70.494)	(177.407)
Restructuring costs	-	-	-	-	-	-	-	(18.086)	(18.086)
	32.345	31.226	84.774	155.977	51.857	3.220	11.528	(12.898)	358.029
Gain on derecognition of loans and advances to customers and changes in expected cash flows	28.597	24.218	50.377	114.649	2.245	1.460	-	7.365	228.911
(Provisions)/reversal of provisions for impairment of loans and advances to customers and other customer credit losses	(14.614)	599	(4.670)	(392.038)	(16)	(68)	-	989	(409.818)
Impairment of other financial instruments	-	-	-	-	-	-	-	(20.031)	(20.031)
Share of profit from associates and joint ventures	-	-	-	-	-	-	-	3.438	3.438
<b>Profit/(loss) before tax</b>	46.328	56.043	130.481	(121.412)	54.086	4.612	11.528	(21.137)	160.529
Income tax	(5.791)	(7.005)	(16.310)	15.177	(6.761)	(576)	(1.503)	11.774	(10.995)
<b>Profit/(loss) after tax</b>	40.537	49.038	114.171	(106.235)	47.325	4.036	10.025	(9.363)	149.534
Non-controlling interests - profit	-	-	-	-	-	-	-	(225)	(225)
<b>Profit/(loss) after tax attributable to the owners of the Company</b>	40.537	49.038	114.171	(106.235)	47.325	4.036	10.025	(9.588)	149.309

**7. Interest income**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Loans and advances to customers	<b>447.326</b>	524.544	<b>216.771</b>	259.066
Loans and advances to banks and central banks	<b>4.499</b>	(5.683)	<b>3.170</b>	(6.804)
Investments available-for-sale	<b>5.237</b>	7.863	<b>2.469</b>	3.911
Investments classified as loans and receivables	<b>7.842</b>	60.831	<b>3.653</b>	27.906
	<b>464.904</b>	587.555	<b>226.063</b>	284.079
Trading investments	-	71	-	-
Derivative financial instruments	<b>2.386</b>	3.121	<b>1.397</b>	1.766
Other investments at fair value through profit or loss	<b>368</b>	368	<b>185</b>	185
	<b>467.658</b>	591.115	<b>227.645</b>	286.030

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances as defined in Note 43 amounting to €102.377 thousand for the six months ended 30 June 2016 (six months ended 30 June 2015: €116.435 thousand) and €33.048 thousand for the three months ended 30 June 2016 (three months ended 30 June 2015: €53.547 thousand).

**8. Interest expense**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Customer deposits	<b>68.337</b>	82.148	<b>33.864</b>	38.221
Funding from central banks and deposits by banks	<b>28.474</b>	51.879	<b>12.501</b>	26.582
Repurchase agreements	<b>2.197</b>	5.721	<b>1.468</b>	2.861
	<b>99.008</b>	139.748	<b>47.833</b>	67.664
Derivative financial instruments	<b>8.188</b>	12.781	<b>4.143</b>	6.575
	<b>107.196</b>	152.529	<b>51.976</b>	74.239

**9. Fee and commission income and expense**

**Fee and commission income**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Credit-related fees and commissions	<b>35.149</b>	44.432	<b>18.181</b>	18.709
Other banking commissions	<b>32.429</b>	31.560	<b>17.061</b>	15.446
Mutual funds and asset management fees	<b>1.332</b>	1.146	<b>703</b>	736
Brokerage commissions	<b>439</b>	626	<b>253</b>	360
Other commissions	<b>9.063</b>	5.494	<b>4.416</b>	3.048
	<b>78.412</b>	83.258	<b>40.614</b>	38.299

Mutual funds and asset management fees include income of €1.218 thousand for the six months ended 30 June 2016 (six months ended 30 June 2015: €979 thousand) relating to fiduciary and other similar activities and €669 thousand for the three months ended 30 June 2016 (three months ended 30 June 2015: €647 thousand).

**9. Fee and commission income and expense (continued)**

**Fee and commission expense**

	<b>Six months ended 30 June</b>		<b>Three months ended 30 June</b>	
	<b>2016</b>	2015 (represented)	<b>2016</b>	2015 (represented)
	<b>€000</b>	€000	<b>€000</b>	€000
Banking commissions	<b>4.333</b>	3.962	<b>2.583</b>	2.386
Mutual funds and asset management fees	<b>94</b>	97	<b>50</b>	53
Brokerage commissions	<b>117</b>	82	<b>79</b>	42
	<b>4.544</b>	4.141	<b>2.712</b>	2.481

**10. Net foreign exchange gains**

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

**11. Net gains on financial instrument transactions**

	<b>Six months ended 30 June</b>		<b>Three months ended 30 June</b>	
	<b>2016</b>	2015 (represented)	<b>2016</b>	2015 (represented)
	<b>€000</b>	€000	<b>€000</b>	€000
Trading portfolio:				
- equity securities	<b>(316)</b>	676	53	(151)
- debt securities	<b>7</b>	11	6	3
- derivative financial instruments	<b>870</b>	(13.522)	577	(11.975)
Other investments at fair value through profit or loss:				
- debt securities	<b>(236)</b>	401	(123)	350
- equity securities	<b>377</b>	(118)	(13)	(68)
Net gains/(losses) on disposal of available-for-sale investments:				
- equity securities	<b>58.330</b>	944	58.318	944
- debt securities	<b>18</b>	(12)	-	(1)
Net gains on disposal/repayment of loans and receivables:				
- debt securities	<b>43</b>	30.820	43	30.820
Realised (losses)/gains on disposal of loans	<b>(690)</b>	-	(153)	99
Revaluation of financial instruments designated as fair value hedges:				
- hedging instruments	<b>(3.818)</b>	8.603	(656)	6.893
- hedged items	<b>3.853</b>	(9.148)	363	(7.011)
Loss on dissolution of subsidiaries (Note 49)	<b>(1.049)</b>	-	(371)	-
Gain on disposal of joint venture	<b>-</b>	10.062	-	10.062
	<b>57.389</b>	28.717	58.044	29.965

**11. Net gains on financial instrument transactions (continued)**

The gain on disposal of available-for-sale equity securities relates mainly to gain on sale of shares held in Visa Europe Ltd following the approved purchase of Visa Europe Limited by Visa Inc.

In the comparative period, the gain on disposal of joint venture related mainly to the disposal of Marfin Diversified Strategy Fund Plc (MDSF) in April 2015 and represented the recycling of the related foreign currency reserves into the consolidated income statement. In addition, the gain on disposal of debt securities classified as loans and receivables relates to the earlier than expected partial repayment of a Cyprus Government Bond.

**12. Insurance income net of claims and commissions**

	2016			2015		
	Income	Claims and commissions	Insurance income net of claims and commissions	Income	Claims and commissions	Insurance income net of claims and commissions
<b>Six months ended 30 June</b>	€000	€000	€000	€000	€000	€000
Life insurance business	47.887	(34.573)	13.314	48.862	(40.538)	8.324
General insurance business	19.263	(7.944)	11.319	19.433	(7.488)	11.945
	67.150	(42.517)	24.633	68.295	(48.026)	20.269

<b>Three months ended 30 June</b>						
Life insurance business	25.003	(19.721)	5.282	1.943	(140)	1.803
General insurance business	9.638	(3.880)	5.758	9.800	(3.221)	6.579
	34.641	(23.601)	11.040	11.743	(3.361)	8.382

	Six months ended 30 June			
	2016		2015	
	Life insurance	General insurance	Life insurance	General insurance
<b>Income</b>	€000	€000	€000	€000
Gross premiums	41.826	32.142	42.335	38.209
Reinsurance premiums	(7.489)	(15.783)	(7.318)	(23.861)
Net premiums	34.337	16.359	35.017	14.348
Change in the provision for unearned premiums	-	(1.531)	-	190
Total net earned premiums	34.337	14.828	35.017	14.538
Investment income and other income	10.611	3	11.711	14
Commissions from reinsurers and other income	2.087	4.432	1.616	4.881
	47.035	19.263	48.344	19.433
Change in value of in-force business before tax (Note 26)	852	-	518	-
	47.887	19.263	48.862	19.433

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

	Three months ended 30 June			
	2016		2015	
	Life insurance	General insurance	Life insurance	General insurance
Income	€000	€000	€000	€000
Gross premiums	20.801	18.477	21.279	24.831
Reinsurance premiums	(3.793)	(10.241)	(3.735)	(17.781)
Net premiums	17.008	8.236	17.544	7.050
Change in the provision for unearned premiums	-	(724)	-	281
Total net earned premiums	17.008	7.512	17.544	7.331
Investment related and other income/(expenses)	10.778	1	(14.318)	10
Commissions from reinsurers and other income	1.167	2.125	923	2.459
	28.953	9.638	4.149	9.800
Change in value of in-force business before tax	(3.950)	-	(2.206)	-
	25.003	9.638	1.943	9.800

	Six months ended 30 June			
	2016		2015	
	Life insurance	General insurance	Life insurance	General insurance
Claims and commissions	€000	€000	€000	€000
Gross payments to policyholders	(29.821)	(12.480)	(35.158)	(13.184)
Reinsurers' share of payments to policyholders	3.975	5.672	5.847	6.078
Gross change in insurance contract liabilities	(3.805)	2.090	(4.403)	1.002
Reinsurers' share of gross change in insurance contract liabilities	(804)	(1.382)	(2.761)	(182)
Commissions paid to agents and other direct selling costs	(4.118)	(1.844)	(4.063)	(1.202)
	(34.573)	(7.944)	(40.538)	(7.488)

	Three months ended 30 June			
	2016		2015	
	Life insurance	General insurance	Life insurance	General insurance
Claims and commissions	€000	€000	€000	€000
Gross payments to policyholders	(12.904)	(5.114)	(16.984)	(7.682)
Reinsurers' share of payments to policyholders	1.264	1.936	1.999	3.964
Gross change in insurance contract liabilities	(6.568)	(24)	17.958	2.251
Reinsurers' share of gross change in insurance contract liabilities	550	187	(1.051)	(1.791)
Commissions paid to agents and other direct selling costs	(2.063)	(865)	(2.062)	37
	(19.721)	(3.880)	(140)	(3.221)



**12. 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 relevant captions of the consolidated income statement:

	Six months ended 30 June			
	2016		2015	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Net expense from non-linked insurance business assets	(410)	(1.463)	(332)	(630)
Net gains/(losses) on financial instrument transactions and other non-linked insurance business income	341	52	(23)	18
Staff costs	(4.302)	(3.553)	(2.418)	(2.613)
Other operating expenses	(1.568)	(1.047)	(1.841)	(1.229)

	Three months ended 30 June			
	2016		2015	
	Life insurance	General insurance	Life insurance	General insurance
	€000	€000	€000	€000
Net expense from non-linked insurance business assets	(279)	(755)	(188)	(870)
Net gains/(losses) on financial instrument transactions and other non-linked insurance business income	169	1	(20)	22
Staff costs	(3.019)	(2.337)	(1.209)	(1.325)
Other operating expenses	(781)	(592)	(1.031)	(708)

**13. Other income**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Profit on disposal of disposal group held for sale (Notes 29 and 50.2.1)	2.545	-	2.545	-
Dividend income	119	273	92	145
Profit/(loss) on sale and write-off of property and equipment and intangible assets	38	48	(42)	(1)
Rental income from investment properties	1.674	573	627	162
Profit from hotel activities	396	500	523	588
Other income	2.805	7.452	1.986	5.268
	7.577	8.846	5.731	6.162

**14. Staff costs**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Salaries	<b>95.093</b>	93.744	<b>47.819</b>	47.025
Employer's contributions to state social insurance and pension funds	<b>13.985</b>	12.590	<b>6.881</b>	6.112
Retirement benefit plan costs	<b>7.788</b>	11.683	<b>3.886</b>	5.765
	<b>116.866</b>	118.017	<b>58.586</b>	58.902
Restructuring costs – voluntary exit plan	<b>62.413</b>	-	<b>56.610</b>	-
	<b>179.279</b>	118.017	<b>115.196</b>	58.902

The number of persons employed by the Group as at 30 June 2016 was 4.279 (31 December 2015: 4.605, 30 June 2015: 6.668, which include employees of Russian operations disposed in September 2015). In February and June 2016 the Group proceeded with voluntary exit plans for its employees in Cyprus, the cost of which is included in staff costs and amounted to €62.413 thousand. During the six months ended 30 June 2016, 358 employees left the Group under the voluntary exit plan.

**Retirement benefit plan costs**

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

	Six months ended 30 June		Three months ended 30 June	
	2016	2015	2016	2015
	€000	€000	€000	€000
Defined benefit plans	<b>253</b>	901	<b>125</b>	420
Defined contribution plans	<b>7.535</b>	10.782	<b>3.761</b>	5.345
	<b>7.788</b>	11.683	<b>3.886</b>	5.765

*Cyprus*

The main retirement plan for the Group's permanent employees in Cyprus (87% of total Group employees) is a defined contribution plan. This plan provided for employer contributions of 9% (corresponding period 2015: up until 31 May 2015 14% and 9% thereafter) and employee contributions of 3%-10% of the employees' gross salaries. This plan is managed by a Committee appointed by the members.

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

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

*Greece*

As part of the disposal of the Greek operations in 2013, the staff and the related obligations under the defined benefit plan in Greece were transferred to Piraeus Bank. All employees were entitled by law to compensation in case of dismissal or a lump sum payment upon normal retirement, at rates specified in the Greek legislation. All the benefits payable under this defined benefit plan were paid out of the Group's assets because this plan is unfunded. A small number of employees of the Group's Greek subsidiaries continue to be members of the defined benefit plans.

**14. Staff costs (continued)**

**Retirement benefit plan costs (continued)**

*United Kingdom*

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

*Other countries*

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

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

	<b>30 June 2016</b>	31 December 2015
<b>Amounts recognised in the consolidated balance sheet</b>	<b>€000</b>	<b>€000</b>
Liabilities (Note 33)	<b>24.157</b>	12.588
Assets (Note 28)	<b>(725)</b>	(1.203)
	<b>23.432</b>	11.385

One of the plans has a funded status surplus of €12.366 thousand (31 December 2015: €15.065 thousand) that is not recognised as an asset on the basis that the Group has no unconditional right to future economic benefits either via a refund or a reduction in future contributions.

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

**14. Staff costs (continued)**

**Retirement benefit plan costs (continued)**

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

	Present value of obligation	Fair value of plan assets	Net amount before impact of asset ceiling	Impact of minimum funding requirement/ asset ceiling	Net defined benefit liability
	€000	€000	€000	€000	€000
<b>1 January 2016</b>	94.115	(97.795)	(3.680)	15.065	<b>11.385</b>
Current service cost	234	-	234	-	<b>234</b>
Net interest expense/(income)	1.520	(1.501)	19	-	<b>19</b>
<b>Total amount recognised in the consolidated income statement</b>	<b>1.754</b>	<b>(1.501)</b>	<b>253</b>	<b>-</b>	<b>253</b>
Remeasurements:					
- Return on plan assets, excluding amounts included in net interest expense	-	(2.494)	(2.494)	-	<b>(2.494)</b>
- Actuarial loss from changes in financial assumptions	20.336	-	20.336	-	<b>20.336</b>
- Change in asset ceiling	-	-	-	(2.699)	<b>(2.699)</b>
<b>Total amount recognised in the consolidated OCI</b>	<b>20.336</b>	<b>(2.494)</b>	<b>17.842</b>	<b>(2.699)</b>	<b>15.143</b>
Exchange differences	(8.611)	6.446	(2.165)	-	<b>(2.165)</b>
Contributions:					
- Employer	-	(1.135)	(1.135)	-	<b>(1.135)</b>
- Plan participants	85	(85)	-	-	<b>-</b>
Benefits paid from the plans	(2.449)	2.449	-	-	<b>-</b>
Benefits paid directly by the employer	(49)	-	(49)	-	<b>(49)</b>
<b>30 June 2016</b>	<b>105.181</b>	<b>(94.115)</b>	<b>11.066</b>	<b>12.366</b>	<b>23.432</b>

14. Staff costs (continued)

Retirement benefit plan costs (continued)

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

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

#### 14. Staff costs (continued)

##### Retirement benefit plan costs (continued)

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

The actual return on plan assets for the period 30 June 2016 was a gain of €3.995 thousand (31 December 2015: gain of €423 thousand).

The assets of funded plans are generally held in separately administered trusts, either as specific assets or as a proportion of a general fund, or as insurance contracts. Plan assets held in trust 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:

	30 June 2016	31 December 2015
Equity securities	43%	43%
Debt securities	46%	46%
Loans and advances to banks	11%	11%
	100%	100%

The assets held by the funded plans include equity securities issued by the Company, the fair value of which is as at 30 June 2016 €2.573 thousand (31 December 2015: €2.412 thousand).

The Group expects to make additional contributions to defined benefit plans of €2.384 thousand during the next year.

At the end of the reporting period, the average duration of the defined benefit obligation was 17,9 years.

#### 14. Staff costs (continued)

##### Retirement benefit plan costs (continued)

###### *Principal actuarial assumptions used in the actuarial valuations*

The present value of the defined benefit obligations of the retirement plans is estimated annually using the Projected Unit Credit Method of actuarial valuation, carried out by independent actuaries. The principal actuarial assumptions used for the valuations of the retirement plans of the Group during the six months ended 30 June 2016 and the year 2015 are set out below:

Six months ended 30 June 2016	Cyprus	Greece	UK
Discount rate	1,23%-1,38%	1,47%	2,90%
Inflation rate	1,75%	1,75%	3,10%
Future salary increases	0% for 2016 and 2% thereafter	0% for 2016 and 2% thereafter	N/a
Rate of pension increase	0% for 2016 and 2% thereafter	N/a	3,05%
Life expectancy for pensioners at age 60	23,5 years M 29,6 years F	N/a	N/a
Life expectancy for pensioners at age 65	N/a	N/a	23,9 years M 25,4 years F

Year ended 31 December 2015			
Discount rate	2,21%-2,32%	2,30%-2,80%	3,90%
Inflation rate	1,75%	1,75%	3,10%
Future salary increases	0% for 2016 and 2% thereafter	0% for 2016 and 2% thereafter	N/a
Rate of pension increase	0% for 2016 and 2% thereafter	N/a	3,05%
Life expectancy for pensioners at age 60	23,5 years M 29,6 years F	N/a	N/a
Life expectancy for pensioners at age 65	N/a	N/a	23,9 years M 25,4 years F

The discount rate used in the actuarial valuations reflects the rate at which liabilities could effectively be settled and is set by reference to market yields at the reporting date in high quality corporate bonds of suitable maturity and currency. For the Group's plans in the Eurozone (Cyprus and Greece) which comprise 40% 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 60% of the defined benefit obligations, the Group adopted a full yield curve approach using the discount rate that has been set based on the yields on AA- rated corporate bonds with duration consistent with the scheme's liabilities. Under this approach, each future liability payment is discounted by a different discount rate that reflects its exact timing.

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

A quantitative sensitivity analysis for significant assumptions as at 30 June 2016 and 31 December 2015 is presented below.



**14. Staff costs (continued)**

**Retirement benefit plan costs (continued)**

*Principal actuarial assumptions used in the actuarial valuations (continued)*

Variable	30 June 2016		31 December 2015	
	Change +0,5%	Change -0,5%	Change +0,5%	Change -0,5%
Discount rate	-8,2%	9,1%	-8,2%	9,1%
Inflation growth rate	5,7%	-5,4%	5,7%	-5,4%
Salary growth rate	0,5%	-0,2%	0,5%	-0,2%
Pension growth rate	0,8%	-0,8%	0,8%	-0,8%
	Plus 1 year	Minus 1 year	Plus 1 year	Minus 1 year
Life expectancy	-1,2%	1,6%	-1,2%	1,6%

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

**15. Other operating expenses**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Repairs and maintenance of property and equipment	14.000	10.569	6.808	4.491
Other property-related costs	6.182	5.302	3.432	2.977
Operating lease rentals for property and equipment	4.837	5.219	2.435	2.774
Special levy on deposits of credit institutions in Cyprus	9.581	8.508	4.800	4.254
Consultancy and other professional services fees	4.326	7.528	2.485	3.066
Insurance	5.732	7.263	2.278	3.840
Advertising and marketing	8.104	2.994	4.706	(314)
Depreciation of property and equipment (Note 25)	5.788	6.159	3.143	3.128
Amortisation of intangible assets (Note 26)	3.506	3.426	1.769	1.735
Communication expenses	3.551	3.515	1.705	1.905
(Reversal)/provisions and settlements of litigations or claims (Note 33)	(191)	2.004	1.531	1.910
Printing and stationery	1.690	1.956	852	936
Local cash transfer expenses	1.406	1.323	589	656
Contribution to depositor protection scheme	24	245	-	141
Other operating expenses	16.061	9.937	7.734	1.521
	84.597	75.948	44.267	33.020
Advisory and other restructuring costs	24.959	21.453	13.339	13.233
	109.556	97.401	57.606	46.253

**15. Other operating expenses (continued)**

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, (ii) the contemplated listing on the London stock exchange and (iii) disposal of operations and non-core assets.

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

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Gain on derecognition of loans and advances to customers and changes in expected cash flows	<b>(22.166)</b>	(230.039)	<b>(37.607)</b>	(187.033)

<i>Provisions net of reversals of provisions for impairment of loans and advances to customers and other customer credit losses</i>				
Loans and advances to customers (Note 43)	<b>179.758</b>	467.110	<b>135.715</b>	291.708
Financial guarantees and commitments (Note 33)	<b>167</b>	(3.184)	<b>(2.682)</b>	18.773
	<b>179.925</b>	463.926	<b>133.033</b>	310.481

<i>Impairment/(reversal of impairment) of other financial instruments</i>				
Available-for-sale equity securities	<b>530</b>	1.228	<b>21</b>	881
Available-for-sale mutual funds	<b>56</b>	795	<b>1</b>	297
Loans and receivables-debt securities	-	(167)	-	2
Loans and advances to banks	<b>13.820</b>	13.470	<b>13.820</b>	13.470
Other receivables	<b>(2.625)</b>	15.842	<b>(2.590)</b>	15.705
Deposits by banks	<b>447</b>	-	-	-
	<b>12.228</b>	31.168	<b>11.252</b>	30.355

<i>Impairment of non-financial instruments</i>				
Stock of property (Note 27)	<b>9.362</b>	-	<b>2.359</b>	-

**17. Income tax**

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Current tax:				
- Cyprus	2.063	1.355	1.302	720
- overseas	1.104	757	466	36
Cyprus special defence contribution	31	90	52	75
Deferred tax	5.570	7.461	(942)	1.503
Prior year tax adjustments	2.993	812	2.747	167
Other tax charges	1.934	-	1.934	-
	<b>13.695</b>	10.475	<b>5.559</b>	2.501

The Group had no material share of income tax charge from associates during the period 30 June 2016 and 30 June 2015.

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

	Six months ended 30 June	
	2016	2015
	€000	€000
Profit before tax from continuing operations	75.937	98.651
Income tax at the normal tax rates in Cyprus	9.523	12.421
Income tax effect of:		
- expenses not deductible for income tax purposes	5.730	4.032
- income not subject to income tax	(16.120)	(7.558)
- differences between overseas income tax rates and Cyprus income tax rates	1.930	1.864
- reversal of previously recognised deferred tax/(losses on which deferred tax is not recognised )	7.705	(1.096)
	<b>8.768</b>	9.663
Prior years' income tax adjustments	2.993	812
Other tax charges	1.934	-
	<b>13.695</b>	10.475

Income tax in Cyprus is calculated at the rate of 12,5% on taxable income (30 June 2015: 12,5%).

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

The Group's profits from overseas operations are taxed at the rates prevailing in the respective countries, which for the six months ended 30 June 2016 were: Greece 29% (30 June 2015: 29%), Romania 16% (30 June 2015: 16%), Russia 20% (30 June 2015: 20%), UK 20% (30 June 2015: 21% until 31 March 2015 and 20% thereafter).

**17. Income tax (continued)**

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

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

	<b>Total income tax losses</b>	<b>Income tax losses for which a deferred tax asset was recognised</b>	<b>Income tax losses for which no deferred tax asset was recognised</b>
<b>30 June 2016</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Expiring within 4 years	<b>4.699.781</b>	<b>266.800</b>	<b>4.432.981</b>
Expiring between 5 and 10 years	<b>5.959</b>	<b>-</b>	<b>5.959</b>
Expiring between 11 and 15 years	<b>7.378.801</b>	<b>3.336.000</b>	<b>4.042.801</b>
	<b>12.084.541</b>	<b>3.602.800</b>	<b>8.481.741</b>

  

<b>31 December 2015</b>			
Expiring within 4 years	4.307.396	295.584	4.011.812
Expiring between 5 and 10 years	401.156	-	401.156
Expiring between 11 and 15 years	7.378.801	3.336.000	4.042.801
	12.087.353	3.631.584	8.455.769

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

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

The Group performed its regular assessment regarding the recoverability of its deferred tax asset as at 30 June 2016, taking into account the actual results for the six months ended 30 June 2016 and year ended 31 December 2015, the declining trend of loans that are impaired or past due for more than 90 days, the improved funding structure with the loans to deposits ratio of 110%, the significant inflow of deposits and the decrease of ELA funding.

## 17. Income tax (continued)

The Group performed its assessment for the recoverability of its deferred tax asset as at 30 June 2016 taking into account the Group's actual performance, the key objectives of the Group's strategy as well as the macroeconomic environment in Cyprus, and the analytical financial projections up to the end of 2018 which had been also used to roll out assumptions thereafter until year 2028. The key assumptions, amongst others, include the following:

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

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

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

Based on the above, management has concluded that the deferred tax asset of €451.126 thousand for the Group as at 30 June 2016 is recoverable.

No significant income tax losses of prior years were utilised during the six months ended 30 June 2016 and year 2015.

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

### Deferred tax

The net deferred tax asset arises from:

	30 June 2016	31 December 2015
	€000	€000
Difference between capital allowances and depreciation	7.841	7.773
Property revaluation	17.278	16.658
Investment revaluation and stock of property	3.807	90
Unutilised income tax losses carried forward	(450.350)	(453.948)
Value of in-force life insurance business	14.271	14.271
Other temporary differences	1.238	(568)
<b>Net deferred tax asset</b>	<b>(405.915)</b>	<b>(415.724)</b>

**17. Income tax (continued)**

**Deferred tax (continued)**

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Deferred tax asset	<b>(451.126)</b>	(456.531)
Deferred tax liability	<b>45.211</b>	40.807
<b>Net deferred tax asset</b>	<b>(405.915)</b>	(415.724)

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

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Cyprus	<b>(451.126)</b>	(456.531)
Deferred tax asset	<b>(451.126)</b>	(456.531)
Deferred tax liability	<b>45.211</b>	40.807
<b>Net deferred tax asset</b>	<b>(405.915)</b>	(415.724)

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
1 January	<b>(415.724)</b>	(412.130)
Deferred tax recognised in the consolidated income statement – continuing operations	<b>5.570</b>	7.461
Acquisition of subsidiary (Note 50.1.1)	<b>3.807</b>	-
Deferred tax recognised in the consolidated statement of comprehensive income	<b>21</b>	(178)
Deferred tax transferred from assets held for sale	<b>-</b>	3.220
Foreign exchange adjustments	<b>411</b>	172
<b>30 June</b>	<b>(405.915)</b>	(401.455)

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

**17. Income tax** (continued)

**Deferred tax** (continued)

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Difference between capital allowances and depreciation	<b>256</b>	(90)
Investment revaluation	<b>(90)</b>	(995)
Unutilised income tax losses carried forward	<b>3.598</b>	8.528
Value of in-force life insurance business	-	18
Other temporary differences	<b>1.806</b>	-
	<b>5.570</b>	7.461

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
Timing differences on property revaluation – (expense)/income	<b>(21)</b>	178



18. Earnings per share

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
<b>Basic and diluted earnings per share attributable to the owners of the Company</b>				
Profit for the period attributable to the owners of the Company (€ thousand)	<b>56.372</b>	60.220	<b>6.147</b>	31.696
Weighted average number of shares in issue during the period, excluding treasury shares (thousand)	<b>8.919.162</b>	8.905.652	<b>8.920.531</b>	8.905.652
Basic and diluted earnings per share (€ cent)	<b>0,6</b>	0,7	<b>0,1</b>	0,4

<b>Basic and diluted earnings per share attributable to the owners of the Company – continuing operations</b>				
Profit after tax attributable to the owners of the Company – continuing operations (€ thousand)	<b>56.372</b>	89.325	<b>6.147</b>	42.882
Weighted average number of shares in issue during the period, excluding treasury shares (thousand)	<b>8.919.162</b>	8.905.652	<b>8.920.531</b>	8.905.652
Basic and diluted earnings per share – continuing operations (€ cent)	<b>0,6</b>	1,0	<b>0,1</b>	0,5

<b>Basic and diluted losses per share attributable to the owners of the Company – discontinued operations</b>				
Loss after tax attributable to the owners of the Company – discontinued operations (€ thousand)	-	(29.105)	-	(11.186)
Weighted average number of shares in issue during the period, excluding treasury shares (thousand)	<b>8.919.162</b>	8.905.652	<b>8.920.531</b>	8.905.652
Basic and diluted losses per share – discontinued operations (€ cent)	-	(0,3)	-	(0,1)

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

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
Cash	<b>158.148</b>	154.017
Balances with central banks	<b>1.360.515</b>	1.268.585
Cash and balances with central banks	<b>1.518.663</b>	1.422.602
Loans and advances to banks	<b>1.174.123</b>	1.314.380

Balances with central banks include obligatory deposits for liquidity purposes as at 30 June 2016 which amount to €126.086 thousand (31 December 2015: €122.807 thousand).

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

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

**20. Investments**

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
<b>Investments</b>		
Investments at fair value through profit or loss	<b>50.145</b>	50.785
Investments available-for-sale	<b>54.567</b>	100.535
Investments classified as loans and receivables	<b>211.645</b>	436.935
	<b>316.357</b>	588.255

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

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
<b>Investments pledged as collateral</b>		
Investments available-for-sale	<b>362.291</b>	421.032
Investments classified as loans and receivables	<b>161.095</b>	-
	<b>523.386</b>	421.032

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

**20. Investments (continued)**

**Investments at fair value through profit or loss**

	Trading investments		Other investments at fair value through profit or loss		Total	
	30 June 2016	31 December 2015	30 June 2016	31 December 2015	30 June 2016	31 December 2015
	€000	€000	€000	€000	€000	€000
Debt securities	321	317	17.187	17.430	17.508	17.747
Equity securities	3.270	3.832	4.350	4.018	7.620	7.850
Mutual funds	8.989	9.205	16.028	15.983	25.017	25.188
	12.580	13.354	37.565	37.431	50.145	50.785

<b>Debt securities</b>						
Cyprus government	320	316	17.187	17.430	17.507	17.746
Banks and other corporations	1	1	-	-	1	1
	321	317	17.187	17.430	17.508	17.747
Listed on the Cyprus Stock Exchange	1	1	17.187	17.430	17.188	17.431
Listed on other stock exchanges	320	316	-	-	320	316
	321	317	17.187	17.430	17.508	17.747

<b>Equity securities</b>						
Listed on the Cyprus Stock Exchange	2.877	3.384	3.582	3.310	6.459	6.694
Listed on other stock exchanges	393	448	-	-	393	448
Unlisted	-	-	768	708	768	708
	3.270	3.832	4.350	4.018	7.620	7.850

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

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

**20. Investments (continued)**

**Investments available-for-sale**

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Debt securities	<b>400.787</b>	461.934
Equity securities	<b>15.802</b>	59.292
Mutual funds	<b>269</b>	341
	<b>416.858</b>	521.567

<b>Debt securities</b>		
Cyprus government	<b>4.479</b>	4.478
French government	<b>293.500</b>	290.205
Other governments	<b>68.858</b>	130.832
Banks and other corporations	<b>33.950</b>	36.419
	<b>400.787</b>	461.934
Listed on the Cyprus Stock Exchange	<b>4.479</b>	4.478
Listed on other stock exchanges	<b>396.308</b>	457.456
	<b>400.787</b>	461.934
<i>Geographic dispersion by country of issuer</i>		
Cyprus	<b>4.479</b>	4.478
France	<b>293.500</b>	290.205
Germany	<b>45.631</b>	45.686
Italy	<b>23.227</b>	23.234
Other European countries	-	61.912
European Financial Stability Facility and European Investment Fund	<b>12.212</b>	11.928
Supranational organisations	<b>9.675</b>	10.890
Other countries	<b>12.063</b>	13.601
	<b>400.787</b>	461.934

<b>Equity securities</b>		
Listed on the Cyprus Stock Exchange	<b>5.869</b>	5.427
Listed on other stock exchanges	<b>345</b>	271
Unlisted	<b>9.588</b>	53.594
	<b>15.802</b>	59.292

At 30 June 2016 and 31 December 2015 there were no available-for-sale investments in debt securities which have been determined to be individually impaired.

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

**20. Investments (continued)**

**Investments classified as loans and receivables**

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Debt securities	<b>372.740</b>	436.935
Cyprus government	<b>372.740</b>	436.935
Listed on the Cyprus Stock Exchange	<b>372.740</b>	436.935
<i>Geographic dispersion by country of issuer</i>		
Cyprus	<b>372.740</b>	436.935

Loans and receivables at 30 June 2016 include €150.825 thousand (31 December 2015: €146.444 thousand) of debt securities which have been determined to be individually impaired.

**Reclassification of investments**

*Reclassification of trading investments to loans and receivables*

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

*Reclassification of available-for-sale investments to loans and receivables*

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

*Reclassification of held-to-maturity investments to available-for-sale investments*

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

**20. Investments (continued)**

**Reclassification of investments (continued)**

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

	Reclassification date	Carrying and fair value on reclassification date	30 June 2016		31 December 2015		Six months ended 30 June 2016		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the debt securities not been reclassified	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
<b>Reclassification of available-for-sale investments to:</b>									
- loans and receivables	1 October 2008	129.497	123.229	127.131	119.683	126.913	-	3.902	4,6%-4,7%
- loans and receivables	30 June 2011	59.130	68.824	65.481	69.813	66.447	-	(3.343)	2,8%-6,3%
<b>Reclassification of held-to-maturity investments to:</b>									
- available-for-sale	1 November 2012	10.237	10.186	10.186	10.375	10.375	-	-	0,4%-3,1%

**20. Investments (continued)**

**Reclassification of investments (continued)**

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

	Reclassification date	Carrying and fair value on reclassification date	30 June 2015		31 December 2014		Six months ended 30 June 2015		Effective interest rate on reclassification date
			Carrying value	Fair value	Carrying value	Fair value	Additional profit in the income statement had the debt securities not been reclassified	Additional gain/(loss) in other comprehensive income had the debt securities not been reclassified	
		€000	€000	€000	€000	€000	€000	€000	
<b>Reclassification of trading investments to:</b>									
- loans and receivables	1 April 2010	34.810	36.015	35.478	36.722	35.056	422	-	1,2%-4,4%
<b>Reclassification of available-for-sale investments to:</b>									
- loans and receivables	1 October 2008	129.497	131.004	140.482	130.500	130.520	-	9.478	4,6%-4,7%
- loans and receivables	30 June 2011	151.967	166.841	162.244	166.724	157.918	-	(4.597)	2,8%-6,3%
<b>Reclassification of held-to-maturity investments to:</b>									
- available-for-sale	1 November 2012	42.151	41.909	41.909	43.358	43.358	-	-	0,4%-3,1%



## 21. Derivative financial instruments

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

	30 June 2016			31 December 2015		
	Contract amount	Fair value		Contract amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
	€000	€000	€000	€000	€000	€000
<b>Trading derivatives</b>						
Forward exchange rate contracts	23.385	398	299	90.870	1.113	2.103
Currency swaps	1.721.844	9.674	10.636	1.484.763	12.235	5.720
Interest rate swaps	284.671	391	2.113	34.511	141	2.305
Currency options	12.696	123	490	175	8	167
Equity options	-	-	-	1.515	477	441
Interest rate caps/floors	-	2	-	6.562	-	53
	2.042.596	10.588	13.538	1.618.396	13.974	10.789
<b>Derivatives qualifying for hedge accounting</b>						
Fair value hedges - interest rate swaps	370.900	-	45.499	425.900	45	39.570
Net investments – forward exchange rate contracts	175.736	3.715	-	151.246	4	4.040
	546.636	3.715	45.499	577.146	49	43.610
<b>Total</b>	<b>2.589.232</b>	<b>14.303</b>	<b>59.037</b>	<b>2.195.542</b>	<b>14.023</b>	<b>54.399</b>

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

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

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

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

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

**21. Derivative financial instruments (continued)**

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

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

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

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

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

**Hedge accounting**

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

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

*Fair value hedges*

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

*Hedges of net investments*

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

As at 30 June 2016, deposits and forward exchange rate contracts amounting to €164.994 thousand and €175.736 thousand respectively (31 December 2015: €178.101 thousand and €151.246 thousand respectively) have been designated as hedging instruments and have given rise to a gain of €36.286 thousand (corresponding period of 2015: gain of €7.771 thousand; year ended 31 December 2015: loss of €22.860 thousand) which was recognised in the 'Foreign currency translation reserve' in the consolidated statement of comprehensive income, against the profit or loss from the retranslation of the net assets of the overseas subsidiaries and branches.

## 22. Fair value measurement

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

	30 June 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
	€000	€000	€000	€000
<b>Financial assets</b>				
Cash and balances with central banks	1.518.663	1.518.663	1.422.602	1.422.602
Loans and advances to banks	1.174.123	1.137.415	1.314.380	1.303.414
Investments at fair value through profit or loss	50.145	50.145	50.785	50.785
Investments available-for-sale	416.858	416.858	521.567	521.567
Investments classified as loans and receivables	372.740	375.516	436.935	445.521
Derivative financial assets	14.303	14.303	14.023	14.023
Loans and advances to customers	16.253.237	17.151.351	17.191.632	18.150.401
Life insurance business assets attributable to policyholders	467.509	467.509	462.613	462.613
Other assets	160.869	160.869	179.661	179.661
	<b>20.428.447</b>	<b>21.292.629</b>	<b>21.594.198</b>	<b>22.550.587</b>
<b>Financial liabilities</b>				
Obligations to central banks and deposits by banks	3.443.429	3.443.429	4.694.987	4.694.987
Repurchase agreements	398.408	443.254	368.151	406.014
Derivative financial liabilities	59.037	59.037	54.399	54.399
Customer deposits	14.746.473	14.738.239	14.180.681	14.185.996
Debt securities in issue	-	-	712	712
Other liabilities	178.205	178.205	141.357	141.357
	<b>18.825.552</b>	<b>18.862.164</b>	<b>19.440.287</b>	<b>19.483.465</b>

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.

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

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

*Derivative financial instruments*

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

**Credit Valuation adjustments (CVA) and Debit Valuation adjustments (DVA)**

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

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

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

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

*Investments available-for-sale and other investments at fair value through profit or loss*

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

*Loans and advances to customers*

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

*Customer deposits*

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

*Repurchase agreements*

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

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

*Loans and advances to banks*

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

*Deposits by banks*

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

*Investment properties*

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

*Property and equipment*

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

*Model inputs for valuation*

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

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

*Model inputs for valuation (continued)*

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

	Level 1	Level 2	Level 3	Total
30 June 2016	€000	€000	€000	€000
<b>Assets measured at fair value</b>				
<i>Investment properties</i>				
Offices and other commercial properties	-	-	21.871	<b>21.871</b>
Manufacturing and industrial	-	-	1.164	<b>1.164</b>
Land (plots)	-	-	14.470	<b>14.470</b>
	-	-	37.505	<b>37.505</b>
<i>Investment properties held for sale</i>				
Offices and other commercial properties	-	359	3.072	<b>3.431</b>
Hotels	-	-	8.029	<b>8.029</b>
	-	359	11.101	<b>11.460</b>
<i>Freehold property</i>				
Offices and other commercial properties	-	10.847	248.455	<b>259.302</b>
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	398	-	<b>398</b>
Currency swaps	-	9.674	-	<b>9.674</b>
Interest rate swaps	-	391	-	<b>391</b>
Currency options	-	123	-	<b>123</b>
Interest rate caps/floors	-	2	-	<b>2</b>
	-	10.588	-	<b>10.588</b>
<i>Derivatives qualifying for hedge accounting</i>				
Net investments-Forward exchange rate contracts	-	3.715	-	<b>3.715</b>
<i>Investments at fair value through profit or loss</i>				
Trading investments	11.851	-	729	<b>12.580</b>
Other investments at fair value through profit or loss	19.610	17.687	268	<b>37.565</b>
	31.461	17.687	997	<b>50.145</b>
<i>Investments available-for-sale</i>	406.418	41	10.399	<b>416.858</b>
	437.879	43.237	308.457	<b>789.573</b>
<b>Other financial assets not measured at fair value</b>				
Loans and advances to banks	-	1.137.415	-	<b>1.137.415</b>
Loans and receivables - investments	-	365.524	-	<b>365.524</b>
Loans and advances to customers	-	-	17.151.351	<b>17.151.351</b>
	-	1.502.939	17.151.351	<b>18.654.290</b>

For available-for-sale equity securities categorised as Level 3, for an amount €7.862 thousand, a change in the conversion factor by 10% would result in a change in the value of the equity securities by €786 thousand.

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

*Model inputs for valuation (continued)*

	Level 1	Level 2	Level 3	Total
<b>30 June 2016</b>	€000	€000	€000	€000
<b>Liabilities measured at fair value</b>				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	299	-	<b>299</b>
Currency swaps	-	10.636	-	<b>10.636</b>
Interest rate swaps	-	2.113	-	<b>2.113</b>
Currency options	-	490	-	<b>490</b>
	-	13.538	-	<b>13.538</b>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	45.499	-	<b>45.499</b>
	-	59.037	-	<b>59.037</b>
<b>Other financial liabilities not measured at fair value</b>				
Deposits by banks	-	342.762	-	<b>342.762</b>
Repurchase agreements	-	443.254	-	<b>443.254</b>
Customer deposits	-	-	14.738.239	<b>14.738.239</b>
	-	786.016	14.738.239	<b>15.524.255</b>

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

*Model inputs for valuation (continued)*

	Level 1	Level 2	Level 3	Total
<b>31 December 2015</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Assets measured at fair value</b>				
<i>Investment properties</i>				
Offices and other commercial properties	-	-	20.325	<b>20.325</b>
Manufacturing and industrial	-	-	583	<b>583</b>
Land (plots)	-	-	13.720	<b>13.720</b>
	-	-	34.628	<b>34.628</b>
<i>Investment properties held for sale</i>				
Residential	-	2.095	-	<b>2.095</b>
Offices and other commercial properties	-	5.222	6.552	<b>11.774</b>
Hotels	-	-	8.466	<b>8.466</b>
	-	7.317	15.018	<b>22.335</b>
<i>Freehold property</i>				
Offices and other commercial properties	-	12.364	227.945	<b>240.309</b>
<i>Freehold property held for sale</i>				
Hotels	-	-	25.400	<b>25.400</b>
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	1.113	-	<b>1.113</b>
Currency swaps	-	12.235	-	<b>12.235</b>
Interest rate swaps	-	141	-	<b>141</b>
Currency options	-	8	-	<b>8</b>
Equity options	-	477	-	<b>477</b>
	-	13.974	-	<b>13.974</b>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	45	-	<b>45</b>
Net investments-forward exchange rate contracts	-	4	-	<b>4</b>
	-	49	-	<b>49</b>
<i>Investments at fair value through profit or loss</i>				
Trading investments	12.865	-	489	<b>13.354</b>
Other investments at fair value through profit or loss	19.293	17.905	233	<b>37.431</b>
	32.158	17.905	722	<b>50.785</b>
<i>Investments available-for-sale</i>	466.995	41	54.531	<b>521.567</b>
	499.153	51.650	358.244	<b>909.047</b>
<b>Other financial assets not measured at fair value</b>				
Loans and advances to banks	-	1.303.414	-	<b>1.303.414</b>
Loans and receivables - investments	-	424.070	-	<b>424.070</b>
Loans and advances to customers	-	-	18.150.401	<b>18.150.401</b>
	-	1.727.484	18.150.401	<b>19.877.885</b>

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



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

*Model inputs for valuation (continued)*

	Level 1	Level 2	Level 3	Total
<b>31 December 2015</b>	€000	€000	€000	€000
<b>Liabilities measured at fair value</b>				
<i>Trading derivatives</i>				
Forward exchange rate contracts	-	2.103	-	<b>2.103</b>
Currency swaps	-	5.720	-	<b>5.720</b>
Interest rate swaps	-	2.305	-	<b>2.305</b>
Currency options	-	167	-	<b>167</b>
Equity options	-	441	-	<b>441</b>
Interest rate caps/floors	-	53	-	<b>53</b>
	-	10.789	-	<b>10.789</b>
<i>Derivatives qualifying for hedge accounting</i>				
Fair value hedges-interest rate swaps	-	39.570	-	<b>39.570</b>
Net investments-forward exchange rate contracts	-	4.040	-	<b>4.040</b>
	-	43.610	-	<b>43.610</b>
	-	54.399	-	<b>54.399</b>
<b>Other financial liabilities not measured at fair value</b>				
Deposits by banks	-	242.137	-	<b>242.137</b>
Repurchase agreements	-	406.014	-	<b>406.014</b>
Customer deposits	-	-	14.185.996	<b>14.185.996</b>
	-	648.151	14.185.996	<b>14.834.147</b>

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

During the six months ended 30 June 2016 and during the year 2015 there were no significant transfers between Level 1 and Level 2.

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

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

	30 June 2016					31 December 2015				
	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Financial instruments	Investment properties	Investment properties held for sale	Own use properties	Own use properties held for sale	Financial instruments
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1 January	34.628	15.018	227.945	25.400	55.253	488.598	44.566	251.491	25.681	3.688
Additions	755	-	1.324	10	7.863	114.404	1.927	1.456	-	339
Acquisition of subsidiary (Note 50.1.1)	-	-	20.308	-	-	-	-	-	-	-
Disposals and write offs	-	(3.480)	-	(25.410)	(51.263)	(13.923)	(18.238)	(191)	-	(45)
Disposal of Russian operations	-	-	-	-	-	-	(31.051)	-	-	-
Transfer from own use properties to investment properties	-	-	-	-	-	16.782	-	(16.782)	-	-
Transfer to stock of property (Note 27)	-	-	-	-	-	(492.927)	(247)	(541)	-	-
Transfer from non-current assets and disposal group held for sale	-	-	-	-	-	-	-	25.681	(25.681)	-
Transfer to non-current assets and disposal group held for sale	-	-	-	-	-	(21.908)	21.908	(25.400)	25.400	-
Transfers (to)/from Levels 1 and 2	-	-	-	-	-	(7.317)	-	-	-	321
Net (losses)/gains from fair value changes recognised in the consolidated statement of other comprehensive income	-	-	-	-	(21.115)	-	-	-	-	50.695
Realised gains recognised in the consolidated income statement	-	-	-	-	20.859	-	-	-	-	-
Depreciation charge for the period/year – continuing operations	-	-	(1.120)	-	-	-	-	(2.688)	-	-
Impairment charge for the period/year – continuing operations	-	-	-	-	-	-	-	(311)	-	-
Revaluation gains/(losses) – continuing operations	1.988	(442)	-	-	-	(49.801)	(2.774)	(4.795)	-	-
Foreign exchange adjustments	134	5	(2)	-	(201)	720	(1.073)	25	-	255
<b>30 June 2016/31 December 2015</b>	<b>37.505</b>	<b>11.101</b>	<b>248.455</b>	<b>-</b>	<b>11.396</b>	<b>34.628</b>	<b>15.018</b>	<b>227.945</b>	<b>25.400</b>	<b>55.253</b>

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

**Valuation policy and sensitivity analysis**

*Financial instruments*

The valuation policy for Level 3 financial instruments is defined and approved by the ALCO committee.

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

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

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

*Analysis of investment properties and investment properties held for sale*

Type and country	30 June 2016	Estimated rental value per m <sup>2</sup> per annum	Rent growth per annum	Estimated building cost per m <sup>2</sup>	Yield	Estimated fair value per m <sup>2</sup>	Estimated land value per m <sup>2</sup>	Land	Building area	Age of building
<b>Offices and other commercial properties</b>	<b>€000</b>							<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>Years</b>
Cyprus	24.635	€54-€457	n/a	€798-€1.130	4%-6%	€1.060-€7.059	€80-€1.053	1.591-30.001	68-7.078	5-32
UK	359	€100	n/a	n/a	n/a	€1.182	n/a	n/a	304	86
Russia	308	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	25.302									
<b>Manufacturing and industrial</b>										
Russia	1.164	n/a	n/a	n/a	n/a	n/a	n/a	1.534-2.926	998-2.528	n/a
<b>Hotels</b>										
Romania	8.029	n/a	n/a	n/a	n/a	n/a	n/a	10.337	4.789	41
<b>Land (fields and plots)</b>										
Cyprus	14.470	n/a	n/a	n/a	n/a	n/a	€374-€750	4.627-29.398	n/a	n/a
<b>Total</b>	<b>48.965</b>									

*Analysis of own use properties*

Type and country	30 June 2016	Estimated rental value per m <sup>2</sup> per annum	Rent growth per annum	Estimated building cost per m <sup>2</sup>	Yield	Estimated fair value per m <sup>2</sup>	Estimated land value per m <sup>2</sup>	Land	Building area	Age of building
<b>Offices and other commercial properties</b>	<b>€000</b>							<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>Years</b>
Cyprus	234.752	€23-€434	n/a	€674-€2.422	5%-6%	€566-€8.860	€139-€3.007	390-53.155	94-10.985	9-37
Romania	4.113	n/a	n/a	n/a	n/a	n/a	n/a	648	2.284	n/a
UK	10.847	€160-€596	5%-6%	n/a	5%-7%	€2.401-€12.416	n/a	173-1.740	173-1.689	Re-furnished in 2009
	249.712									
<b>Land</b>										
Cyprus	9.590	n/a	n/a	n/a	n/a	€400	€400	11.267-12.708	n/a	n/a
<b>Total</b>	<b>259.302</b>									

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

*Analysis of investment properties and investment properties held for sale*

Type and country	31 December 2015	Estimated rental value per m <sup>2</sup> per annum	Rent growth per annum	Estimated building cost per m <sup>2</sup>	Yield	Estimated fair value per m <sup>2</sup>	Estimated land value per m <sup>2</sup>	Land	Building area	Age of building
<b>Residential</b>	<b>€000</b>							<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>Years</b>
UK	2.095	€548	n/a	n/a	n/a	€12.965	n/a	n/a	156	46
<b>Offices and other commercial properties</b>										
Cyprus	24.427	€54-€353	n/a	€658-€1.302	4%-6%	€1.060-€7.059	€95-€1.053	1.591-30.001	68-4.788	5-32
Greece	2.450	€480	n/a	n/a	7%-10%	€3.926	n/a	447	624	8
UK	5.222	€110-€230	n/a	n/a	n/a	€1.013-€3.123	n/a	n/a	233-954	26-116
	32.099									
<b>Manufacturing and industrial</b>										
Russia	583	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Hotels</b>										
Romania	8.466	n/a	n/a	n/a	n/a	n/a	n/a	10.337	4.789	40
<b>Land (fields and plots)</b>										
Cyprus	13.720	n/a	n/a	n/a	n/a	n/a	€248-€750	4.627-29.398	n/a	n/a
<b>Total</b>	<b>56.963</b>									

22. Fair value measurement (continued)

Valuation policy and sensitivity analysis (continued)

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

Type and country	31 December 2015	Estimated rental value per m <sup>2</sup> per annum	Rent growth per annum	Estimated building cost per m <sup>2</sup>	Yield	Estimated fair value per m <sup>2</sup>	Estimated land value per m <sup>2</sup>	Land	Building area	Age of building
<b>Offices and other commercial properties</b>	<b>€000</b>							<b>m<sup>2</sup></b>	<b>m<sup>2</sup></b>	<b>Years</b>
Cyprus	224.479	€23-€434	n/a	€674-€2.102	5%-6%	€566-€8.860	€139-€3.007	390-53.155	94-10.985	8-36
Romania	3.466	n/a	n/a	n/a	n/a	n/a	n/a	648	2.284	n/a
UK	12.364	€181-€671	5%-6%	n/a	5%-7%	€2.704-€13.982	n/a	173-1.740	173-1.689	Re-furbished in 2009
	240.309									
<b>Hotels</b>										
Cyprus	25.400	n/a	n/a	n/a	n/a	2.485	n/a	91.887	10.222	33
<b>Total</b>	<b>265.709</b>									

## 22. Fair value measurement (continued)

### Valuation policy and sensitivity analysis (continued)

#### *Sensitivity analysis*

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

## 23. Loans and advances to customers

	30 June 2016	31 December 2015
	€000	€000
Gross loans and advances to customers	20.040.321	21.385.065
Provisions for impairment of loans and advances to customers (Note 43)	(3.787.084)	(4.193.433)
	<b>16.253.237</b>	<b>17.191.632</b>

Loans and advances to customers include mortgage loans of a nominal amount €1.010 million (31 December 2015: €1.003 million) in Cyprus which are pledged as collateral for the covered bond issued by the Company in 2011 under the Covered Bond Programme (Note 44).

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

## 24. Life insurance business assets attributable to policyholders

	30 June 2016	31 December 2015
	€000	€000
Equity securities	8.291	9.288
Debt securities	55.645	58.440
Mutual funds	355.398	344.331
Mortgages and other loans	1.589	1.668
Bank deposits	46.586	48.886
	<b>467.509</b>	<b>462.613</b>
Property	13.900	12.790
	<b>481.409</b>	<b>475.403</b>

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

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

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

	Level 1	Level 2	Level 3	Total
<b>30 June 2016</b>	€000	€000	€000	€000
Equity securities	7.155	-	1.136	8.291
Debt securities	23.108	32.537	-	55.645
Mutual funds	355.398	-	-	355.398
Mortgages and other loans	1.589	-	-	1.589
	<b>387.250</b>	<b>32.537</b>	<b>1.136</b>	<b>420.923</b>

<b>31 December 2015</b>				
Equity securities	7.852	-	1.436	9.288
Debt securities	27.881	30.559	-	58.440
Mutual funds	344.331	-	-	344.331
Mortgages and other loans	1.668	-	-	1.668
	<b>381.732</b>	<b>30.559</b>	<b>1.436</b>	<b>413.727</b>

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:

	<b>30 June 2016</b>	31 December 2015
	€000	€000
1 January	1.436	1.443
Unrealised losses recognised in the consolidated income statement	(300)	(7)
	<b>1.136</b>	<b>1.436</b>

During the period ended 30 June 2016 and year ended 31 December 2015 there were no significant transfers between Level 1 and Level 2.



**25. Property and equipment**

	Property	Equipment	Total
<b>30 June 2016</b>	€000	€000	€000
Net book value at 1 January	242.941	21.392	<b>264.333</b>
Acquisition of subsidiary (Note 50.1.1)	20.308	-	<b>20.308</b>
Additions	1.414	5.125	<b>6.539</b>
Disposals and write-offs	-	(119)	<b>(119)</b>
Disposal of subsidiary (Note 50.2.1)	-	(952)	<b>(952)</b>
Depreciation charge for the period (Note 15)	(1.953)	(3.835)	<b>(5.788)</b>
Foreign exchange adjustments	(1.378)	(303)	<b>(1.681)</b>
<b>Net book value at 30 June</b>	<b>261.332</b>	<b>21.308</b>	<b>282.640</b>

  

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

  

<b>30 June 2016</b>			
Cost or valuation	298.475	146.070	<b>444.545</b>
Accumulated depreciation	(37.143)	(124.762)	<b>(161.905)</b>
<b>Net book value</b>	<b>261.332</b>	<b>21.308</b>	<b>282.640</b>

25. Property and equipment (continued)

	Property	Equipment	Total
30 June 2015	€000	€000	€000
Net book value at 1 January	267.126	23.294	290.420
Additions	1.232	2.812	4.044
Transfer to investment properties	(6.792)	-	(6.792)
Transfer to stock of property	(160)	-	(160)
Transfer from disposal group held for sale	25.681	-	25.681
Disposals and write-offs	(1)	(10)	(11)
Depreciation charge for the period – continuing operations (Note 15)	(2.390)	(3.769)	(6.159)
Foreign exchange adjustments	1.337	332	1.669
<b>Net book value at 30 June</b>	<b>286.033</b>	<b>22.659</b>	<b>308.692</b>

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

30 June 2015			
Cost or valuation	322.284	150.408	472.692
Accumulated depreciation	(36.251)	(127.749)	(164.000)
<b>Net book value</b>	<b>286.033</b>	<b>22.659</b>	<b>308.692</b>

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

	30 June 2016	30 June 2015
	€000	€000
Freehold property	259.302	282.751
Improvements on leasehold property	2.030	3.282
	<b>261.332</b>	286.033

Freehold property includes land amounting to €93.236 thousand (30 June 2015: €83.632 thousand) for which no depreciation is charged.

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

The Group's policy is to revalue its properties periodically (between 3 to 5 years) but more frequent revaluations may be performed where there are significant and volatile movements in values. The valuations are carried out by independent qualified valuers, on the basis of market value using observable prices and/or recent market transactions depending on the location of the property. Details on valuation techniques and inputs are presented in Note 22.

The net book value of freehold property, on a cost less accumulated depreciation basis, as at 30 June 2016 would have amounted to €184.234 thousand (30 June 2015: €144.887 thousand).

**26. Intangible assets**

	Computer software	In-force life insurance business	Total
<b>30 June 2016</b>	€000	€000	€000
Net book value at 1 January	20.464	113.324	<b>133.788</b>
Additions	7.561	-	<b>7.561</b>
Increase in value of in-force life insurance business (Note 12)	-	852	<b>852</b>
Disposals and write-offs	(59)	-	<b>(59)</b>
Amortisation charge for the period (Note 15)	(3.506)	-	<b>(3.506)</b>
Foreign exchange adjustments	(99)	-	<b>(99)</b>
<b>Net book value at 30 June</b>	<b>24.361</b>	<b>114.176</b>	<b>138.537</b>

  

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

  

<b>30 June 2016</b>			
Cost	136.876	114.176	<b>251.052</b>
Accumulated amortisation and impairment	(112.515)	-	<b>(112.515)</b>
<b>Net book value</b>	<b>24.361</b>	<b>114.176</b>	<b>138.537</b>

**26. Intangible assets (continued)**

	Computer software	In-force life insurance business	Total
<b>30 June 2015</b>	€000	€000	€000
Net book value at 1 January	15.577	111.825	<b>127.402</b>
Additions	3.641	-	<b>3.641</b>
Increase in value of in-force life insurance business (Note 12)	-	518	<b>518</b>
Amortisation charge for the period - continuing operations (Note 15)	(3.426)	-	<b>(3.426)</b>
Foreign exchange adjustments	100	-	<b>100</b>
<b>Net book value at 30 June</b>	<b>15.892</b>	<b>112.343</b>	<b>128.235</b>

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

<b>30 June 2015</b>			
Cost	123.846	112.343	<b>236.189</b>
Accumulated amortisation and impairment	(107.954)	-	<b>(107.954)</b>
<b>Net book value</b>	<b>15.892</b>	<b>112.343</b>	<b>128.235</b>

**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:

	<b>30 June 2016</b>	30 June 2015
Discount rate (after tax)	<b>10,0%</b>	10,0%
Return on investments	<b>5,0%</b>	5,0%
Expense inflation	<b>4,0%</b>	5,0%

## 27. Stock of property

The carrying value of stock is determined as the lower of cost and net realisable value. Impairment is recognised if the net realisable value is below the cost of the stock of property. During the six months ended 30 June 2016 an impairment loss of €9.362 thousand was recognised in 'Impairment of non-financial instruments' in the consolidated income statement arising from measuring items at lower of cost and net realisable value. At 30 June 2016, stock of €633.325 thousand (31 December 2015: €496.594 thousand) is carried at net realisable value which is approximately the fair value less costs to sell.

The stock of property includes residential properties, offices and other commercial properties, manufacturing and industrial properties, hotels, land (fields and plots) and properties under construction. The stock of property pledged as collateral for central bank funding facilities under Eurosystem monetary policy operations and ELA amounts to €21.348 thousand (31 December 2015: €21.875 thousand).

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

	30 June 2016	31 December 2015
	€000	€000
Net book value at 1 January	515.858	12.662
Acquisition of subsidiary (Note 50.1.1)	48.632	-
Additions	641.856	32.216
Disposals	(68.200)	(4.298)
Transfer from investment properties (Note 22)	-	492.927
Transfer from own use properties	-	541
Transfer from disposal group held for sale	-	247
Impairment (Note 16)	(9.362)	(17.792)
Foreign exchange adjustments	9	(645)
<b>Net book value</b>	<b>1.128.793</b>	<b>515.858</b>

Analysis by type and country	Cyprus	Greece	Romania	Total
30 June 2016	€000	€000	€000	€000
Residential properties	66.370	37.635	13.034	117.039
Offices and other commercial properties	175.016	60.865	13.347	249.228
Manufacturing and industrial properties	30.626	57.651	514	88.791
Hotels	70.887	2.183	-	73.070
Land (fields and plots)	584.046	5.825	10.446	600.317
Properties under construction	348	-	-	348
<b>Total</b>	<b>927.293</b>	<b>164.159</b>	<b>37.341</b>	<b>1.128.793</b>

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

**28. Prepayments, accrued income and other assets**

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
Receivables relating to disposal of operations	<b>59.511</b>	98.454
Reinsurers' share of insurance contract liabilities (Note 32)	<b>54.088</b>	56.763
Taxes refundable	<b>38.032</b>	38.204
Debtors	<b>25.134</b>	23.020
Prepaid expenses	<b>1.203</b>	1.411
Retirement benefit plan assets (Note 14)	<b>725</b>	1.203
Other assets	<b>59.425</b>	62.725
	<b>238.118</b>	281.780

As at 30 June 2016, the receivables relating to the disposal of operations relate to the disposal of the Ukrainian operations, whereas at 31 December 2015 it related to the disposal of the Ukrainian and Russian operations.

During the six months ended 30 June 2016, a reversal of impairment of €2.625 thousand was recognised in relation to other assets (corresponding period of 2015: impairment of €15.842 thousand) (Note 16).

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

*Non-current assets and disposal group held for sale*

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
Disposal group held for sale	-	26.168
Investment properties held for sale	<b>11.460</b>	22.335
	<b>11.460</b>	48.503

*Non-current liabilities and disposal group held for sale*

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
Disposal group held for sale	-	3.677

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

The following non-current assets and disposal group were classified as held for sale as at 30 June 2016 and 31 December 2015:

### Non-current assets held for sale

#### *Investment properties*

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

### Disposal group held for sale

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

## 30. Funding from central banks

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

	30 June 2016	31 December 2015
	€000	€000
Emergency Liquidity Assistance (ELA)	2.400.667	3.802.058
Main Refinancing Operations (MRO)	700.000	150.000
Targeted Long Term Refinancing Operations (TLTRO)	-	500.792
	3.100.667	4.452.850

The funding under the main refinancing operations bears interest at the ruling rate of the Eurosystem and it was fully repaid during the first quarter of 2016. In May 2016, the Company raised €200 million of new funding from ECB's Main Refinancing Operations using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

In 2014 the Group participated in the TLTRO of the ECB. The interest rate on the TLTRO was fixed over its life at 15 bps (being a fixed spread of 10 bps over the MRO level prevailing at the time of allotment). The Company repaid the amount borrowed through the TLTRO of €500 million on 29 June 2016.

The Company's ELA funding bears interest at a rate equal to the ruling marginal lending facility rate (MLF rate) of the Eurosystem, plus a margin.

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

**31. Customer deposits**

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	<b>€000</b>
<i>By type of deposit</i>		
Demand	<b>5.397.006</b>	4.987.078
Savings	<b>1.036.340</b>	1.033.991
Time or notice	<b>8.313.127</b>	8.159.612
	<b>14.746.473</b>	14.180.681
<i>By geographical area</i>		
Cyprus	<b>13.311.262</b>	12.691.090
United Kingdom	<b>1.429.578</b>	1.486.551
Romania	<b>5.633</b>	3.040
	<b>14.746.473</b>	14.180.681

<i>By customer sector</i>	Cyprus	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000
Corporate	1.009.959	40.123	4.981	<b>1.055.063</b>
SMEs	490.211	216.064	435	<b>706.710</b>
Retail	7.330.075	1.104.027	217	<b>8.434.319</b>
Restructuring				
– Corporate	206.270	-	-	<b>206.270</b>
– SMEs	31.755	-	-	<b>31.755</b>
Recoveries				
– Corporate	8.137	-	-	<b>8.137</b>
International banking services	3.901.674	-	-	<b>3.901.674</b>
Wealth management	333.181	69.364	-	<b>402.545</b>
	<b>13.311.262</b>	<b>1.429.578</b>	<b>5.633</b>	<b>14.746.473</b>
<b>31 December 2015</b>				
Corporate	978.672	40.425	2.242	<b>1.021.339</b>
SMEs	455.133	236.616	461	<b>692.210</b>
Retail	6.995.757	1.134.334	337	<b>8.130.428</b>
Restructuring				
– Corporate	189.196	-	-	<b>189.196</b>
– SMEs	35.363	-	-	<b>35.363</b>
Recoveries				
– Corporate	7.865	-	-	<b>7.865</b>
International banking services	3.710.742	-	-	<b>3.710.742</b>
Wealth management	318.362	75.176	-	<b>393.538</b>
	<b>12.691.090</b>	<b>1.486.551</b>	<b>3.040</b>	<b>14.180.681</b>

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



### 32. Insurance liabilities

	30 June 2016			31 December 2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
<b>Life insurance</b>	€000	€000	€000	€000	€000	€000
Life insurance contract liabilities	514.533	(29.592)	484.941	510.729	(30.396)	480.333
<b>General insurance</b>						
Provision for unearned premiums	25.071	(11.044)	14.027	24.029	(11.533)	12.496
<i>Other liabilities</i>						
Claims outstanding	29.993	(13.452)	16.541	32.083	(14.834)	17.249
Unexpired risks reserve	61	-	61	61	-	61
Equalisation reserve	23	-	23	23	-	23
General insurance contract liabilities	55.148	(24.496)	30.652	56.196	(26.367)	29.829
	569.681	(54.088)	515.593	566.925	(56.763)	510.162

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

#### Life insurance contract liabilities

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

	Six months ended 30 June					
	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	€000	€000	€000	€000	€000	€000
1 January	510.729	(30.396)	480.333	514.074	(35.542)	478.532
New business	3.320	(601)	2.719	909	554	1.463
Change in existing business	484	1.405	1.889	3.484	2.207	5.691
<b>30 June</b>	<b>514.533</b>	<b>(29.592)</b>	<b>484.941</b>	<b>518.467</b>	<b>(32.781)</b>	<b>485.686</b>

#### General insurance liabilities

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

	Six months ended 30 June					
	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
<b>Liabilities for unearned premiums</b>	€000	€000	€000	€000	€000	€000
1 January	24.029	(11.533)	12.496	24.891	(11.782)	13.109
Premium income	32.142	(15.783)	16.359	38.209	(23.861)	14.348
Earned premiums	(31.100)	16.272	(14.828)	(32.627)	18.090	(14.537)
<b>30 June</b>	<b>25.071</b>	<b>(11.044)</b>	<b>14.027</b>	<b>30.473</b>	<b>(17.553)</b>	<b>12.920</b>

**32. Insurance liabilities (continued)**

**General insurance liabilities (continued)**

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

	Six months ended 30 June					
	2016			2015		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
<b>Claims and adjustments for losses</b>	€000	€000	€000	€000	€000	€000
1 January	32.083	(14.834)	17.249	37.581	(18.853)	18.728
Amount paid for claims settled in the period	(12.480)	5.672	(6.808)	(13.184)	6.078	(7.106)
Increase in liabilities arising from claims	10.390	(4.290)	6.100	12.182	(5.895)	6.287
<b>30 June</b>	<b>29.993</b>	<b>(13.452)</b>	<b>16.541</b>	<b>36.579</b>	<b>(18.670)</b>	<b>17.909</b>
Reported claims	28.077	(12.545)	15.532	34.064	(17.455)	16.609
Incurred but not reported	1.916	(907)	1.009	2.515	(1.215)	1.300
	29.993	(13.452)	16.541	36.579	(18.670)	17.909

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

	30 June 2016	31 December 2015
	€000	€000
Income tax payable	27.017	23.308
Special defence contribution payable	1.849	6.354
Retirement benefit plans liabilities (Note 14)	24.157	12.588
Provisions for pending litigation or claims (Note 38)	26.650	34.749
Provisions for financial guarantees and undrawn contractual commitments (Notes 16 and 38)	44.515	44.348
Liabilities for investment-linked contracts under administration	4.805	4.954
Accrued expenses and other provisions	80.193	59.850
Deferred income	11.205	7.820
Items in the course of settlement	34.166	29.905
Other liabilities	66.878	58.955
	<b>321.435</b>	<b>282.831</b>

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

**Provisions for pending litigation or claims**

The movement for the period in the provisions for pending litigation or claims is as follows:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>
1 January	<b>34.749</b>	27.329
Increase of provisions during the period (Note 15)	<b>4.533</b>	2.004
Utilisation of provisions	<b>(7.813)</b>	(30)
Release of provisions during the period (Note 15)	<b>(4.724)</b>	-
Foreign exchange adjustments	<b>(95)</b>	69
<b>30 June</b>	<b>26.650</b>	29.372

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

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

**34. Share capital**

	<b>30 June 2016</b>		<b>31 December 2015</b>	
	<b>Shares (thousand)</b>	<b>€000</b>	<b>Shares (thousand)</b>	<b>€000</b>
<i>Authorised</i>				
Ordinary shares of €0,10 each	<b>47.677.593</b>	<b>4.767.759</b>	47.677.593	4.767.759
<i>Issued</i>				
<b>1 January</b>	<b>8.922.945</b>	<b>892.294</b>	8.922.378	892.238
Issue of shares	-	-	567	56
<b>30 June 2016/31 December 2015</b>	<b>8.922.945</b>	<b>892.294</b>	8.922.945	892.294

**Issued share capital**

There were no changes to the issued share capital during the period ended 30 June 2016.

All issued ordinary shares carry the same rights.

**Share premium reserve**

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

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

**Capital reduction reserve**

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

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

**34. Share capital (continued)**

**Treasury shares of the Company**

Shares of the Company held by entities controlled by the Group are deducted from equity on the purchase, sale, issue or cancellation of such shares. No gain or loss is recognised in the consolidated income statement. During the six months ended 30 June 2016 all treasury shares have been disposed, therefore there were no treasury shares as at 30 June 2016 (31 December 2015: 5.136 thousand of a nominal value of €0,10 each). The total cost of acquisition of treasury shares at 31 December 2015 was €41.301 thousand.

In addition, the life insurance subsidiary of the Group held, as at 30 June 2016, a total of 2.889 thousand (31 December 2015: 2.889 thousand) shares of the Company, as part of its financial assets which are invested for the benefit of insurance policyholders (Note 24). The cost of acquisition of these shares was €25.333 thousand (31 December 2015: €25.333 thousand).

**Share-based payments-share options**

On 24 November 2015, the Annual General Meeting of the Company's shareholders authorised the Board to establish and implement a Long Term Incentive Plan and allowed the Company the flexibility to increase the ratio of variable remuneration relative to fixed remuneration up to a maximum of 100% of fixed remuneration for members of senior management ('Shareholder Resolution'). The authorised Long Term Incentive Plan involved the granting of options for the acquisition of shares to a defined group of employees of the Group and under the current terms of the Shareholder Resolution:

- (i) the total amount of shares that may be issued and allotted under the Long Term Incentive Plan shall not exceed 178.458.891 ordinary shares of nominal value of €0,10 each,
- (ii) the exercise price shall be set at €0,25 per share,
- (iii) the vested share options will only be able to be exercised three years after the grant date, and
- (iv) any share options not exercised by 31 March 2026 will lapse.

The options will be designed to vest only if certain key performance conditions are met, including amongst other things, the full repayment of ELA, the lifting of dividend restrictions, the cancellation of government guarantee and the performance of eligible employees.

The Long Term Incentive Plan is currently under regulatory review. Therefore, the original proposed grant date under the Shareholder Resolution of 31 March 2016 was postponed until such time that all relevant regulatory approvals have been obtained for the Long Term Incentive Plan.

No share options were issued until the date of issuance of these Interim Consolidated Financial Statements.

**35. Dividends**

The Company is currently under a regulatory dividend distribution prohibition and therefore no dividend was declared or paid during the six months ended 30 June 2016 and year 2015.

**36. Accumulated losses**

Retained earnings are the only distributable reserve.

Companies, tax resident in Cyprus, which do not distribute at least 70% of their profits after tax as defined by the Special Defence Contribution Law during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special defence contribution at 20% for years 2012 and 2013 and 17% for 2014 and thereafter will be payable on such deemed dividend distribution to the extent that the shareholders of the Company (individuals 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.

**36. Accumulated losses (continued)**

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

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

During the six months ended 30 June 2016 and the year 2015 no deemed dividend distribution was paid by the Company.

**37. Fiduciary transactions**

The Group offers fund management and custody services that result in holding or investing financial assets on behalf of its customers. The Group is not liable to its customers for any default by other banks or organisations. The assets under management and custody are not included in the consolidated balance sheet of the Group unless they are placed with the Group. Total assets under management and custody at 30 June 2016 amounted to €983.167 thousand (31 December 2015: €1.012.357 thousand).

**38. Contingent liabilities and commitments**

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

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

**Capital commitments**

Capital commitments for the acquisition of property, equipment and intangible assets as at 30 June 2016 amount to €14.538 thousand (31 December 2015: €17.099 thousand).

**Pending litigation and claims**

The Group faces legal and regulatory challenges, many of which are beyond its control. The extent of the impact of these matters, in which the Group is or may in the future become involved, cannot always be predicted with certainty but may materially impact its reputation, operations, financial results, condition and prospects. At the same time, most cases and matters relate to the period prior to the issue of the Resolution Decrees and to the problems brought about as a result of the said Decrees. In most cases, the Group believes that it has viable defences which it will advance in the course of the relevant proceedings.

Apart from what is described below, the Group considers that none of these matters are material, either individually or in aggregate. 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 30 June 2016 and hence it is not believed that such litigation, when concluded, will have a material impact upon the financial position of the Group. It is not practicable to provide an aggregate estimate of potential liability for the Company's legal procedures and regulatory matters as a class of contingent liabilities.

*Investigations and litigation on securities issued by the Company*

A number of customers have filed actions against the Company alleging that the Company is guilty of mis-selling in relation to securities issued by the Company and have claimed various remedies, including the return of the money they have paid. The Company is contesting these claims, which are pending before the courts in Cyprus and in Greece as well as the decisions and fines imposed upon the Company on related matters from the 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 Convertible Enhanced Capital Securities (CECS).

**38. Contingent liabilities and commitments (continued)**

**Pending litigation and claims (continued)**

*Investigations and litigation on securities issued by the Company (continued)*

The Company observes that such claims vary considerably between them. In many cases, the Company believes that it has a number of viable legal defences, which it will advance in the course of the proceedings, particularly with respect to institutional investors and those purchasers who had received investment advice from independent investment advisors before proceeding with the purchase. In the case of retail investors, particularly where it can be documented that the relevant Company officers 'persuaded' them to proceed with the purchase and/or purported to offer 'investment advice', the Company may face significant difficulties.

To date, a small number of cases have been tried in Greece. The Company has appealed against any such cases which were not ruled in its favour. In any event, the resolution of the claims brought in the courts of Cyprus and Greece is expected to take a number of years. Provision has been made based on management's best estimate of probable outflows.

*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 including inter-alia, related non-disclosure of material information and other corporate governance deficiencies (following closely the investigation carried out by CySEC in 2013), Greek government bonds' reclassification, ELA disclosures and allegations by some Greek government bond investors regarding the Company's non-compliance with Markets in Financial Instruments Directive (MiFID).

A specific estimate of the outcome of the investigations on 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 Group.

*The Cyprus Securities and Exchange Commission (CySEC) Investigations*

CySEC is currently in the process of investigating:

- Matters concerning possible price manipulation for the period from 1 November 2009 to 30 June 2010 post the investment in Banca Transilvania.
- The adequacy of provisions for impairment of loans and advances in year 2011. It has currently requested written addresses from the Company and certain of its former officers and members of the Board on this matter, which will be submitted in due course.
- The adequacy of provisions for impairment of loans and advances in year 2013 in light of the results of the Asset Quality Review.

In addition to the above, CySEC has also completed the following investigations, which are now pending with the CySEC Board:

- In late 2014, the level of goodwill of CB Uniastrum Bank LLC in the interim financial statements of the Group in 2012.
- In 2015, the reclassification of Greek Government bonds on 1 April 2010, which is also currently with the Attorney General.

A decision by CySEC for any of the above matters will not be binding on the courts. If a person wishes to claim damages or any other remedy against the Company, fresh proceedings must be brought against the Company before the competent courts of the Republic of Cyprus.

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

**38. Contingent liabilities and commitments (continued)**

**Pending litigation and claims (continued)**

*Bail-in related litigation*

**Depositors**

A number of the affected depositors filed claims against the Company and other parties (such as the CBC and the Ministry of Finance of Cyprus) on the grounds that, inter-alia, the 'Resolution Law of 2013' and the Bail-in Decrees are in conflict with the Constitution of the Republic of Cyprus and the European Convention on Human Rights. Actions on the part of the affected depositors have been filed before the District Courts and their objective is to obtain damages for the loss allegedly sustained by them as a result of the bail-in of their deposits effected by the relevant Decrees. In parallel, the Company is defending the actions of depositors vigorously.

**Shareholders**

There are also numerous claims filed by shareholders 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. The objective of these proceedings before the Supreme Court was to obtain the annulment (i.e. cancellation and setting aside) of the Decrees as unconstitutional and/or unlawful and/or irregular. The Company appeared in these proceedings as an interested party and has supported the position that, as with depositors, the cases should be adjudicated upon in the context of private law. As of 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. On 9 October 2014, the Supreme Court ruled that the proceedings fall within private and public law (before the District Courts), thus accepting the position of the Company and accordingly, all recourses instituted before the Supreme Court (in its revisional jurisdiction) were dismissed. It is expected that actions for damages will be instituted in due course before the District Courts.

**Claims based on set-off**

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

**Laiki Bank depositors and shareholders**

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

**Implementation of Decrees**

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

**Legal position of the Group**

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



**38. Contingent liabilities and commitments (continued)**

**Pending litigation and claims (continued)**

*Commission for the Protection of Competition Investigation*

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

There was also an allegation concerning the Company's arrangements with American Express, namely that such exclusive arrangements violated competition law. On both matters, the CPC has concluded that the Company (in common with other banks and JCC) has breached the relevant provisions of the applicable law for the protection of competition. For the time being, the proceedings before the CPC are not progressing owing to a Court decision holding that the composition of the CPC is contrary to law. This decision is subject to an appeal instituted before the Supreme Court by the Attorney General. At this stage it is not possible to predict the amount of the fine that may be imposed upon the Company, though the Company does not believe that such fine will have a material impact on the financial position of the Group. In any event, the Company intends to file a recourse before the Administrative Court for the annulment of the CPC's decision upon the notification of the fine.

*CNP Arbitration*

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

Following the resolution of Laiki Bank, CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd have instituted arbitration proceedings in London under the rules of arbitration of the International Chamber of Commerce, alleging that the Company is a successor to Laiki Bank in respect of both the Shareholders' and Distribution Agreements and that the said Agreements have been violated by the Company. The claims of CNP Assurances S.A. and CNP Cyprus Insurance Holdings Ltd amount to approximately €240 million (including adjustments for taxes and pre-award interest as at March 2015). The hearing has been concluded and the Tribunal's award is expected in autumn. The Company defended its position vigorously on a number of grounds, including, inter-alia that of frustration.

*Other litigation*

The Group is involved in a number of other litigation proceedings involving cases against the Group arising in the course of its normal operating activities, mainly in Cyprus and Greece.

*Provident fund cases*

Twenty three claims which were pending before the Labour Disputes Tribunal by former employees with respect to their retirement benefits were withdrawn unreservedly and dismissed by the court in April 2016, following an out-of-court settlement to the satisfaction of the Company, utilising part of the provisions for pending litigation in place.

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



**38. Contingent liabilities and commitments (continued)**

**Pending litigation and claims (continued)**

*Other litigation (continued)*

**Employment litigation**

Former senior officers of the Company have instituted claims for unfair dismissal and for provident fund entitlements against the Company and Trustees of the Company's provident fund. The Company does not consider that these cases will have a material impact upon its financial position. Already one such case has been dismissed as filed out of time but the plaintiff has appealed against this ruling.

**Greek case**

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

**Swiss Francs loans litigation in Cyprus and UK**

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

**UK cases**

The Company is the defendant in certain proceedings alleging that the Company is legally responsible in respect of various alleged irregularities involving, inter alia, the advance and mis-selling of loans for the purchase by UK nationals of property in Cyprus. The Company's defence will vary depending on whether the purchasers can be categorised as consumers or investors. However, all the proceedings in the UK are currently stayed in order for the parties to have time to negotiate possible settlements.

**General criminal investigations**

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

The Attorney General has filed a criminal case against the Company and five former members of the Board of Directors for alleged breach of Article 302 (conspiracy to defraud) of Cyprus' criminal code and Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law. The alleged offence refers to the non-publication in a timely manner of the increased capital shortfall of the Company in 2012. The Company denies all allegations. The case is currently with the Supreme Court, following its referral by the court for a question of law and is due in September 2016. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to share a material impact on the financial position of the Group.

The Attorney General has filed another criminal case against the Company and six former members of the Board of Directors for alleged breach of Article 19 of the Manipulation of Insider Information and Market Manipulation (Market Abuse) Law, with respect to the Greek Government Bonds. The alleged offence refers to the non-publication of the purchase and sale of the Greek Government Bonds during a specified period. The Company denies all allegations. The case is fixed for directions in September 2016. The maximum penalty on the Company, if found guilty, will be the imposition of a fine that is not expected to share a material impact on the financial position of the Group.

**38. Contingent liabilities and commitments (continued)**

**Other contingent liabilities**

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

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

**39. Net cash flow from operating activities**

	Six months ended 30 June	
	2016	2015 (represented)
	€000	€000
<b>Profit before tax from continuing operations</b>	<b>75.937</b>	98.651
<b>Loss before tax from discontinued operations</b>	<b>-</b>	(36.085)
<i>Adjustments for:</i>		
Provisions for impairment of loans and advances to customers and other customer credit losses and gain on derecognition and changes in expected cash flows	<b>157.759</b>	263.351
Depreciation of property and equipment	<b>5.788</b>	6.159
Amortisation of intangible assets	<b>3.506</b>	3.426
Impairment upon re-measurement of disposal group at fair value less costs to sell	<b>-</b>	2.215
Impairment of other financial instruments	<b>12.228</b>	31.168
Profit upon disposal of disposal group held for sale	<b>(2.545)</b>	-
Amortisation of discounts/premiums, catch-up adjustment and interest on debt securities	<b>(13.447)</b>	(40.234)
Profit on sale and write-offs of property and equipment and intangible assets	<b>(38)</b>	(31)
(Gains)/losses on disposal and revaluation of investment properties	<b>(5.806)</b>	23.562
Dividend income	<b>(119)</b>	(273)
Net gains on disposal of available-for-sale investments in equity securities	<b>(58.330)</b>	(944)
Net (gains)/losses on disposal of available-for-sale investments and investments classified as loans and receivables in debt securities	<b>(61)</b>	12
Share of profit from associates and joint ventures	<b>(1.606)</b>	(3.438)
(Profit)/loss from revaluation of debt securities designated as fair value hedges	<b>(1.323)</b>	5.456
Gain on disposal of joint venture	<b>-</b>	(10.062)
Loss on dissolution of subsidiaries	<b>1.049</b>	-
Losses/(gains) on disposal of stock of property	<b>3.533</b>	(196)
Impairment of stock of property	<b>9.362</b>	-
Interest on funding from central banks	<b>21.483</b>	45.242
Interest on debt securities in issue	<b>-</b>	22
Change in value of in-force life insurance business	<b>(852)</b>	(518)
	<b>206.518</b>	387.483
<i>Change in:</i>		
Loans and advances to banks	<b>31.250</b>	45.061
Deposits by banks	<b>101.072</b>	37.202
Obligatory balances with central banks	<b>(3.279)</b>	(43.063)
Customer deposits	<b>565.792</b>	459.905
Value of in-force life insurance policies and liabilities	<b>(3.250)</b>	738
Loans and advances to customers	<b>72.655</b>	(269.162)
Other assets	<b>52.852</b>	(11.198)
Accrued income and prepaid expenses	<b>208</b>	604
Other liabilities	<b>5.422</b>	(24.790)
Accrued expenses and deferred income	<b>23.728</b>	(31.022)
Derivative financial instruments	<b>4.358</b>	31.469
Investments at fair value through profit or loss	<b>640</b>	(2.339)
Repurchase agreements	<b>30.257</b>	(3.214)
Proceeds on disposals of stock of property	<b>64.667</b>	196
Subordinated loan stock	<b>-</b>	(11)
	<b>1.152.890</b>	577.859
Tax paid	<b>(2.352)</b>	100
<b>Net cash flow from operating activities</b>	<b>1.150.538</b>	577.959

**39. Net cash flow from operating activities (continued)**

**Non-cash transactions**

**Six months ended 30 June 2016**

*Acquisition of S.Z. Eliades Leisure Ltd*

During the six months ended 30 June 2016 the Group acquired a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement for the majority of the borrowing due from S.Z. Eliades Leisure Ltd to the Company, as part of the restructuring of its debt. The acquisition did not include any cash consideration. Further information is disclosed in Note 50.1.1.

*Sale of shares held in Visa Europe Ltd*

During the six months ended 30 June 2016 the Group sold its shares held in Visa Europe Ltd following the purchase of Visa Europe Ltd by Visa Inc. The transaction in addition to the cash paid, involved the granting of preferred stock in Visa Inc. with a carrying value of approximately €8 million and a deferred cash component of a carrying value of approximately €4 million.

*Repossession of collaterals*

During the six months ended 30 June 2016, the Group acquired stock of property by taking possession of collaterals held as security for customer loans and advances and held by the Group as at 30 June 2016 of €641.856 thousand (Note 27).

**Net cash flow used in operating activities – interest and dividends**

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>€000</b>	<b>€000</b>
Interest paid	<b>113.976</b>	189.597
Interest received	<b>545.261</b>	553.305
Dividends received	<b>119</b>	273
	<b>659.356</b>	743.175

**40. Cash and cash equivalents**

Cash and cash equivalents comprise:

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>€000</b>	<b>€000</b>
Cash and non-obligatory balances with central banks	<b>1.392.577</b>	482.946
Treasury bills repayable within three months	<b>9.992</b>	23.463
Loans and advances to banks with original maturity less than three months	<b>989.911</b>	1.134.643
Cash and balances with central banks and loans and advances to banks with maturity less than three months classified as held for sale	-	106.922
	<b>2.392.480</b>	1.747.974

**40. Cash and cash equivalents (continued)**

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

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
Cash and non-obligatory balances with central banks	<b>1.392.577</b>	1.299.795
Obligatory balances with central banks	<b>126.086</b>	122.807
Total cash and balances with central banks (Note 19)	<b>1.518.663</b>	1.422.602
Loans and advances to banks with original maturity less than three months	<b>989.911</b>	1.085.098
Other restricted loans and advances to banks	<b>78.091</b>	82.123
Other loans and advances to banks	<b>106.121</b>	147.159
Total loans and advances to banks (Note 19)	<b>1.174.123</b>	1.314.380

Other restricted loans and advances to banks relate to collateral under derivative transactions of €78.091 thousand (31 December 2015: €82.123 thousand) which is not immediately available for use by the Group, but is released once the transactions are terminated.

**41. Operating leases – The Group as lessee**

The total future minimum lease payments under non-cancellable operating leases at 30 June 2016 and 31 December 2015 are presented below:

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
Within one year	<b>2.376</b>	1.615
Between one and five years	<b>5.529</b>	3.680
After five years	<b>333</b>	472
	<b>8.238</b>	5.767

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

**42. Analysis of assets and liabilities by expected maturity**

	30 June 2016			31 December 2015		
	Less than one year	Over one year	Total	Less than one year	Over one year	Total
<b>Assets</b>	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	1.393.737	124.926	1.518.663	1.300.846	121.756	1.422.602
Loans and advances to banks	1.040.743	133.380	1.174.123	1.212.418	101.962	1.314.380
Derivative financial assets	14.012	291	14.303	13.939	84	14.023
Investments	200.248	639.495	839.743	348.596	660.691	1.009.287
Loans and advances to customers	6.717.355	9.535.882	16.253.237	5.147.878	12.043.754	17.191.632
Life insurance business assets attributable to policyholders	14.439	466.970	481.409	17.243	458.160	475.403
Prepayments, accrued income and other assets	111.606	126.512	238.118	87.690	194.090	281.780
Property, equipment and intangible assets	197	420.980	421.177	485	397.636	398.121
Investment properties	-	37.505	37.505	-	34.628	34.628
Investments in associates and joint ventures	-	110.009	110.009	-	107.753	107.753
Deferred tax assets	6.402	444.724	451.126	8.828	447.703	456.531
Stock of property	266.945	861.848	1.128.793	90.115	425.743	515.858
Non-current assets and disposal group held for sale	11.460	-	11.460	48.503	-	48.503
	9.777.144	12.902.522	22.679.666	8.276.541	14.993.960	23.270.501
<b>Liabilities</b>						
Deposits by banks	282.515	60.247	342.762	206.997	35.140	242.137
Funding from central banks	2.400.667	700.000	3.100.667	2.744.764	1.708.086	4.452.850
Repurchase agreements	54.554	343.854	398.408	111.605	256.546	368.151
Derivative financial liabilities	13.037	46.000	59.037	16.032	38.367	54.399
Customer deposits	4.996.686	9.749.787	14.746.473	4.981.609	9.199.072	14.180.681
Insurance liabilities	85.622	484.059	569.681	80.118	486.807	566.925
Accruals, deferred income and other liabilities	252.612	68.823	321.435	219.346	63.485	282.831
Debt securities in issue	-	-	-	712	-	712
Deferred tax liabilities	293	44.918	45.211	415	40.392	40.807
Non-current liabilities and disposal group held for sale	-	-	-	3.677	-	3.677
	8.085.986	11.497.688	19.583.674	8.365.275	11.827.895	20.193.170

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

The MRO which forms part of the funding from central banks has been included in the over one year time band, since it is expected that it will continue to be required and available. It is noted, however, that funding under both ELA and MRO has a contractual maturity of less than one year.

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

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

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

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

Trading investments are classified in the less than one year column.

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

**43. Risk management – Credit risk**

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

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

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

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

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

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

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

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

The Group applies stricter lending criteria and has significantly reduced the approval limits of the various credit authorities since 2013. Lending criteria and approval limits are revised in a dynamic way to accommodate new market conditions and satisfy Group's Risk Appetite Statement.

**43. Risk management – Credit risk (continued)**

**Maximum exposure to credit risk and collateral and other credit enhancements**

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

	<b>30 June 2016</b>	31 December 2015
<b>On-balance sheet</b>	<b>€000</b>	<b>€000</b>
Cyprus	<b>17.900.020</b>	18.851.208
Greece	<b>56.923</b>	57.032
Russia	<b>43.788</b>	93.432
United Kingdom	<b>1.590.790</b>	1.673.293
Romania	<b>216.649</b>	266.695
	<b>19.808.170</b>	20.941.660

<b>Off-balance sheet</b>		
Cyprus	<b>2.636.099</b>	2.736.014
Greece	<b>118.627</b>	131.172
Russia	-	20.000
United Kingdom	<b>19.131</b>	21.063
Romania	<b>307</b>	307
	<b>2.774.164</b>	2.908.556

<b>Total on and off-balance sheet</b>		
Cyprus	<b>20.536.119</b>	21.587.222
Greece	<b>175.550</b>	188.204
Russia	<b>43.788</b>	113.432
United Kingdom	<b>1.609.921</b>	1.694.356
Romania	<b>216.956</b>	267.002
	<b>22.582.334</b>	23.850.216



**43. Risk management – Credit risk (continued)**

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

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

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

*Loans and advances to customers*

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

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

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

*Other financial instruments*

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

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

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

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

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

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43. Risk management – Credit risk (continued)

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	
30 June 2016	€000	€000	€000	€000	€000	€000	€000	€000	€000
Balances with central banks (Note 19)	1.360.515	-	-	-	-	-	-	-	1.360.515
Loans and advances to banks (Note 19)	1.174.123	-	-	-	-	-	-	-	1.174.123
Trading investments - debt securities (Note 20)	321	-	-	-	-	-	-	-	321
Debt securities at fair value through profit or loss (Note 20)	17.187	-	-	-	-	-	-	-	17.187
Debt securities classified as available-for-sale and loans and receivables (Note 20)	773.527	-	-	-	-	-	-	-	773.527
Derivative financial instruments (Note 21)	14.303	-	-	-	-	-	-	-	14.303
Loans and advances to customers (Note 23)	16.253.237	397.544	208.089	392.724	22.774.149	317.765	(9.435.395)	14.654.876	1.598.361
Debtors (Note 28)	25.134	-	-	-	-	-	-	-	25.134
Reinsurers' share of insurance contract liabilities (Note 28)	54.088	-	-	-	-	-	-	-	54.088
Other assets	135.735	-	-	-	-	-	-	-	135.735
<b>On-balance sheet total</b>	<b>19.808.170</b>	<b>397.544</b>	<b>208.089</b>	<b>392.724</b>	<b>22.774.149</b>	<b>317.765</b>	<b>(9.435.395)</b>	<b>14.654.876</b>	<b>5.153.294</b>
<i>Contingent liabilities</i>									
Acceptances and endorsements	8.200	534	-	24	9.637	9	(4.081)	6.123	2.077
Guarantees	781.420	68.909	4.094	78.048	164.565	525	(200)	315.941	465.479
<i>Commitments</i>									
Documentary credits	17.796	1.474	9	98	7.705	231	-	9.517	8.279
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1.966.748	32.346	781	2.326	269.272	7.134	-	311.859	1.654.889
<b>Off-balance sheet total</b>	<b>2.774.164</b>	<b>103.263</b>	<b>4.884</b>	<b>80.496</b>	<b>451.179</b>	<b>7.899</b>	<b>(4.281)</b>	<b>643.440</b>	<b>2.130.724</b>
<b>Total credit risk exposure</b>	<b>22.582.334</b>	<b>500.807</b>	<b>212.973</b>	<b>473.220</b>	<b>23.225.328</b>	<b>325.664</b>	<b>(9.439.676)</b>	<b>15.298.316</b>	<b>7.284.018</b>

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43. Risk management – Credit risk (continued)

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

**43. Risk management – Credit risk (continued)**

**Credit risk concentration of loans and advances to customers**

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

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

*Fair value adjustment on initial recognition*

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

**43. Risk management – Credit risk (continued)**

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

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

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
<b>30 June 2016</b>	€000	€000	€000	€000	€000	€000	€000	€000
<b>By economic activity</b>								
Trade	2.146.294	-	14.889	12.328	60.610	2.234.121	(109.637)	2.124.484
Manufacturing	763.446	-	7.869	7.785	16.852	795.952	(30.069)	765.883
Hotels and catering	1.343.628	-	95.391	6.395	-	1.445.414	(62.225)	1.383.189
Construction	3.324.401	-	19.247	78.395	11.208	3.433.251	(258.480)	3.174.771
Real estate	2.123.416	19.798	939.977	241.135	6.561	3.330.887	(133.378)	3.197.509
Private individuals	7.138.901	216	31.795	3.382	-	7.174.294	(241.118)	6.933.176
Professional and other services	1.379.379	-	57.310	13.017	99.378	1.549.084	(84.926)	1.464.158
Other sectors	1.055.016	24.887	12.054	28.439	-	1.120.396	(123.245)	997.151
	<b>19.274.481</b>	<b>44.901</b>	<b>1.178.532</b>	<b>390.876</b>	<b>194.609</b>	<b>21.083.399</b>	<b>(1.043.078)</b>	<b>20.040.321</b>
<b>By customer sector</b>								
Corporate	8.150.852	44.685	922.564	374.269	177.601	9.669.971	(550.984)	9.118.987
SMEs	4.297.807	-	225.048	16.169	10.447	4.549.471	(230.709)	4.318.762
Retail								
- housing	4.258.789	-	14.851	102	-	4.273.742	(105.432)	4.168.310
- consumer, credit cards and other	2.105.955	216	16.069	336	6.561	2.129.137	(145.965)	1.983.172
International banking services	396.505	-	-	-	-	396.505	(4.336)	392.169
Wealth management	64.573	-	-	-	-	64.573	(5.652)	58.921
	<b>19.274.481</b>	<b>44.901</b>	<b>1.178.532</b>	<b>390.876</b>	<b>194.609</b>	<b>21.083.399</b>	<b>(1.043.078)</b>	<b>20.040.321</b>

43. Risk management – Credit risk (continued)

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

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
30 June 2016	€000	€000	€000	€000	€000	€000	€000	€000
<b>By business line</b>								
Corporate	2.239.601	44.685	922.564	276.607	163.916	<b>3.647.373</b>	<b>(55.437)</b>	<b>3.591.936</b>
SMEs	1.489.096	-	225.048	16.169	10.447	<b>1.740.760</b>	<b>(41.230)</b>	<b>1.699.530</b>
Retail								
- housing	3.598.852	-	14.851	102	-	<b>3.613.805</b>	<b>(43.732)</b>	<b>3.570.073</b>
- consumer, credit cards and other	1.358.497	216	16.069	336	-	<b>1.375.118</b>	<b>(31.822)</b>	<b>1.343.296</b>
Restructuring								
- major corporate	2.491.394	-	-	35.156	-	<b>2.526.550</b>	<b>(165.423)</b>	<b>2.361.127</b>
- corporate	1.369.298	-	-	-	-	<b>1.369.298</b>	<b>(40.898)</b>	<b>1.328.400</b>
- SMEs	1.300.952	-	-	-	-	<b>1.300.952</b>	<b>(57.095)</b>	<b>1.243.857</b>
Recoveries								
- corporate	2.050.559	-	-	62.506	13.685	<b>2.126.750</b>	<b>(289.226)</b>	<b>1.837.524</b>
- SMEs	1.507.759	-	-	-	-	<b>1.507.759</b>	<b>(132.384)</b>	<b>1.375.375</b>
- retail housing	659.937	-	-	-	-	<b>659.937</b>	<b>(61.700)</b>	<b>598.237</b>
- retail other	747.458	-	-	-	6.561	<b>754.019</b>	<b>(114.143)</b>	<b>639.876</b>
International banking services	396.505	-	-	-	-	<b>396.505</b>	<b>(4.336)</b>	<b>392.169</b>
Wealth management	64.573	-	-	-	-	<b>64.573</b>	<b>(5.652)</b>	<b>58.921</b>
	<b>19.274.481</b>	<b>44.901</b>	<b>1.178.532</b>	<b>390.876</b>	<b>194.609</b>	<b>21.083.399</b>	<b>(1.043.078)</b>	<b>20.040.321</b>

Restructuring major corporate business line includes customers with exposures over €100.000 thousand, whereas restructuring corporate business line includes customers with exposures between €6.000 thousand and €100.000 thousand.

43. Risk management – Credit risk (continued)

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

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2015	€000	€000	€000	€000	€000	€000	€000	€000
<b>By economic activity</b>								
Trade	2.267.092	-	23.138	12.360	57.704	2.360.294	(121.192)	2.239.102
Manufacturing	801.536	-	9.214	7.604	15.066	833.420	(31.596)	801.824
Hotels and catering	1.463.129	-	98.871	6.209	-	1.568.209	(77.444)	1.490.765
Construction	3.976.254	-	27.119	56.830	10.457	4.070.660	(335.803)	3.734.857
Real estate	2.130.028	43.443	927.423	250.956	69.132	3.420.982	(137.185)	3.283.797
Private individuals	7.282.322	216	44.627	5.684	-	7.332.849	(268.496)	7.064.353
Professional and other services	1.595.010	-	64.398	38.834	96.542	1.794.784	(101.913)	1.692.871
Other sectors	1.145.327	24.866	12.325	28.759	-	1.211.277	(133.781)	1.077.496
	<b>20.660.698</b>	<b>68.525</b>	<b>1.207.115</b>	<b>407.236</b>	<b>248.901</b>	<b>22.592.475</b>	<b>(1.207.410)</b>	<b>21.385.065</b>
<b>By customer sector</b>								
Corporate	9.222.429	68.309	918.423	386.973	232.733	10.828.867	(666.631)	10.162.236
SMEs	4.408.096	-	248.647	17.523	9.520	4.683.786	(263.630)	4.420.156
Retail								
- housing	4.285.156	-	17.336	1.306	-	4.303.798	(108.267)	4.195.531
- consumer, credit cards and other	2.152.950	216	22.709	1.434	6.648	2.183.957	(154.174)	2.029.783
International banking services	528.795	-	-	-	-	528.795	(8.056)	520.739
Wealth management	63.272	-	-	-	-	63.272	(6.652)	56.620
	<b>20.660.698</b>	<b>68.525</b>	<b>1.207.115</b>	<b>407.236</b>	<b>248.901</b>	<b>22.592.475</b>	<b>(1.207.410)</b>	<b>21.385.065</b>

43. Risk management – Credit risk (continued)

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

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
31 December 2015 (represented)	€000	€000	€000	€000	€000	€000	€000	€000
<b>By business line</b>								
Corporate	2.188.777	68.309	918.423	305.980	219.040	3.700.529	(83.695)	3.616.834
SMEs	1.502.261	-	248.647	17.523	9.520	1.777.951	(46.973)	1.730.978
Retail								
- housing	3.657.181	-	17.336	1.306	-	3.675.823	(45.585)	3.630.238
- consumer, credit cards and other	1.409.855	216	22.709	1.434	-	1.434.214	(36.834)	1.397.380
Restructuring								
- major corporate	2.877.985	-	-	35.736	-	2.913.721	(175.920)	2.737.801
- corporate	1.814.518	-	-	-	-	1.814.518	(75.945)	1.738.573
- SMEs	1.376.635	-	-	-	-	1.376.635	(67.758)	1.308.877
Recoveries								
- corporate	2.341.149	-	-	45.257	13.693	2.400.099	(331.071)	2.069.028
- SMEs	1.529.200	-	-	-	-	1.529.200	(148.899)	1.380.301
- retail housing	627.975	-	-	-	-	627.975	(62.682)	565.293
- retail other	743.095	-	-	-	6.648	749.743	(117.340)	632.403
International banking services	528.795	-	-	-	-	528.795	(8.056)	520.739
Wealth management	63.272	-	-	-	-	63.272	(6.652)	56.620
	<b>20.660.698</b>	<b>68.525</b>	<b>1.207.115</b>	<b>407.236</b>	<b>248.901</b>	<b>22.592.475</b>	<b>(1.207.410)</b>	<b>21.385.065</b>

The loans and advances to customers in Cyprus include lending exposures to Greek entities granted by the Company in Cyprus in its normal course of business with a carrying value of €81.389 thousand (31 December 2015: €81.078 thousand) and lending exposures in Cyprus with collaterals in Greece with a carrying value of €144.322 thousand (31 December 2015: €69.983 thousand).



43. Risk management – Credit risk (continued)

Currency concentration of loans and advances to customers

	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
30 June 2016	€000	€000	€000	€000	€000	€000	€000	€000
Euro	18.178.073	44.901	26.688	389.498	16.052	18.655.212	(986.231)	17.668.981
US Dollar	172.018	-	488	20	75.533	248.059	(10.928)	237.131
British Pound	51.877	-	1.131.509	87	-	1.183.473	(7.982)	1.175.491
Russian Rouble	154	-	-	-	103.024	103.178	(2)	103.176
Romanian Lei	1	-	-	1.271	-	1.272	-	1.272
Swiss Franc	800.861	-	7.585	-	-	808.446	(35.110)	773.336
Other currencies	71.497	-	12.262	-	-	83.759	(2.825)	80.934
	<b>19.274.481</b>	<b>44.901</b>	<b>1.178.532</b>	<b>390.876</b>	<b>194.609</b>	<b>21.083.399</b>	<b>(1.043.078)</b>	<b>20.040.321</b>
31 December 2015								
Euro	19.261.905	68.525	28.423	405.998	16.099	19.780.950	(1.128.137)	18.652.813
US Dollar	250.757	-	507	22	137.204	388.490	(11.540)	376.950
British Pound	49.052	-	1.154.110	93	-	1.203.255	(10.121)	1.193.134
Russian Rouble	108	-	-	-	95.598	95.706	(1)	95.705
Romanian Lei	1	-	-	1.123	-	1.124	-	1.124
Swiss Franc	1.028.865	-	13.492	-	-	1.042.357	(51.761)	990.596
Other currencies	70.010	-	10.583	-	-	80.593	(5.850)	74.743
	<b>20.660.698</b>	<b>68.525</b>	<b>1.207.115</b>	<b>407.236</b>	<b>248.901</b>	<b>22.592.475</b>	<b>(1.207.410)</b>	<b>21.385.065</b>

#### 43. Risk management – Credit risk (continued)

##### Credit quality of loans and advances to customers

The following table presents the credit quality of the Group's loans and advances to customers:

	30 June 2016			31 December 2015		
	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	10.879.356	(164.827)	10.714.529	10.442.903	(173.260)	10.269.643
Past due but not impaired	2.607.222	(47.863)	2.559.359	3.048.929	(60.803)	2.988.126
Impaired	7.596.821	(830.388)	6.766.433	9.100.643	(973.347)	8.127.296
	21.083.399	(1.043.078)	20.040.321	22.592.475	(1.207.410)	21.385.065

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery.

During the six months ended 30 June 2016 the total non-contractual write-offs recorded by the Group amounted to €373.655 thousand (corresponding period of 2015: €172.670 thousand). The remaining gross loan balance of these customers as at 30 June 2016 was €299.848 thousand, of which €13.772 thousand were past due for more than 90 days but not impaired and €139.655 thousand were impaired.

##### *Loans and advances to customers that are neither past due nor impaired*

The credit quality of loans and advances to customers that were neither past due nor impaired is monitored by the Group using internal systems. The table below presents the credit risk quality of loans and advances to customers that were neither past due nor impaired.

	Grade 1	Grade 2	Grade 3	Total
30 June 2016	€000	€000	€000	€000
Cyprus	6.021.176	1.459.340	2.266.697	9.747.213
Greece	-	-	216	216
United Kingdom	1.014.793	46.171	11.569	1.072.533
Romania	16.193	32.114	11.026	59.333
Russia	-	61	-	61
	7.052.162	1.537.686	2.289.508	10.879.356

31 December 2015				
Cyprus	5.572.036	1.441.298	2.244.258	9.257.592
Greece	-	-	216	216
United Kingdom	1.009.277	63.300	20.803	1.093.380
Romania	45.962	35.141	10.551	91.654
Russia	-	61	-	61
	6.627.275	1.539.800	2.275.828	10.442.903

**43. Risk management – Credit risk (continued)**

**Credit quality of loans and advances to customers (continued)**

*Loans and advances to customers that are neither past due nor impaired (continued)*

Loans and advances to customers that were neither past due nor in excess of their limit during the last twelve months, are classified as Grade 1.

Loans and advances to customers that were past due or in excess of their limit for up to 30 consecutive days during the first half of the year or for up to 15 consecutive days during the second half of the year, are classified as Grade 2.

Loans and advances to customers that were past due or in excess of their limit for more than 30 consecutive days during the first half of the year or for more than 15 consecutive days during the second half of the year, are classified as Grade 3.

*Loans and advances to customers that are past due but not impaired*

	<b>30 June 2016</b>	<b>31 December 2015</b>
Past due analysis:	<b>€000</b>	<b>€000</b>
- up to 30 days	<b>573.880</b>	468.791
- 31 to 90 days	<b>361.309</b>	351.450
- 91 to 180 days	<b>120.708</b>	144.362
- 181 to 365 days	<b>175.281</b>	258.920
- over one year	<b>1.376.044</b>	1.825.406
	<b>2.607.222</b>	3.048.929

The fair value of the collateral that the Group holds (to the extent that it mitigates credit risk) in respect of loans and advances to customers that are past due but not impaired as at 30 June 2016 is €2.121.823 thousand (31 December 2015: €2.466.960 thousand). The fair value of the collateral is capped to the gross carrying value of the loans and advances to customers.

*Impaired loans and advances to customers*

	<b>30 June 2016</b>		<b>31 December 2015</b>	
	<b>Gross loans and advances</b>	<b>Fair value of collateral</b>	Gross loans and advances	Fair value of collateral
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cyprus	<b>6.993.704</b>	<b>4.318.648</b>	8.414.868	5.596.169
Greece	<b>44.685</b>	<b>17.930</b>	68.309	17.945
Russia	<b>192.850</b>	<b>88.979</b>	247.319	94.417
United Kingdom	<b>37.456</b>	<b>18.272</b>	56.584	10.821
Romania	<b>328.126</b>	<b>144.880</b>	313.563	170.080
	<b>7.596.821</b>	<b>4.588.709</b>	9.100.643	5.889.432

**43. Risk management – Credit risk (continued)**

**Credit quality of loans and advances to customers (continued)**

*Impaired loans and advances to customers (continued)*

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

	<b>30 June 2016</b>	31 December 2015
Impaired:	<b>€000</b>	€000
- no arrears	<b>647.495</b>	875.488
- up to 30 days	<b>25.426</b>	78.176
- 31 to 90 days	<b>40.567</b>	24.353
- 91 to 180 days	<b>95.106</b>	65.382
- 181 to 365 days	<b>122.713</b>	310.167
- over one year	<b>6.665.514</b>	7.747.077
	<b>7.596.821</b>	9.100.643

**Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale**

The movement in provisions for impairment of loans and advances, including the loans and advances to customers held for sale, is as follows:

	Cyprus	Greece	Russia	Other countries	Total
<b>30 June 2016</b>	€000	€000	€000	€000	<b>€000</b>
1 January	3.731.750	33.833	195.017	232.833	<b>4.193.433</b>
Dissolution of subsidiaries	-	-	-	(6.154)	<b>(6.154)</b>
Acquisition of subsidiary	(8.577)	-	-	-	<b>(8.577)</b>
Foreign exchange and other adjustments	84.110	-	1.743	(3.463)	<b>82.390</b>
Applied in writing off impaired loans and advances	(511.826)	-	(59.663)	(5.683)	<b>(577.172)</b>
Interest accrued on impaired loans and advances	(76.360)	(329)	(327)	(48)	<b>(77.064)</b>
Collection of loans and advances previously written off	445	-	-	25	<b>470</b>
Charge for the period (Note 16)	152.474	2.479	15.391	9.414	<b>179.758</b>
<b>30 June</b>	<b>3.372.016</b>	<b>35.983</b>	<b>152.161</b>	<b>226.924</b>	<b>3.787.084</b>
<b>Individual impairment</b>	<b>3.014.735</b>	<b>31.608</b>	<b>151.227</b>	<b>222.418</b>	<b>3.419.988</b>
<b>Collective impairment</b>	<b>357.281</b>	<b>4.375</b>	<b>934</b>	<b>4.506</b>	<b>367.096</b>

**43. Risk management – Credit risk (continued)**

**Provision for impairment of loans and advances to customers, including loans and advances to customers held for sale (continued)**

	Cyprus	Greece	Russia	Other countries	Total
<b>30 June 2015</b>	€000	€000	€000	€000	€000
1 January	2.867.345	9.275	415.894	195.334	<b>3.487.848</b>
Foreign exchange and other adjustments	71.625	-	50.294	3.815	<b>125.734</b>
Transfer between geographical areas	(83.378)	6.329	-	77.049	-
Applied in writing off impaired loans and advances	(13.412)	-	(194)	(48.755)	<b>(62.361)</b>
Interest accrued on impaired loans and advances	(101.325)	(685)	(527)	-	<b>(102.537)</b>
Collection of loans and advances previously written off	2.172	-	-	6	<b>2.178</b>
Charge for the period – continuing operations (Note 16)	416.501	7.494	7.512	35.603	<b>467.110</b>
Charge for the period – discontinued operations (Note 6)	-	-	29.464	-	<b>29.464</b>
<b>30 June</b>	<b>3.159.528</b>	<b>22.413</b>	<b>502.443</b>	<b>263.052</b>	<b>3.947.436</b>
<b>Individual impairment</b>	<b>2.466.632</b>	<b>22.413</b>	<b>335.778</b>	<b>255.787</b>	<b>3.080.610</b>
<b>Collective impairment</b>	<b>692.896</b>	<b>-</b>	<b>166.665</b>	<b>7.265</b>	<b>866.826</b>

There are no loans and advances to customers held for sale as at 30 June 2016. The balance of provisions for impairment of loans and advances to customers at 30 June 2015 includes €437.148 thousand for loans and advances to customers classified as held for sale. The above table does not include the provisions for impairment on financial guarantees and commitments which are part of 'Accruals, deferred income and other liabilities' (Note 33).

The impairment loss is measured as the difference between the carrying amount of a loan and the present value of the estimated future cash flows, including the cash flows which may arise from guarantees and tangible collateral.

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

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values. The timing of recovery from real estate collaterals has been estimated to be on average 3 years, with the exception of specific cases where a different period has been used, based on specific facts and circumstances and for customers in Debt Recovery where an average 6 year period has been used. In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during this period has been capped to zero. On average, the realisable value of the collateral is estimated to be 10% lower than the projected open market value of the collateral.

**43. Risk management – Credit risk (continued)**

**Provision for impairment of loans and advances to customers including loans and advances to customers held for sale (continued)**

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

*Sensitivity analysis*

The Group has performed sensitivity analysis on certain of the loan impairment assumptions relating to the loan portfolio in Cyprus with reference date 30 June 2016. The impact on the provisions for impairment of loans and advances is presented below:

	<b>Increase/(decrease) on provisions for impairment of loans and advances</b>
<i>Change in provisions assumptions:</i>	<b>€000</b>
Increase the timing of recovery from collaterals by 1 year (to an average of 4 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	20.621
Decrease the timing of recovery from collaterals by 1 year (to an average of 2 years) for the customers that were assessed on a collective basis, excluding any customers in Debt Recovery	(25.763)
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	112.459
Decrease the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	227.661
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 5% compared to the expected recoverable amount applied in the provisions calculations	(112.098)
Increase the recoverable amount from collaterals of customers individually assessed and which have an identified impairment loss and all customers in Debt Recovery by 10% compared to the expected recoverable amount applied in the provisions calculations	(221.937)
Extend the timing of recovery from collaterals by 1 year and decrease the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	66.274
Decrease the timing of recovery from collaterals by 1 year and increase the liquidation haircut by 20% on customers that have been individually assessed for impairment with an identified impairment loss and on customers collectively assessed for impairment	(70.797)

### 43. Risk management – Credit risk (continued)

#### Collateral and other credit enhancements obtained

The carrying value of assets obtained during the six months ended 30 June 2016 and year ended 31 December 2015 by taking possession of collateral held as security, was as follows:

	30 June 2016	31 December 2015
	€000	€000
Residential property	44.276	2.108
Commercial and other property	646.212	123.323
	<b>690.488</b>	<b>125.431</b>

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 30 June 2016 amounted to €1.087.414 thousand including an amount of €3.072 thousand relating to commercial and other property which were classified as held for sale (31 December 2015: €455.416 thousand, including an amount of €6.552 thousand relating to commercial and other property held for sale).

The disposals of repossessed assets during the period amounted to €67.268 thousand (year 2015: €29.499 thousand).

#### Forbearance

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

The practice of extending forbearance measures constitutes a grant of a concession whether temporarily or permanently to that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an arrangement whereby the borrower transfers collateral pledged to the Group. As such, it constitutes an objective indicator that requires assessing whether impairment is needed.

Modifications of loans and advances that do not affect payment arrangements, such as restructuring of collateral or security arrangements are not regarded as sufficient to indicate impairment as by themselves they do not necessarily indicate credit distress affecting payment ability.

Rescheduled loans and advances are those facilities for which the Group has modified the repayment programme (provision of a grace period, suspension of the obligation to repay one or more instalments, reduction in the instalment amount and/or elimination of overdue instalments relating to capital or interest) and current accounts/overdrafts for which the credit limit has been increased with the sole purpose of covering an excess.

For an account to qualify for rescheduling it must meet certain criteria including that the client's business must be considered to be viable. The extent to which the Group reschedules accounts that are eligible under its existing policies may vary depending on its view of the prevailing economic conditions and other factors which may change from year to year. In addition, exceptions to policies and practices may be made in specific situations in response to legal or regulatory agreements or orders.

Forbearance activities may include measures that restructure the borrower's business (operational restructuring) and/or measures that restructure the borrower's financing (financial restructuring).

Restructuring options may be of a short or long-term nature or combination thereof. The Group has developed and deployed sustainable restructuring solutions, which are suitable for the borrower and acceptable for the Group.

#### 43. Risk management – Credit risk (continued)

##### Forbearance (continued)

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

Short-term restructuring solutions can include the following:

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

Long-term restructuring solutions can include the following:

- Extension of maturity: extension of the maturity of the loan which allows a reduction in instalment amounts by spreading the repayments over a longer period.
- Additional security: when additional liens on unencumbered assets are obtained as additional security from the borrower in order to compensate for the higher risk exposure and as part of the restructuring process.
- Forbearance of penalties in loan agreements: waiver, temporary or permanent, of violations of covenants in the loan agreements.
- Rescheduling of payments: the existing contractual repayment schedule is adjusted to a new sustainable repayment program based on a realistic, current and forecasted, assessment of the cash flow generation of the borrower.
- Strengthening of the existing collateral: a restructuring solution may entail the pledge of additional security for instance, in order to compensate for the reduction in interest rates or to balance the advantages the borrower receives from the restructuring.
- New loan facilities: new loan facilities may be granted during a restructuring agreement, which may entail the pledge of additional security and in the case of inter-creditor arrangements the introduction of covenants in order to compensate for the additional risk incurred by the Group in providing a new financing to a distressed borrower.
- Debt consolidation: the combination of multiple exposures into a single loan or limited number of loans.
- Debt/equity swaps: partial set-off of the debt and obtaining of an equivalent amount of equity by the Group, with the remaining debt right-sized to the cash flows of the borrower to allow repayment to the Group from repayment on the re-sized debt and from the eventual sale of the equity stake in the business. This solution is used only in exceptional cases and only where all other efforts for restructuring are exhausted and after ensuring compliance with the banking law.
- Debt/asset swaps: agreement between the Group and the borrower to voluntarily dispose of the secured asset to partially or fully repay the debt. The asset may be acquired by the Group and any residual debt may be restructured within an appropriate repayment schedule in line with the borrower's reassessed repayment ability.
- Debt write-off: cancellation of part or the whole of the amount of debt outstanding by the borrower. The Group applies the debt forgiveness solution only as a last resort and in remote cases having taken into consideration the ability of the borrower to repay the remaining debt in the agreed timeframe and the moral hazard.
- Split and freeze: the customer's debt is split into sustainable and unsustainable parts. The sustainable part is restructured and continues to operate. The unsustainable part is 'frozen' for the restructured duration of the sustainable part. At the maturity of the restructuring, the frozen part is either forgiven pro-rata (based on the actual repayment of the sustainable part) or restructured.

##### Rescheduled loans and advances to customers

The below tables present the Group's rescheduled loans and advances to customers by industry sector, geography and credit quality classification, as well as impairment provisions and tangible collateral held for rescheduled loans.



**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000	€000	€000
1 January	8.391.624	24.865	138.376	116.232	119.185	<b>8.790.282</b>
New loans and advances rescheduled in the period	708.038	-	-	31.480	20.514	<b>760.032</b>
Assets no longer classified as rescheduled (including repayments)	(781.846)	-	(71.306)	(30.452)	(1.396)	<b>(885.000)</b>
Applied in writing off rescheduled loans and advances	(386.597)	-	-	(278)	(83)	<b>(386.958)</b>
Interest accrued on rescheduled loans and advances	170.695	22	575	346	537	<b>172.175</b>
Foreign exchange adjustments	159	-	11.634	(10.796)	(61)	<b>936</b>
<b>30 June</b>	<b>8.102.073</b>	<b>24.887</b>	<b>79.279</b>	<b>106.532</b>	<b>138.696</b>	<b>8.451.467</b>
<b>31 December 2015</b>						
1 January	7.024.847	75.778	234.659	136.421	184.585	<b>7.656.290</b>
Disposal of Russian operations	-	-	(118.313)	-	-	<b>(118.313)</b>
New loans and advances rescheduled in the year	2.189.524	-	24.097	32.695	-	<b>2.246.316</b>
Assets no longer classified as rescheduled (including repayments)	(1.125.219)	(35.927)	-	(66.606)	(32.396)	<b>(1.260.148)</b>
Applied in writing off rescheduled loans and advances	(80.896)	(16.700)	-	-	(33.888)	<b>(131.484)</b>
Interest accrued on rescheduled loans and advances	337.231	1.714	10.424	5.538	1.687	<b>356.594</b>
Foreign exchange adjustments	46.137	-	(12.491)	8.184	(803)	<b>41.027</b>
<b>31 December</b>	<b>8.391.624</b>	<b>24.865</b>	<b>138.376</b>	<b>116.232</b>	<b>119.185</b>	<b>8.790.282</b>

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.

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit quality*

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	4.282.867	-	-	71.521	57.594	<b>4.411.982</b>
Past due but not impaired	1.339.503	-	774	32.114	1.417	<b>1.373.808</b>
Impaired	2.479.703	24.887	78.505	2.897	79.685	<b>2.665.677</b>
	<b>8.102.073</b>	<b>24.887</b>	<b>79.279</b>	<b>106.532</b>	<b>138.696</b>	<b>8.451.467</b>
<b>31 December 2015</b>						
Neither past due nor impaired	3.636.868	-	-	84.829	60.182	<b>3.781.879</b>
Past due but not impaired	1.591.934	-	699	29.229	297	<b>1.622.159</b>
Impaired	3.162.822	24.865	137.677	2.174	58.706	<b>3.386.244</b>
	<b>8.391.624</b>	<b>24.865</b>	<b>138.376</b>	<b>116.232</b>	<b>119.185</b>	<b>8.790.282</b>

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Fair value of collateral*

	Cyprus	Russia	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000	€000
Neither past due nor impaired	4.068.958	-	71.443	55.641	<b>4.196.042</b>
Past due but not impaired	1.143.879	770	11.291	1.295	<b>1.157.235</b>
Impaired	1.999.732	47.721	2.774	23.459	<b>2.073.686</b>
	<b>7.212.569</b>	<b>48.491</b>	<b>85.508</b>	<b>80.395</b>	<b>7.426.963</b>
<b>31 December 2015</b>					
Neither past due nor impaired	3.360.868	-	84.722	59.930	<b>3.505.520</b>
Past due but not impaired	1.407.575	696	29.182	178	<b>1.437.631</b>
Impaired	2.709.602	49.297	1.668	39.696	<b>2.800.263</b>
	<b>7.478.045</b>	<b>49.993</b>	<b>115.572</b>	<b>99.804</b>	<b>7.743.414</b>

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

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit risk concentration*

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000	€000	€000
<b>By economic activity</b>						
Trade	691.643	-	32.514	282	2.864	<b>727.303</b>
Manufacturing	287.862	-	15.633	-	1.257	<b>304.752</b>
Hotels and catering	662.969	-	-	7.575	6.382	<b>676.926</b>
Construction	1.841.320	-	8.521	11.354	24.473	<b>1.885.668</b>
Real estate	1.132.496	-	-	61.818	102.916	<b>1.297.230</b>
Private individuals	2.610.577	-	-	1.411	211	<b>2.612.199</b>
Professional and other services	563.090	-	22.611	13.877	-	<b>599.578</b>
Other sectors	312.116	24.887	-	10.215	593	<b>347.811</b>
	<b>8.102.073</b>	<b>24.887</b>	<b>79.279</b>	<b>106.532</b>	<b>138.696</b>	<b>8.451.467</b>
<b>By customer sector</b>						
Corporate	3.948.256	24.887	74.245	89.540	137.015	<b>4.273.943</b>
SMEs	1.752.748	-	5.034	15.777	1.470	<b>1.775.029</b>
Retail						
- housing	1.740.408	-	-	-	-	<b>1.740.408</b>
- consumer, credit cards and other	578.991	-	-	1.215	211	<b>580.417</b>
International banking services	69.306	-	-	-	-	<b>69.306</b>
Wealth management	12.364	-	-	-	-	<b>12.364</b>
	<b>8.102.073</b>	<b>24.887</b>	<b>79.279</b>	<b>106.532</b>	<b>138.696</b>	<b>8.451.467</b>

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit risk concentration (continued)*

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000	€000	€000
<b>By business line</b>						
Corporate	582.161	24.887	74.245	89.540	136.801	<b>907.634</b>
SMEs	531.876	-	5.034	15.777	1.470	<b>554.157</b>
Retail						
- housing	1.592.895	-	-	-	-	<b>1.592.895</b>
- consumer, credit cards and other	467.863	-	-	1.215	211	<b>469.289</b>
Restructuring						
- major corporate	1.724.715	-	-	-	197	<b>1.724.912</b>
- corporate	1.071.431	-	-	-	-	<b>1.071.431</b>
- SMEs	833.754	-	-	-	-	<b>833.754</b>
Recoveries						
- corporate	569.949	-	-	-	17	<b>569.966</b>
- SMEs	387.118	-	-	-	-	<b>387.118</b>
- retail housing	147.513	-	-	-	-	<b>147.513</b>
- retail other	111.128	-	-	-	-	<b>111.128</b>
International banking services	69.306	-	-	-	-	<b>69.306</b>
Wealth management	12.364	-	-	-	-	<b>12.364</b>
	<b>8.102.073</b>	<b>24.887</b>	<b>79.279</b>	<b>106.532</b>	<b>138.696</b>	<b>8.451.467</b>

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit risk concentration (continued)*

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>31 December 2015</b>	€000	€000	€000	€000	€000	€000
<b>By economic activity</b>						
Trade	707.105	-	31.580	-	2.936	<b>741.621</b>
Manufacturing	282.449	-	14.207	136	1.258	<b>298.050</b>
Hotels and catering	743.585	-	-	7.072	6.196	<b>756.853</b>
Construction	2.155.778	-	8.081	14.862	2.444	<b>2.181.165</b>
Real estate	1.069.156	-	-	59.190	82.739	<b>1.211.085</b>
Private individuals	2.526.554	-	-	4.393	153	<b>2.531.100</b>
Professional and other services	584.836	-	84.508	19.517	22.697	<b>711.558</b>
Other sectors	322.161	24.865	-	11.062	762	<b>358.850</b>
	<b>8.391.624</b>	<b>24.865</b>	<b>138.376</b>	<b>116.232</b>	<b>119.185</b>	<b>8.790.282</b>
<b>By customer sector</b>						
Corporate	4.368.307	24.865	133.932	99.603	116.385	<b>4.743.092</b>
SMEs	1.720.453	-	4.444	12.519	2.647	<b>1.740.063</b>
Retail						
- housing	1.685.668	-	-	-	-	<b>1.685.668</b>
- consumer, credit cards and other	568.986	-	-	4.110	153	<b>573.249</b>
International banking services	42.481	-	-	-	-	<b>42.481</b>
Wealth management	5.729	-	-	-	-	<b>5.729</b>
	<b>8.391.624</b>	<b>24.865</b>	<b>138.376</b>	<b>116.232</b>	<b>119.185</b>	<b>8.790.282</b>

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Credit risk concentration (continued)*

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>31 December 2015 (represented)</b>	€000	€000	€000	€000	€000	€000
<b>By business line</b>						
Corporate	647.785	24.865	133.932	99.603	115.639	<b>1.021.824</b>
SMEs	550.664	-	4.444	12.519	2.647	<b>570.274</b>
Retail						
- housing	1.562.149	-	-	-	-	<b>1.562.149</b>
- consumer, credit cards and other	468.368	-	-	4.110	153	<b>472.631</b>
Restructuring						
- major corporate	1.768.782	-	-	-	626	<b>1.769.408</b>
- corporate	1.272.086	-	-	-	-	<b>1.272.086</b>
- SMEs	798.010	-	-	-	-	<b>798.010</b>
Recoveries						
- corporate	679.654	-	-	-	120	<b>679.774</b>
- SMEs	371.779	-	-	-	-	<b>371.779</b>
- retail housing	123.519	-	-	-	-	<b>123.519</b>
- retail other	100.618	-	-	-	-	<b>100.618</b>
International banking services	42.481	-	-	-	-	<b>42.481</b>
Wealth management	5.729	-	-	-	-	<b>5.729</b>
	<b>8.391.624</b>	<b>24.865</b>	<b>138.376</b>	<b>116.232</b>	<b>119.185</b>	<b>8.790.282</b>

**43. Risk management – Credit risk (continued)**

**Rescheduled loans and advances to customers (continued)**

*Provisions for impairment*

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>30 June 2016</b>	€000	€000	€000	€000	€000	€000
Individual impairment	1.052.903	24.887	59.608	2.110	56.257	<b>1.195.765</b>
Collective impairment	149.410	-	373	212	1.614	<b>151.609</b>
	<b>1.202.313</b>	<b>24.887</b>	<b>59.981</b>	<b>2.322</b>	<b>57.871</b>	<b>1.347.374</b>
<b>31 December 2015</b>						
Individual impairment	1.144.475	22.966	113.177	1.396	35.694	<b>1.317.708</b>
Collective impairment	207.106	-	49	266	1.813	<b>209.234</b>
	<b>1.351.581</b>	<b>22.966</b>	<b>113.226</b>	<b>1.662</b>	<b>37.507</b>	<b>1.526.942</b>



**43. Risk management – Credit risk (continued)**

**Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation**

*Balances with central banks and loans and advances to banks*

Balances with central banks and loans and advances to banks are analysed by Moody's rating as follows:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Aaa – Aa3	<b>809.245</b>	555.594
A1 – A3	<b>329.235</b>	643.540
Baa1 – Baa3	<b>68.464</b>	146.428
Ba1 – Ba3	<b>79.389</b>	36.954
B1 – B3	<b>1.070.475</b>	957.074
Caa – C	<b>6.750</b>	8.750
Unrated	<b>132.584</b>	205.924
Other receivables from banks	<b>38.496</b>	28.701
	<b>2.534.638</b>	2.582.965

Band B1-B3 above includes an amount of €124.926 thousand which mainly relates to obligatory deposits for liquidity purposes with the Central Bank of Cyprus. As at 30 June 2016, bank balances with carrying value of €95.255 thousand are impaired (31 December 2015: €134.291 thousand), with cumulative impairment loss of €41.755 thousand (31 December 2015: €28.605 thousand).

**43. Risk management – Credit risk (continued)**

**Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation (continued)**

*Debt securities*

Investments in debt securities are analysed by Moody's rating, their issuer and classification, as follows:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Aaa – Aa3	<b>373.081</b>	402.830
Baa1 – Baa3	<b>23.227</b>	54.626
B1 – B3	<b>394.726</b>	459.159
Caa – C	-	1
Unrated	<b>1</b>	-
	<b>791.035</b>	916.616
<i>Issued by:</i>		
- Cyprus government	<b>394.726</b>	459.159
- other governments	<b>362.358</b>	421.037
- banks and other corporations	<b>33.951</b>	36.420
	<b>791.035</b>	916.616
<i>Classified as:</i>		
- trading investments	<b>321</b>	317
- investments at fair value through profit or loss	<b>17.187</b>	17.430
- available-for-sale investments	<b>400.787</b>	461.934
- investments classified as loans and receivables	<b>372.740</b>	436.935
	<b>791.035</b>	916.616

#### 44. Risk management – Market risk

Market risk is the risk of loss from adverse changes in market prices – namely from changes in interest rates, exchange rates and security prices. The Market Risk department is responsible for monitoring the risk resulting from such changes with the objective to minimise the impact on earnings and capital. The department also monitors liquidity risk and credit risk with counterparties and countries. It is also responsible for monitoring compliance with the various market risk policies and procedures.

##### Interest rate risk

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

Interest rate risk is measured using interest rate sensitivity gap analysis where the difference between assets and liabilities repricing in each time band is calculated separately for each currency. A rate change is applied on each item of the balance sheet for the number of days between its repricing date and the one year horizon in order to calculate the impact on net interest income.

Interest rate risk is managed through maximum loss limits from interest rate mismatches which are set for each banking unit of the Group. There are different limits for the Euro and for foreign currencies. The maximum loss limits apply for each of the next three years. These limits are set as a percentage of Group capital and as a percentage of net interest income (when positive) and are allocated to the various banking units of the Group based on their contribution to net interest income. Small limits for open interest rate positions for periods of more than three years are also in place.

##### Sensitivity analysis

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

	<b>Euro</b>	<b>US Dollar</b>	<b>British Pound</b>	<b>Other currencies</b>	<b>Total</b>
<i>Change in interest rates</i>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>30 June 2016</b>					
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	<b>9.530</b>	<b>9.988</b>	<b>4.061</b>	<b>3.168</b>	<b>26.747</b>
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for Euro Euribor ECB -1% for Euro Bank Basic Rate -0,5% for all other currencies	<b>(19.790)</b>	<b>(6.886)</b>	<b>(2.854)</b>	<b>(3.232)</b>	<b>(32.762)</b>
<b>31 December 2015</b>					
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	<b>14.244</b>	<b>10.281</b>	<b>4.524</b>	<b>(570)</b>	<b>28.479</b>
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for Euro Euribor ECB -1% for Euro Bank Basic Rate -0,5% for all other currencies	<b>(24.120)</b>	<b>(7.275)</b>	<b>(3.454)</b>	<b>532</b>	<b>(34.317)</b>

#### 44. Risk management – Market risk (continued)

##### Interest rate risk (continued)

##### *Sensitivity analysis (continued)*

In addition to the above fluctuations in net interest income, the Group results are also affected by changes in interest rates which result in fluctuations in the fair value of investments at fair value through profit or loss (including investments held for trading) and in the fair value of derivative financial instruments.

The equity of the Group is also affected by changes in market interest rates. The impact on the Group's equity arises from changes in the fair value of fixed rate debt securities classified as available-for-sale (unless impaired).

The sensitivity analysis is based on the assumption of a parallel shift of the yield curve. The table below sets out the impact on the Group's profit before tax and equity as a result of reasonably possible changes in the interest rates of the major currencies.

	Impact on profit before tax	Impact on equity
<i>Change in interest rates</i>	€000	€000
<b>30 June 2016</b>		
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	472	(22)
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for all other currencies	(472)	22
<b>31 December 2015</b>		
+5% for Russian Rouble +0,75% for US Dollar +0,5% for all other currencies	572	(97)
-5% for Russian Rouble -0,25% for Japanese Yen -0,5% for all other currencies	(572)	97

##### Currency risk

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

In order to manage currency risk, the Assets and Liabilities Committee (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 Central Bank of Cyprus. These limits are managed by Treasury and monitored daily by market risk officers in all the banking units of the Group, who report the overnight foreign currency position of each unit to Market Risk daily.

The Group does not maintain a currency trading book.

**44. Risk management – Market risk (continued)**

**Currency risk (continued)**

The table below sets out the Group's currency risk resulting from the financial instruments that it holds. The analysis assumes reasonably possible changes in the exchange rates of major currencies against the Euro, based mainly on historical price fluctuations. The impact on profit after tax includes the change in net interest income that arises from the change of currency rate.

	Change in foreign exchange rate	Impact on profit after tax	Impact on equity
30 June 2016	%	€000	€000
US Dollar	+10	2.065	-
Russian Rouble	+40	5.455	74.805
Romanian Lei	+10	-	4.578
Swiss Franc	+15	5.470	-
British Pound	+15	709	(26.484)
Japanese Yen	+15	526	-
Other currencies	+10	128	-
US Dollar	-10	(1.690)	-
Russian Rouble	-40	(2.338)	(32.059)
Romanian Lei	-10	-	(3.746)
Swiss Franc	-15	(4.043)	-
British Pound	-15	(524)	19.575
Japanese Yen	-15	(389)	-
Other currencies	-10	(105)	-

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.

44. Risk management – Market risk (continued)

Currency risk (continued)

	Change in foreign exchange rate	Impact on loss after tax	Impact on equity
31 December 2015	%	€000	€000
US Dollar	+10	1.753	-
Russian Rouble	+40	5.819	78.573
Romanian Lei	+10	1	3.634
Swiss Franc	+20	9.344	-
British Pound	+10	515	(18.304)
Japanese Yen	+10	490	-
Other currencies	+10	111	-
US Dollar	-10	(1.434)	-
Russian Rouble	-40	(2.494)	(33.674)
Romanian Lei	-10	(1)	(2.974)
Swiss Franc	-20	(6.229)	-
British Pound	-10	(422)	14.976
Japanese Yen	-10	(401)	-
Other currencies	-10	(91)	-

Price risk

*Equity securities price risk*

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

Investments in equities are outside the Group's risk appetite. The Group monitors the current portfolio mostly acquired by the Group as part of the acquisition of certain operations of Laiki Bank, with the objective to gradually liquidate all positions for which there is a market. Equity securities may also be acquired in the context of delinquent loan workouts and are disposed of by the Group as soon as practicable.

Changes in the prices of equity securities that are classified as investments at fair value through profit or loss, affect the results of the Group, whereas changes in the value of equity securities classified as available-for-sale affect the equity of the Group (if not impaired).

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

**44. Risk management – Market risk (continued)**

**Price risk (continued)**

*Equity securities price risk (continued)*

	Change in index	Impact on profit/(loss) before tax	Impact on equity
<b>30 June 2016</b>	%	€000	€000
Cyprus Stock Exchange	+30	1.934	1.582
Athens Exchange	+50	-	120
Other Stock Exchanges and non listed	+20	802	1.942
Cyprus Stock Exchange	-30	(2.114)	(1.401)
Athens Exchange	-50	(72)	(48)
Other Stock Exchanges and non listed	-20	(802)	(1.942)
<b>31 December 2015</b>			
Cyprus Stock Exchange	+30	2.164	1.509
Athens Exchange	+50	-	83
Other Stock Exchanges and non listed	+20	1.721	1.916
Cyprus Stock Exchange	-30	(2.298)	(1.376)
Athens Exchange	-50	(58)	(25)
Other Stock Exchanges and non listed	-20	(1.768)	(1.869)

*Debt securities price risk*

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Group. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Group invests a significant part of its liquid assets in debt securities issued mostly by governments and banks. The average Moody's rating of the debt securities portfolio of the Group as at 30 June 2016 was Baa2 (31 December 2015: Baa2).

Changes in the prices of debt securities classified as investments at fair value through profit or loss, affect the profit or loss of the Group, whereas changes in the value of debt securities classified as available-for-sale affect the equity of the Group (if not impaired).

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

**44. Risk management – Market risk (continued)**

**Price risk (continued)**

*Debt securities price risk (continued)*

	Impact on profit/(loss) before tax	Impact on equity
<i>Change in market prices</i>	€000	€000
<b>30 June 2016</b>		
+5,2%	2.679	20.598
-5,2%	(2.679)	(20.598)
<b>31 December 2015</b>		
+5,5%	2.002	25.188
-5,5%	(2.002)	(25.188)

**45. Risk management – Liquidity risk and funding**

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

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

In order to limit this risk, management aims to achieve diversified funding sources in addition to the Group's core deposit base, and has adopted a policy of managing assets with liquidity in mind and monitoring cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

**Management and structure**

The Board sets the Group's Liquidity Risk Appetite being the level of risk at which the Group should operate.

The Board of Directors, through its Risk Committee, approves the Liquidity Policy Statement and reviews almost at every meeting the liquidity position of the Group. Information on inflows/outflows is also provided.

The ALCO of each unit is responsible for monitoring the liquidity position of the unit and ensuring compliance with the approved policies. The ALCO is responsible for setting the policies for the effective management and monitoring of liquidity across the Group. It also monitors the liquidity position of its major banking units at least monthly. Given the current liquidity position of the Company, the ALCO considers the monitoring of liquid assets and the cash inflows/outflows of the Company in Cyprus, to be of utmost importance.

Local Treasury departments at each banking unit are responsible for managing liquidity in their respective unit. Group Treasury is responsible for liquidity management at Group level and for overseeing the operations of each country banking unit, to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity needs. Every unit targets to finance its own needs in the medium term. Group Treasury assesses on a continuous basis, and informs ALCO at regular time intervals, the adequacy of the liquid assets and takes the necessary actions to enhance the Group's liquidity position.

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



**45. Risk management – Liquidity risk and funding (continued)**

**Management and structure (continued)**

Liquidity is monitored and managed on an ongoing basis through:

- (i) Risk appetite: established Group Risk Appetite together with the appropriate limits for the management of all risks including liquidity risk.
- (ii) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework and limits.
- (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 market 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) Contingency Funding Plan: maintenance of a Contingency Funding Plan (CFP) which is designed to provide a framework where a liquidity stress could be effectively managed. The CFP provides a communication plan and includes management actions to respond to liquidity stresses.
- (vi) Recovery Plan: the Group has developed a Recovery Plan. The key objectives are to provide the Group with a range of options to ensure its viability in a stress, to set consistent Early Warning Indicators and to enable the Group to be adequately prepared to respond to stressed conditions.

**Monitoring process**

*Daily*

The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Group's activities. Market Risk prepares a report for submission to the CBC and ECB/SSM, indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash. Also, Group Treasury monitors daily and intraday the inflows and outflows in the main currencies used by the Group.

Since May 2016, Market Risk also prepares stress testing for bank-specific, market wide and combined scenarios. The requirement is to have sufficient buffer to enable the Company to survive a two-week stress period, and adequate capacity to raise funding under a three month period, under all scenarios.

The liquidity buffer is made up of: bank notes, CBC balances (excluding the Minimum Reserve Requirements (MRR)), nostro current accounts, money market placements up to the stress horizon and market value net of haircut of eligible unencumbered/available bonds.

The designing of the stress tests followed best practice guidance and was based on the liquidity risk drivers which are recognised internationally by both the Prudential Regulation Authority (PRA) and EBA SREP. The stress tests assumptions are included in the Group Liquidity Policy which is reviewed on an annual basis and approved by the Board. However, whenever it is considered appropriate to amend the assumptions during the year, approval is requested by ALCO and the Board Risk Committee. The main items shocked in the different scenarios are: deposit outflows, wholesale funding, loan repayments, off-balance sheet commitments, marketable securities and cash collateral for derivatives.

*Weekly*

Market Risk prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC.

*Monthly*

Market Risk prepares reports indicating compliance with internal and regulatory liquidity ratios, for all banking units and for the Group and submits them to the ALCO, the Executive Committee and the Board Risk Committee. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer. The fixed deposit renewal rates and deposits by tenor are also presented to the ALCO.

Market Risk reports the Liquidity Coverage Ratio (LCR) to the CBC/ECB monthly.

Group Treasury prepares and submits a liquidity report to the ALCO and the Executive Committee on a monthly basis that indicates the liquidity position of the Company, data on monthly customer flows, as well as other important developments related to liquidity. Moreover, Group Treasury prepares a cash flows projection report covering a two month period which is sent to ECB/SSM.

#### 45. Risk management – Liquidity risk and funding (continued)

##### Monitoring process (continued)

###### *Quarterly*

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

###### *Annually*

The Group prepares on an annual basis its report on Internal Liquidity Adequacy Assessment Process (ILAAP). The report for the year 2015 was approved by the Board and was submitted to the CBC and the ECB within the deadline which was 30 April 2016.

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

##### Liquidity ratios

The ratio of liquid assets to total deposits and other liabilities falling due in the next twelve months is prepared monthly by Market Risk and monitored by ALCO. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by the regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposit/liabilities due to be paid in the next twelve months.

The Group's liquidity ratio was as follows:

	<b>30 June 2016</b>	31 December 2015
	<b>%</b>	<b>%</b>
End of reporting period	<b>16,82</b>	18,25
Average monthly ratio	<b>16,42</b>	18,31
Highest monthly ratio	<b>17,22</b>	21,62
Lowest monthly ratio	<b>14,48</b>	15,64

The minimum liquidity ratios for the operations in Cyprus are set at the levels required by the CBC: 20% for Euro and 70% for foreign currencies. It is noted that in the calculation of the above ratios, as well as for CBC regulatory reports, ELA is treated as a long term liability. The Company is currently not in compliance with its regulatory liquidity requirements with respect to its operations in Cyprus and therefore dependent on continuing regulatory forbearance.

As at 30 June 2016 and 31 December 2015 the other banking units of the Group were in compliance with their liquidity regulatory ratios.

The ratio of loans and advances to customer deposits is presented below:

	<b>30 June 2016</b>	31 December 2015
	<b>%</b>	<b>%</b>
End of reporting period	<b>109,92</b>	120,92
Average quarterly ratio	<b>116,52</b>	133,57
Highest quarterly ratio	<b>120,92</b>	141,48
Lowest quarterly ratio	<b>109,92</b>	120,92

#### 45. Risk management – Liquidity risk and funding (continued)

##### Sources of funding

Currently the Group's main sources of liquidity are its deposit base and central bank funding, either through the Eurosystem monetary policy operations or through ELA.

Reliance on ELA funding was reduced from its peak of €11,4 billion in April 2013. As at 30 June 2016, the funding from ELA amounted to €2,4 billion (31 December 2015: €3,8 billion) (Note 30).

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

The funding provided to the Group through ELA is short term (usually 2-3 weeks), covering the period until the next scheduled meeting of the ECB Governing Council. The funding via Eurosystem monetary ruling operations ranges from short term to long term. Currently, the Group borrows short-term, through one-week liquidity operations (Main Refinancing Operations).

In May 2016, the Group raised €200 million of funding from ECB's Main Refinancing Operations using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

Additionally, in May 2016 the Company has also concluded a repurchase transaction which is its first wholesale funding transaction since 2013.

On 29 June 2016 the Company repaid the amount borrowed through the TLTRO amounting to €500 million.

##### Funding to subsidiaries

The funding provided by the Company to its subsidiaries for liquidity purposes is repayable as per the terms of the respective agreements. For lending provided for capital purposes (subordinated loan stocks) the prior approval of the regulator is usually required on any repayment before the maturity date and for Bank of Cyprus UK Ltd approval is also required for the final repayment. The Group subsidiaries Bank of Cyprus UK Ltd and Bank of Cyprus (Channel Islands) Ltd, cannot place funds with the Group in excess of maximum limits set by the local regulator.

Any new funding to subsidiaries requires approval from the ECB/CBC.

The subsidiaries may proceed with dividend distributions in the form of cash to the Company, provided that they are not in breach of their regulatory capital and liquidity requirements. Certain subsidiaries have a recommendation from their regulator to avoid any dividend distribution at this point in time.

##### Collateral requirements

The carrying values of the Group's encumbered assets as at 30 June 2016 and 31 December 2015 are summarised below:

	30 June 2016	31 December 2015
	€000	€000
Cash and other liquid assets	165.534	154.896
Investments	597.934	892.728
Loans and advances	11.530.650	12.882.139
Property	92.814	93.500
	<b>12.386.932</b>	<b>14.023.263</b>

In August 2016 the CBC has released loans and advances with contractual value of €2 billion held as collateral for ELA.

Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions, (ii) trade finance transactions and guarantees issued and (iii) the covered bond.

**45. Risk management – Liquidity risk and funding (continued)**

**Collateral requirements (continued)**

Investments are mainly used as collateral for repurchase transactions with commercial banks as well as supplementary assets for the covered bond, while loans are mainly used as collateral for funding from the CBC, the ECB and for the covered bond.

As at 30 June 2016, the Company maintained the rights and obligations as issuer of two bonds guaranteed by the Republic of Cyprus of €500 million each. The bonds bear an annual fixed interest rate at 5%. The bonds are guaranteed by the Republic of Cyprus and are issued in accordance with the relevant legislation and decrees on the 'Granting of Government Guarantees for the Conclusion of Loans and/or the Issue of Bonds by Credit Institutions Law'. No liability from the issue of these bonds is presented in debt securities in issue in the consolidated balance sheet as all the bonds are held by the Company. The bonds are listed on the Cyprus Stock Exchange. As at 30 June 2016 one of the bonds was pledged as collateral for obtaining funding from central banks. The other bond has been released in June 2016 from the ELA pool of collateralised assets. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities. The delisting from the CSE will be announced by the CSE in due course.

The Company maintains a Covered Bond Programme set up under the Cyprus Covered Bonds legislation and the Covered Bonds Directive of the CBC.

Under the Programme, the Company issued in December 2011 a covered bond of €1.000 million secured by residential mortgage loans originated in Cyprus and maturing in 2017. The covered bond bears interest at the three months Euribor plus 3,25% per annum. All the bonds issued are held by the Company.

On 29 September 2015 the terms of the Covered Bond Programme and outstanding €1.000 million covered bond were amended to a Conditional Pass-Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650.000 thousand with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. Currently, the covered bond is placed as collateral for accessing funding from the ECB. Through this transaction, the Company has raised €550.000 thousand of ECB funding. Prior to the rating upgrade, the covered bond was used as collateral for ELA.

The assets used as collateral for the covered bond are already included in the table above.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

**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 30 June is based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 30 June to the contractual maturity date.

**45. Risk management – Liquidity risk and funding (continued)**

**Analysis of financial assets and liabilities based on remaining contractual maturity (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 30 June, until their contractual maturity date. Amounts placed as collateral (primarily for derivatives and loans) are assigned to different time bands based on either their maturity (in the case of loans), or proportionally according to the maturities of derivatives (where the collateral had no fixed maturity).

Financial assets with no contractual maturity (such as equity securities) are included in the 'over five years' time band, unless classified as at fair value through profit or loss, in which case they are included in the 'up to one month time band'.

The investments are classified in the relevant time band according to their contractual maturity.

*Financial liabilities*

All financial liabilities for the repayment of which notice is required, are included in the relevant time bands as if notice had been given on 30 June, 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.

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

*Derivative financial instruments*

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

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

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

**45. Risk management – Liquidity risk and funding (continued)**

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

*Commitments and contingent liabilities*

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

	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	<b>Total</b>
<b>30 June 2016</b>	€000	€000	€000	€000	€000	<b>€000</b>
<b>Financial assets</b>						
Cash and balances with central banks	1.464.383	16.386	29.214	8.680	-	<b>1.518.663</b>
Loans and advances to banks	934.030	4.236	39.736	132.216	63.905	<b>1.174.123</b>
Investments at fair value through profit or loss	31.277	-	13.677	4.389	802	<b>50.145</b>
Loans and advances to customers	6.884.219	273.527	922.376	3.284.484	4.888.631	<b>16.253.237</b>
Fair value of net settled derivative assets	10.404	992	2.619	288	-	<b>14.303</b>
Non-trading investments	73.717	20.178	78.629	458.937	158.137	<b>789.598</b>
Other assets	42.034	15.648	19.297	77.070	6.820	<b>160.869</b>
<b>Total financial assets</b>	<b>9.440.064</b>	<b>330.967</b>	<b>1.105.548</b>	<b>3.966.064</b>	<b>5.118.295</b>	<b>19.960.938</b>
<b>Financial liabilities</b>						
Deposits by banks	231.993	40.146	17.250	8.725	52.084	<b>350.198</b>
Funding from central banks	3.101.833	-	-	-	-	<b>3.101.833</b>
Repurchase agreements	-	9.593	45.070	378.317	9.031	<b>442.011</b>
Customer deposits	7.915.647	1.991.186	4.117.467	816.629	3.090	<b>14.844.019</b>
Fair value of net settled derivative liabilities	11.070	476	1.689	37.121	8.879	<b>59.235</b>
Other liabilities	92.172	31.126	43.503	7.092	3.416	<b>177.309</b>
<b>Total undiscounted financial liabilities</b>	<b>11.352.715</b>	<b>2.072.527</b>	<b>4.224.979</b>	<b>1.247.884</b>	<b>76.500</b>	<b>18.974.605</b>

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

Analysis of financial assets and liabilities based on remaining contractual maturity (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
31 December 2015	€000	€000	€000	€000	€000	€000
<b>Financial assets</b>						
Cash and balances with central banks	1.373.351	20.898	27.943	410	-	1.422.602
Loans and advances to banks	1.045.275	13.865	45.027	191.869	18.344	1.314.380
Investments at fair value through profit or loss	28.378	-	6.719	14.769	919	50.785
Loans and advances to customers	6.990.238	229.696	1.043.964	3.529.475	5.398.259	17.191.632
Fair value of net settled derivative assets	12.615	733	593	39	43	14.023
Non-trading investments	57.136	51.367	203.219	485.305	161.475	958.502
Other assets	31.459	8.192	9.348	123.787	6.875	179.661
<b>Total financial assets</b>	<b>9.538.452</b>	<b>324.751</b>	<b>1.336.813</b>	<b>4.345.654</b>	<b>5.585.915</b>	<b>21.131.585</b>
<b>Financial liabilities</b>						
Deposits by banks	181.358	-	16.946	8.505	38.395	245.204
Funding from central banks	3.953.955	-	-	502.846	-	4.456.801
Repurchase agreements	-	29.826	82.217	288.676	9.679	410.398
Customer deposits	7.675.374	2.273.718	3.767.389	561.323	2.658	14.280.462
Debt securities in issue	-	-	712	-	-	712
Fair value of net settled derivative liabilities	6.865	3.658	5.266	33.826	4.544	54.159
Other liabilities	84.527	18.475	31.366	6.278	2.338	142.984
<b>Total undiscounted financial liabilities</b>	<b>11.902.079</b>	<b>2.325.677</b>	<b>3.903.896</b>	<b>1.401.454</b>	<b>57.614</b>	<b>19.590.720</b>

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

Analysis of financial assets and liabilities based on remaining contractual maturity (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
30 June 2016	€000	€000	€000	€000	€000	€000
<b>Gross settled derivatives</b>						
<i>Financial assets</i>						
Contractual amounts receivable	912.469	91.387	165.801	-	-	<b>1.169.657</b>
Contractual amounts payable	(902.618)	(90.179)	(162.466)	-	-	<b>(1.155.263)</b>
	<b>9.851</b>	<b>1.208</b>	<b>3.335</b>	-	-	<b>14.394</b>
<i>Financial liabilities</i>						
Contractual amounts receivable	645.477	89.798	19.045	-	-	<b>754.320</b>
Contractual amounts payable	(656.848)	(90.403)	(19.164)	-	-	<b>(766.415)</b>
	<b>(11.371)</b>	<b>(605)</b>	<b>(119)</b>	-	-	<b>(12.095)</b>
<b>Contingent liabilities and commitments</b>						
<i>Contingent liabilities</i>						
Acceptances and endorsements	2.741	3.453	2.006	-	-	<b>8.200</b>
Guarantees	71.273	135.443	218.937	235.123	120.644	<b>781.420</b>
<i>Commitments</i>						
Documentary credits	2.465	5.634	8.107	120	1.470	<b>17.796</b>
Undrawn formal standby facilities, credit lines and other commitments to lend	1.949.106	17.642	-	-	-	<b>1.966.748</b>
	<b>2.025.585</b>	<b>162.172</b>	<b>229.050</b>	<b>235.243</b>	<b>122.114</b>	<b>2.774.164</b>



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

Analysis of financial assets and liabilities based on remaining contractual maturity (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
31 December 2015	€000	€000	€000	€000	€000	€000
<b>Gross settled derivatives</b>						
<i>Financial assets</i>						
Contractual amounts receivable	931.730	57.648	1.196	-	-	<b>990.574</b>
Contractual amounts payable	(920.083)	(56.874)	(1.175)	-	-	<b>(978.132)</b>
	<b>11.647</b>	<b>774</b>	<b>21</b>	-	-	<b>12.442</b>
<i>Financial liabilities</i>						
Contractual amounts receivable	408.995	160.095	167.212	-	-	<b>736.302</b>
Contractual amounts payable	(414.868)	(161.442)	(169.407)	-	-	<b>(745.717)</b>
	<b>(5.873)</b>	<b>(1.347)</b>	<b>(2.195)</b>	-	-	<b>(9.415)</b>
<b>Contingent liabilities and commitments</b>						
<i>Contingent liabilities</i>						
Acceptances and endorsements	3.587	2.750	2.048	-	-	<b>8.385</b>
Guarantees	66.251	140.400	245.352	254.419	86.689	<b>793.111</b>
<i>Commitments</i>						
Documentary credits	2.259	8.028	4.116	2.643	1.395	<b>18.441</b>
Undrawn formal standby facilities, credit lines and other commitments to lend	2.069.129	19.490	-	-	-	<b>2.088.619</b>
	<b>2.141.226</b>	<b>170.668</b>	<b>251.516</b>	<b>257.062</b>	<b>88.084</b>	<b>2.908.556</b>

#### 46. Risk management – Insurance risk

Insurance risk is the risk that an insured event under an insurance contract occurs and the uncertainty of the amount and the timing of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments will exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual volume and cost of claims and benefits will vary from year to year compared to the estimate established using statistical or actuarial techniques.

The above risk exposure is mitigated by the Group through the diversification across a large portfolio of insurance contracts. The variability of risks is also reduced by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Although the Group has reinsurance arrangements, it is not relieved of its direct obligations to policyholders and is thus exposed to credit risk with respect to ceded insurance, to the extent that any reinsurer is unable to meet the obligations assumed under such reinsurance arrangements. For that reason, the creditworthiness of reinsurers is evaluated by considering their solvency and credit rating.

##### *Life insurance contracts*

The main factors that could affect the overall frequency of claims are epidemics, major lifestyle changes and natural disasters.

The underwriting strategy and risk assessment is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through the use of medical screening in order to ensure that pricing takes account the current medical conditions and family medical history and through the regular review of actual claims and product pricing. The Group has the right to decline policy applications, it can impose additional charges and it has the right to reject the payment of fraudulent claims.

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

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

	30 June 2016	31 December 2015
Change in embedded value	€000	€000
Change in interest rates +0,25%	86	93
Change in expenses +10%	(2.660)	(2.639)
Change in lapsation rates +10%	(1.077)	(953)
Change in mortality rates+10%	(6.649)	(6.711)

The variables above are not linear. In each sensitivity calculation for changes in key economic variables, all other assumptions remain unchanged except when they are directly affected by the revised economic conditions.

Changes to key non-economic variables do not incorporate management actions that could be taken to mitigate effects, nor do they take account of consequential changes in policyholder behaviour. In each sensitivity calculation all other assumptions are therefore unchanged.

Some of the sensitivity scenarios shown in respect of changes to both economic and non-economic variables may have a consequential effect on the valuation basis when a product is valued on an active basis which is updated to reflect current economic conditions.

**46. Risk management – Insurance risk (continued)**

*Life insurance contracts (continued)*

While the magnitude of these sensitivities will, to a large extent, reflect the size of closing embedded value, each variable will have a different impact on different components of the embedded value. In addition, other factors such as the intrinsic cost and time value of options and guarantees, the proportion of investments between equities and bonds and the type of business written, including for example, the extent of with-profit business versus non-profit business and to the extent to which the latter is invested in matching assets, will also have a significant impact on sensitivities.

*General insurance contracts*

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

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

**47. Capital management**

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

The capital adequacy regulations which govern the Group's operations are established by the CBC/ECB.

The Group complies with the minimum capital requirements (Pillar I and Pillar II).

In addition, the Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

Additional information on regulatory capital is disclosed in the Additional Risk and Capital Management Disclosures (Unaudited) which are available on the Group's Website [www.bankofcyprus.com](http://www.bankofcyprus.com) (Investor Relations).

**48. Related party transactions**

	<b>30 June 2016</b>	<b>31 December 2015</b>	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>Number of directors</b>		<b>€000</b>	<b>€000</b>
<b>Loans and advances to members of the Board of Directors and connected persons:</b>				
- less than 1% of the Group's net assets per director	<b>10</b>	9	<b>335</b>	369
	<b>10</b>	9	<b>335</b>	369
<b>Loans and advances to other key management personnel and connected persons</b>			<b>3.032</b>	3.871
<b>Total loans and advances</b>			<b>3.367</b>	4.240
Loans and advances				
- members of the Board of Directors and other key management personnel			<b>2.928</b>	3.354
- connected persons			<b>439</b>	886
			<b>3.367</b>	4.240
<b>Deposits</b>				
- members of the Board of Directors and other key management personnel			<b>2.960</b>	3.366
- connected persons			<b>2.926</b>	3.147
			<b>5.886</b>	6.513

The above table does not include period/year-end balances i.e. 30 June 2016 and 31 December 2015 respectively, for members of the Board of Directors and their connected persons who resigned during the period/year.

Interest income and expense from members of the Board of Directors and connected persons and other key management personnel and connected persons from loans and advances and deposits for the six months ended 30 June 2016 amounted to €55 thousand and €38 thousand respectively (corresponding period of 2015: €69 thousand and €139 thousand respectively). The interest income and expense are disclosed from the date of their appointment.

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 €48 thousand (31 December 2015: €135 thousand). As at 30 June 2016 and 31 December 2015, none of the directors or their connected persons had total loans and advances which exceeded 1% of the net assets of the Group per director. There were also contingent liabilities and commitments to other key management personnel and their connected persons amounting to €358 thousand (31 December 2015: €856 thousand).

The total unsecured amount of the loans and advances and contingent liabilities and commitments to members of the Board of Directors, key management personnel and other connected persons (using forced-sale values for tangible collaterals and assigning no value to other types of collaterals) at 30 June 2016 amounted to €684 thousand (31 December 2015: €1.094 thousand).

At 30 June 2016 the Group has an investment in Invesco Euro Short Term Bond Fund, in which Mr Wilbur L. Ross Jr. is an executive Director. The fair value of the investment at 30 June 2016 amounts to €4.010 thousand.

There were no transactions during the six months ended 30 June 2016 and 2015 with connected persons of the current members of the Board of Directors nor with any members who resigned during the period.

**48. Related party transactions (continued)**

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.

All transactions with members of the Board of Directors and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of loans and advances have been extended to other key management personnel and their connected persons on the same terms as those applicable to the rest of the Group's employees.

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

	Six months ended 30 June	
	2016	2015
	€000	€000
<b>Director emoluments</b>		
<i>Executives</i>		
Salaries and other short term benefits	934	488
Employer's contributions	46	30
Retirement benefit plan costs	84	64
	1.064	582
<i>Non-executives</i>		
Fees	410	132
Total directors' emoluments	1.474	714
<b>Other key management personnel emoluments</b>		
Salaries and other short term benefits	1.524	1.891
Termination benefits	397	-
Employer's contributions	97	77
Retirement benefit plan costs	82	93
Total other key management personnel emoluments	2.100	2.061
<b>Total</b>	<b>3.574</b>	<b>2.775</b>

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

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

**48. Related party transactions (continued)**

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

*Executive Directors*

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

	Six months ended 30 June	
	2016	2015
	€000	€000
John Patrick Hourican (Chief Executive Officer)	836	422
Christodoulos Patsalides (Deputy CEO and Chief Operating Officer)	98	66
	<b>934</b>	<b>488</b>

The retirement benefit plan costs for the six months ended 30 June 2016 amounting to €84 thousand (30 June 2015: €64 thousand) relate to: Mr John Patrick Hourican €73 thousand (30 June 2015: €55 thousand) and Dr Christodoulos Patsalides €11 thousand (30 June 2015: €9 thousand).

*Non-executive Directors*

	Six months ended 30 June	
	2016	2015
	€000	€000
Josef Ackermann	75	34
Wilbur L. Ross Jr.	60	25
Vladimir Strzhalkovskiy	-	21
Arne Berggren	58	10
Maksim Goldman	60	12
Michalis Spanos	50	8
Ioannis Zographakis	57	11
Marios Kalochoritis	45	11
Michael Heger	5	-
	<b>410</b>	<b>132</b>

The fees of the Non-executive Directors include fees as members of the Board of Directors of the Company and its subsidiaries, as well as of committees of the Board of Directors.

*Other key management personnel*

The other key management personnel emoluments include the remuneration of the members of the Executive Committee since the date of their appointment to the Committee and other members of the management team who report directly to the Chief Executive Officer or to the Deputy CEO.

**BANK OF CYPRUS GROUP**  
**Notes to the Interim Consolidated Financial Statements**

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**49. Group companies**

The main subsidiary companies and branches included in the consolidated financial statements of the Group, their country of incorporation, their activities, and the percentage held by the Company (directly or indirectly) as at 30 June 2016 are:

<b>Company</b>	<b>Country</b>	<b>Activities</b>	<b>Percentage holding (%)</b>
Bank of Cyprus Public Company Ltd	Cyprus	Commercial bank	N/A
The Cyprus Investment and Securities Corporation Ltd (CISCO)	Cyprus	Investment banking, asset management and brokerage	100
General Insurance of Cyprus Ltd	Cyprus	General insurance	100
EuroLife Ltd	Cyprus	Life insurance	100
Kermia Ltd	Cyprus	Property trading and development	100
Kermia Properties & Investments Ltd	Cyprus	Property trading and development	100
Cytrustees Investment Public Company Ltd	Cyprus	Closed-end investment company	53
Finerose Properties Ltd	Cyprus	Financing services	100
LCP Holdings and Investments Public Ltd (formerly Laiki Capital Public Co Ltd)	Cyprus	Holding company	67
JCC Payment Systems Ltd	Cyprus	Card processing transaction services	75
CLR Investment Fund Public Ltd	Cyprus	Investment company	20
Auction Yard Ltd	Cyprus	Auction company	100
BOC Secretarial Company Ltd	Cyprus	Secretarial services	100
S.Z. Eliades Leisure Ltd	Cyprus	Land development and operation of a golf resort	70
Bank of Cyprus Public Company Ltd (branch of the Company)	Greece	Administration of guarantees and holding of real estate properties	N/A
Kyprou Zois (branch of EuroLife Ltd)	Greece	Life insurance	N/A
Kyprou Asfaltiki (branch of General Insurance of Cyprus Ltd)	Greece	General insurance	N/A
Bank of Cyprus UK Ltd	United Kingdom	Commercial bank	100
BOC Financial Services Ltd	United Kingdom	Financial advisory services	100
Bank of Cyprus (Channel Islands) Ltd	Channel Islands	Commercial bank	100
Bank of Cyprus Romania (branch of the Company)	Romania	Commercial bank	N/A
Cyprus Leasing Romania IFN SA	Romania	Leasing	100
MC Investment Assets Management LLC	Russia	Problem asset management company	100
Kyprou Finance (NL) B.V.	Netherlands	Financing services	100

**49. Group companies (continued)**

In addition to the above companies, at 30 June 2016 the Company had 100% shareholding in the companies listed below whose activity is the ownership and management of immovable property:

**Cyprus:** Timeland Properties Ltd, Cobhan Properties Ltd, Bramwell Properties Ltd, Birkdale Properties Ltd, Newington Properties Ltd, Innerwick Properties Ltd, Ramendi Properties Ltd, Ligisimo Properties Ltd, Moonland Properties Ltd, Polkima Properties Ltd, Nalmosa Properties Ltd, Smooland Properties Ltd, Emovera Properties Ltd, Estaga Properties Ltd, Skellom Properties Ltd, Blodar Properties Ltd, Spaceglowing Properties Ltd, Threefield Properties Ltd, Lepidoland Properties Ltd, Ecunaland Properties Ltd, Tebane Properties Ltd, Cranmer Properties Ltd, Vieman Ltd, Les Coraux Estates Ltd, Natakou Company Ltd, Oceania Ltd, Dominion Industries Ltd, Ledra Estate Ltd, Eurolife Properties Ltd, Laiki Lefkothea Center Ltd, Labancor Ltd, Steparco Ltd, Joberco Ltd, Zecomex Ltd, Domita Estates Ltd, Memdes Estates Ltd, Pamaco Platres Complex Ltd, Vameron Properties Ltd, Thryan Properties Ltd, Icecastle Properties Ltd, Otoba Properties Ltd, Edoric Properties Ltd, Canosa Properties Ltd, Silen Properties Ltd, Kernland Properties Ltd, Unduma Properties Ltd, Danoma Properties Ltd, Kimrar Properties Ltd, Jobelis Properties Ltd, Metin Properties Ltd, Pekiro Properties Ltd, Melsolia Properties Ltd, Nimoland Properties Ltd, Lozzaria Properties Ltd, Koralmon Properties Ltd, Petrassimo Properties Ltd, Kedonian Properties Ltd, Lasteno Properties Ltd, Armozio Properties Ltd, Spacous Properties Ltd, Calinora Properties Ltd, Marcozaco Properties Ltd, Solutio Properties Ltd, Solomaco Properties Ltd, Linaland Properties Ltd, Andaz Properties Ltd, Unital Properties Ltd, Neraland Properties Ltd, Gilfront Properties Ltd, Canemia Properties Ltd, Pariza Properties Ltd, Wingstreet Properties Ltd, Nolory Properties Ltd, Lynoco Properties Ltd, Renalandia Properties Ltd, Fitrus Properties Ltd, Lisbo Properties Ltd, Mantinec Properties Ltd, Browneye Properties Ltd, Syniga Properties Ltd, Colar Properties Ltd, Irisa Properties Ltd, Valiro Properties Ltd, Avolo Properties Ltd, Bracando Properties Ltd, Provezaco Properties Ltd, Hillbay Properties Ltd, Jungax Properties Ltd, Ofraco Properties Ltd, Forenaco Properties Ltd, Vidalaco Properties Ltd, Jemina Properties Ltd, Hovita Properties Ltd, Flitous Properties Ltd, Badrul Properties Ltd, Belaland Properties Ltd, Glodas Properties Ltd, Belzeco Properties Ltd, Bothwick Properties Ltd, Fireford Properties Ltd, Citlali Properties Ltd, Endar Properties Ltd, Astromeria Properties Ltd, Orzo Properties Ltd, Basiga Properties Ltd, Regetona Properties Ltd, Arcandello Properties Ltd, Sylvesta Properties Ltd, Camela Properties Ltd, Nerofarm Properties Ltd, Subworld Properties Ltd, Jongeling Properties Ltd, Introserve Properties Ltd, Alomco Properties Ltd, Cereas Properties Ltd, Fareland Properties Ltd, Landeed Properties Ltd, Sindelaco Properties Ltd, Barosca Properties Ltd, Fogland Properties Ltd, Tebasco Properties Ltd, Dolapo Properties Ltd, Homirova Properties Ltd, Nabela Properties Ltd, Valecross Properties Ltd, Altco Properties Ltd, Forsban Properties Ltd, Marisaco Properties Ltd, Olivero Properties Ltd, Cavadino Properties Ltd, Jaselo Properties Ltd, Elosa Properties Ltd, Garveno Properties Ltd, Flona Properties Ltd, Toreva Properties Ltd, Resoma Properties Ltd, Singleserve Properties Ltd and Consento Properties Ltd.

**Romania:** Otherland Properties Dorobanti SRL, Pittsburg Properties SRL, Battersee Real Estate SRL, Trecoda Real Estate SRL, Green Hills Properties SRL, Bocaland Properties SRL, Buchuland Properties SRL, Commonland Properties SRL, Romaland Properties SRL, Janoland Properties SRL, Blindingqueen Properties SRL, Fledgego Properties SRL, Hotel New Montana SRL, Loneland Properties SRL, Frozenport Properties SRL, Imoreth Properties SRL, Inroda Properties SRL, Melgred Properties SRL, Tantora Properties SRL, Zunimar Properties SRL, Allioma Properties SRL and Nikaba Properties SRL.

Further, at 30 June 2016 the Company had 100% shareholding in Iperi Properties Ltd, Obafemi Holdings Ltd, Stamoland Properties Ltd and Gosman Properties Ltd whose main activities are the holding of shares and other investments and they are registered in Cyprus.

At 30 June 2016 the Company had 100% shareholding in the companies listed below which are reserved to accept property:

**Cyprus:** Belvesi Properties Ltd, Ingane Properties Ltd, Indene Properties Ltd, Warmbaths Properties Ltd, Tavoni Properties Ltd, Tezia Properties Ltd, Carnota Properties Ltd, Demoro Properties Ltd, Venicious Properties Ltd, Primaco Properties Ltd, Amary Properties Ltd, Mostero Properties Ltd, Hamura Properties Ltd, Gileco Properties Ltd, Meriaco Properties Ltd, Pendalo Properties Ltd, Frontyard Properties Ltd, Bascot Properties Ltd, Caruzoco Properties Ltd, Consoly Properties Ltd, Venetolio Properties Ltd, Bonsova Properties Ltd, Flymoon Properties Ltd, Givolo Properties Ltd, Nasebia Properties Ltd, Vanemar Properties Ltd, Garmozzy Properties Ltd, Orasmo Properties Ltd, Senadaco Properties Ltd, Helal Properties Ltd, Lasmane Properties Ltd, Lorman Properties Ltd, Yossi Properties Ltd, Gozala Properties Ltd, Molla Properties Ltd, Lezanco Properties Ltd and Desogus Properties Ltd.

**Romania:** Mirodi Properties SRL, Nallora Properties SRL and Selilar Properties SRL.



**49. Group companies (continued)**

In addition, the Company holds 100% of the following intermediate holding companies:

**Cyprus:** Otherland Properties Ltd, Pittsburg Properties Ltd, Battersee Properties Ltd, Trecoda Properties Ltd, Bonayia Properties Ltd, Bocaland Properties Ltd, Buchuland Properties Ltd, Commonland Properties Ltd, Romaland Properties Ltd, BC Romanoland Properties Ltd, Blindingqueen Properties Ltd, Fledgego Properties Ltd, Janoland Properties Ltd, Threerich Properties Ltd, Loneland Properties Ltd, Unknownplan Properties Ltd, Frozenport Properties Ltd, Imoreth Properties Ltd, Inroda Properties Ltd, Melgred Properties Ltd, Tantora Properties Ltd, Zunimar Properties Ltd, Selilar Properties Ltd, Mirodi Properties Ltd, Nallora Properties Ltd, Nikaba Properties Ltd, Allioma Properties Ltd, Hydrobius Ltd and Landanafield Properties Ltd.

The Group also holds 100% of the following companies which are inactive:

**Cyprus:** Laiki Bank (Nominees) Ltd, Laiki EDAK Ltd, Fairford Properties Ltd, Thames Properties Ltd, Paneuropean Ltd, Philiki Ltd, Cyprialife Ltd, Imperial Life Assurance Ltd, Philiki Management Services Ltd, Nelcon Transport Co. Ltd, Ilera Properties Ltd, Weinco Properties Ltd, Palmco Properties Ltd, Intelamon Properties Ltd, Weiner Properties Ltd, Holstone Properties Ltd, Balasec Properties Ltd, Eracor Properties Ltd, Thermano Properties Ltd, Crolandia Properties Ltd, Nouralia Properties Ltd, Mazima Properties Ltd, Alomnia Properties Ltd, Diafor Properties Ltd, Prosilia Properties Ltd, Rulemon Properties Ltd, Benely Properties Ltd, Arcozil Properties Ltd, Denmor Properties Ltd, Coramono Properties Ltd, Galozy Properties Ltd, Primantela Properties Ltd, Varony Properties Ltd, Calomland Properties Ltd and Lameland Properties Ltd.

**Greece:** Kyprou Commercial SA and Kyprou Properties SA.

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

**Control over CLR Investment Fund Public Ltd (CLR) without substantial shareholding**

The Group considers that it exercises control over CLR through control of the members of the Board of Directors and is exposed to variable returns through its holding.

**Dissolution and disposal of subsidiaries**

As at 30 June 2016, the following subsidiaries were in the process of dissolution or in the process of being struck off: Samarinda Navigation Co Ltd, Kyprou Securities SA, BOC Ventures Ltd, Tefkros Investments Ltd, Salecom Ltd, Longtail Properties Ltd, Turnmill Properties Ltd, Limestone Holdings Ltd, Diners Club (Cyprus) Ltd, Leasing Finance LLC, Corner LLC, Omiks Finance LLC and Unknownplan Properties SRL.

Tefkros Investments (CI) Ltd and Bank of Cyprus Mutual Funds Ltd were dissolved during the six months ended 30 June 2016. Mainport Properties Ltd, Besadoco Properties Ltd and Odaina Properties Ltd were disposed of during the six months ended 30 June 2016 as part of the Company's disposal process of properties repossessed.

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

**50. Acquisitions and disposals**

**50.1 Acquisition during 2016**

**50.1.1 Acquisition of S.Z. Eliades Leisure Ltd**

In the context of its loan restructuring activities the Group, on 15 June 2016, acquired a 70% interest in the share capital of S.Z. Eliades Leisure Ltd in exchange for the settlement of borrowings due from it of a total gross amount of €52.335 thousand. S.Z. Eliades Leisure Ltd operates in land development and the operation of a golf resort in Cyprus. The fair value of the consideration for the acquisition of the 70% share in S.Z. Eliades Leisure Ltd amounts to €43.758 thousand. The acquisition did not include any cash consideration. The Group considers that it controls S.Z. Eliades Leisure Ltd.

**50. Acquisitions and disposals (continued)**

**50.1 Acquisition during 2016 (continued)**

**50.1.1 Acquisition of S.Z. Eliades Leisure Ltd (continued)**

The fair value of assets and liabilities of S.Z. Eliades Leisure Ltd at the date of acquisition are presented below:

	€000
<b>Assets</b>	
Property and equipment	20.308
Stock of property	48.632
Prepayments, accrued income and other assets	580
	<b>69.520</b>
<b>Liabilities</b>	
Deferred tax liability	3.807
Accruals, deferred income and other liabilities	3.202
	<b>7.009</b>
Net identifiable assets acquired	62.511
Less non-controlling interest	(18.753)
Net assets acquired	<b>43.758</b>

No cash and cash equivalents were acquired.

**50.2 Disposal during 2016**

**50.2.1 Disposal of Kermia Hotels Ltd and adjacent land**

In June 2016, the Group completed the sale of 100% of its subsidiary Kermia Hotels Ltd and adjacent land which was classified as a disposal group held for sale as at 31 December 2015.

The carrying value of assets and liabilities disposed of as at the date of their disposal are presented below:

	€000
<b>Assets</b>	
Property and equipment	27.130
Prepayments, accrued income and other assets	678
Cash and cash equivalent	1.132
	<b>28.940</b>
<b>Liabilities</b>	
Deferred tax liability	3.677
Accruals, deferred income and other liabilities	1.308
	<b>4.985</b>
Total net assets sold	<b>23.955</b>

The cash consideration received amounts to €26.500 thousand and the disposal resulted in a gain of €2.545 thousand (Note 13).

**50.3 Disposals during 2015**

**50.3.1 Disposal of Kyprou Leasing SA**

Following the disposal of the Group's leasing operations in Greece to Piraeus Bank SA through a Decree issued on 26 March 2013, the Group completed the transfer of the legal ownership of its subsidiary, Kyprou Leasing SA to Piraeus Bank SA during the first quarter of 2015.

**51. Investments in associates and joint ventures**

**Carrying value of the investments in associates and joint ventures**

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
CNP Cyprus Insurance Holdings Ltd	<b>107.982</b>	105.540
Interfund Investments Plc	<b>2.027</b>	2.201
Aris Capital Management LLC	-	-
Rosequeens Properties Limited	-	-
Rosequeens Properties SRL	-	-
Tsiros (Agios Tychon) Ltd	-	12
M.S. (Skyra) Vassas Ltd	-	-
D.J. Karapatakis & Sons Limited	-	-
Rodhagate Entertainment Ltd	-	-
Fairways Automotive Holdings Ltd	-	-
	<b>110.009</b>	107.753

**Share of profit/(loss) from associates and joint ventures**

	<b>Six months ended 30 June</b>		<b>Three months ended 30 June</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
CNP Cyprus Insurance Holdings Ltd	<b>1.780</b>	4.082	<b>856</b>	2.386
Interfund Investments Plc	<b>(174)</b>	(644)	<b>(51)</b>	(788)
	<b>1.606</b>	3.438	<b>805</b>	1.598

**Investments in associates**

*CNP Cyprus Insurance Holdings Ltd*

As part of the acquisition of certain operations of Laiki Bank in 2013, 49,9% of CNP Cyprus Insurance Holdings Ltd, the parent company of a group of insurance companies in Cyprus and Greece, was acquired by the Group.

The main financial highlights of the associate is presented as follows:

	<b>30 June 2016</b>	<b>31 December 2015</b>
	<b>€000</b>	<b>€000</b>
Total assets	<b>697.833</b>	676.915
Liabilities	<b>(481.439)</b>	(465.416)
Net assets, including value of in-force business	<b>216.394</b>	211.499

CNP Cyprus Insurance Holdings Ltd holds deposits with companies within the Group amounting to €15.107 thousand. The transactions between CNP Cyprus Insurance Holdings Ltd and the Group are presented in the table below:

	<b>30 June 2016</b>	<b>30 June 2015</b>
	<b>€000</b>	<b>€000</b>
Interest expense paid by the Group	<b>108</b>	44
Other expenses paid by the Group	<b>46</b>	144
Other income received by the Group	-	8

**51. Investments in associates and joint ventures (continued)**

**Investments in associates (continued)**

*Interfund Investments Plc*

The Group has a 23,12% interest in Interfund Investments Plc, which is a closed-end investment company in Cyprus, listed on the Cyprus Stock Exchange. The market value of the investment is €1.176 thousand (31 December 2015: €1.372 thousand).

During the period there were no material transactions between the Group and the associate.

*Rosequeens Properties Limited and Rosequeens Properties SRL*

The Group effectively owns 33% of the share capital of Rosequeens Properties SRL which is incorporated in Romania and owns a shopping mall in Romania. The shareholding was acquired after the Company took part in a public auction for the settlement of customer loan balances amounting to approximately €21 million. The Group's share of net assets of the associate at 30 June 2016 and 31 December 2015 had nil accounting value as the net assets of the associate had a negative balance.

*Aris Capital Management LLC*

The Group's holding in Aris Capital Management LLC of 30% was transferred to the Group following the acquisition of certain operations of Laiki Bank. During previous years, the Group has recognised an impairment loss of €2.078 thousand. During the six months ended 30 June 2016 and 30 June 2015, there were no material balances or transactions between the Group and the associate.

*M.S. (Skyra) Vassas Ltd*

During the period, in the context of its loan restructuring activities, the Group acquired 15% interest in the share capital of M.S. Skyra Vassas Ltd. M.S. (Skyra) Vassas is the parent company of a group of companies (Skyra Vassas group) with operations in the production, processing and distribution of aggregates (crushed stone and sand) and provision of other construction materials, and services based on core products such as ready-mix concrete, asphalt and packing of aggregates. The Group considers that it exercises significant influence over the Skyra Vassas group as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investment is considered to be fully impaired and its value is restricted to zero.

*D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd*

During the period, in the context of its loan restructuring activities, the Group acquired a 7,5% interest in the share capital of D.J. Karapatakis & Sons Limited and Rodhagate Entertainment Ltd, operating in leisure, tourism, film and entertainment industries in Cyprus. The Group considers that it exercises significant influence over the two companies as the Group has the power to have representation to the Board of Directors and to vote for matters relating to the relevant activities of the business. The investments are considered to be fully impaired and their value is restricted to zero.

*Fairways Automotive Holdings Ltd*

During the period, in the context of its loan restructuring activities, the Group acquired a 45% interest in the share capital of Fairways Automotive Holdings Ltd. Fairways Automotive Holdings Ltd is the parent company of Fairways Ltd operating in the import and trading of motor vehicles and spare parts. The Group considers that it exercises significant influence over the company. The investment is considered to be fully impaired and its value is restricted to zero.

**Investment in joint ventures**

*Tsiros (Agios Tychon) Ltd*

The Group holds a 50% shareholding in Tsiros (Agios Tychon) Ltd. The shareholder agreement with the other shareholder of Tsiros (Agios Tychon) Ltd stipulates a number of matters which require consent by both shareholders, therefore the Group considers that it jointly controls the company. The carrying value of Tsiros (Agios Tychon) Ltd is restricted to zero.

**52. Events after the reporting date**

**52.1 Contemplating listing in London Stock Exchange**

As previously announced on 30 June 2016, the Company is considering a premium listing on the London Stock Exchange (LSE). The Group also intends to maintain a listing on the Cyprus Stock Exchange. In order to achieve such a listing and to be eligible for inclusion in the FTSE UK index series, the Company is considering the incorporation of a new holding company. Although no decision has been taken, the Company confirms that after examining a number of potential Eurozone jurisdictions, the Republic of Ireland is currently considered to be the most suitable jurisdiction as it is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for a listing on the LSE.

Bank of Cyprus Holdings PLC was incorporated in the Republic of Ireland on 11 July 2016 for this purpose. Should the listing proceed, the Company's headquarters, management and operations would all remain in Cyprus. The new holding company would be, and the Company would remain, tax resident in Cyprus. The Company would continue to be regulated by the European Central Bank and the Central Bank of Cyprus.

The Company continues to monitor market conditions and to consult with its shareholders and other stakeholders in determining the appropriate course of action.

**52.2 Other events after the reporting date**

The material events which occurred after the reporting date are disclosed in Notes 45 and 49 of these interim consolidated financial statements.

## **Independent Auditor's Report**

### **To the Members of Bank of Cyprus Public Company Ltd**

#### ***Report on the interim consolidated financial statements***

We have audited the interim consolidated financial statements of Bank of Cyprus Public Company Ltd (the 'Company') and its subsidiaries (together with the Company the 'Group') on pages 13 to 176, which comprise the interim consolidated balance sheet as at 30 June 2016, the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory information.

#### ***Board of Directors' responsibility for the interim consolidated financial statements***

The Company's Board of Directors is responsible for the preparation of interim consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of interim consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' responsibility***

Our responsibility is to express an opinion on these interim consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of interim consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the interim consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the interim consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2016, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### ***Emphasis of matter***

We draw your attention to note 3 "Going concern" to the interim consolidated financial statements which discusses management's assessment as to the ability of the Group to continue as a going concern and the fact that the Group is currently in breach of the regulatory liquidity ratios in Cyprus, which indicates the existence of a material uncertainty of the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

***Report on other legal requirements***

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books.
- The interim consolidated financial statements are in agreement with the books of account.
- In our opinion, the information given in the interim management report on pages 2 to 12 is consistent with the interim consolidated financial statements.

***Other matter***

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

**Ernst & Young Cyprus Limited**  
Certified Public Accountants and Registered Auditors

Nicosia  
30 August 2016

## **Additional Risk and Capital Management Disclosures**

**30 June  
2016**



## 1. Credit risk

The Central Bank of Cyprus (CBC) issued to credit institutions the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 (Directive), which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The disclosures required by the Directive, in addition to those presented in Notes 2 and 43 of the interim consolidated financial statements for the period ended 30 June 2016 are set out in the following tables. The tables disclose non-performing exposures (NPEs) based on the definitions of the European Banking Authority (EBA) standards.

According to the EBA standards, NPEs are defined as those exposures that satisfy one of the following conditions:

- (i) The debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- (ii) Defaulted or impaired exposures as per the approach provided in Regulation (EU) No 575/2013 Article 178.
- (iii) Material exposures (as defined below) which are more than 90 days past due.
- (iv) Performing forbore exposures under probation for which additional forbearance measures are extended.
- (v) Performing forbore exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.
- Material arrears/excesses are defined as follows:
  - Retail exposures:
    - Loans: Arrears amount greater than €500 or number of instalments in arrears is greater than one.
    - Overdrafts: Excess amount is greater than €500 or greater than 10% of the approved limit.
  - Exposures other than retail: Total customer arrears/excesses are greater than €1.000 or greater than 10% of the total customer funded balances.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

- (i) The extension of forbearance measures does not lead to the recognition of impairment or default.
- (ii) One year has passed since the forbearance measures were extended.
- (iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

**1. Credit risk** (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

30 June 2016	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances <sup>1</sup>	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
<b>General governments</b>	<b>116.773</b>	15.156	5.026	4.693	<b>2.509</b>	1.687	1.666	1.613
<b>Other financial corporations</b>	<b>359.275</b>	250.607	137.286	117.525	<b>157.877</b>	154.272	79.163	79.069
<b>Non-financial corporations</b>	<b>12.530.346</b>	8.117.369	5.895.548	4.611.741	<b>3.435.826</b>	3.352.379	1.464.580	1.427.984
Of which: Small and Medium sized Enterprises <sup>2</sup>	<b>7.277.579</b>	4.908.591	2.660.021	2.119.081	<b>2.259.284</b>	2.213.624	707.403	690.153
Of which: Commercial real estate <sup>2</sup>	<b>10.377.841</b>	6.773.968	5.291.125	4.147.347	<b>2.618.928</b>	2.547.081	1.244.043	1.211.289
<b>Non-financial corporations by sector</b>								
Construction	<b>3.393.007</b>	2.775.627			<b>1.189.035</b>			
Wholesale and retail trade	<b>2.168.003</b>	1.137.941			<b>494.334</b>			
Accommodation and food service activities	<b>1.363.799</b>	801.688			<b>266.609</b>			
Real estate activities	<b>2.944.215</b>	1.663.155			<b>680.390</b>			
Manufacturing	<b>779.907</b>	499.323			<b>208.880</b>			
Other sectors	<b>1.881.415</b>	1.239.635			<b>596.578</b>			
<b>Households</b>	<b>8.077.005</b>	4.110.116	2.910.620	2.115.234	<b>1.233.950</b>	1.155.456	320.698	303.643
Of which: Residential mortgage loans <sup>2</sup>	<b>5.486.490</b>	2.808.198	2.233.907	1.602.410	<b>594.940</b>	538.884	172.734	161.797
Of which: Credit for consumption <sup>2</sup>	<b>1.075.999</b>	619.469	312.334	257.120	<b>294.006</b>	281.863	62.837	59.738
<b>Total on-balance sheet</b>	<b>21.083.399</b>	<b>12.493.248</b>	<b>8.948.480</b>	<b>6.849.193</b>	<b>4.830.162</b>	<b>4.663.794</b>	<b>1.866.107</b>	<b>1.812.309</b>

<sup>1</sup> Excluding loans and advances to central banks and credit institutions.

<sup>2</sup> The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

BANK OF CYPRUS GROUP  
Additional Risk and Capital Management Disclosures  
(Unaudited)

Mid-Year Financial Report 30 June 2016

1. Credit risk (continued)

31 December 2015	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances <sup>1</sup>	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
<b>General governments</b>	<b>115.358</b>	4.858	5.241	4.448	<b>345</b>	345	1.771	1.518
<b>Other financial corporations</b>	<b>450.287</b>	269.232	164.356	141.861	<b>175.712</b>	158.570	86.439	85.905
<b>Non-financial corporations</b>	<b>13.687.340</b>	9.447.487	6.250.424	5.101.675	<b>3.938.616</b>	3.852.385	1.651.274	1.618.835
Of which: Small and Medium sized Enterprises <sup>2</sup>	<b>7.595.447</b>	5.361.281	2.724.405	2.254.873	<b>2.412.273</b>	2.364.850	752.559	736.962
Of which: Commercial real estate <sup>2</sup>	<b>10.998.641</b>	8.009.181	5.684.179	4.661.835	<b>2.996.289</b>	2.931.498	1.418.013	1.390.942
<b>Non-financial corporations by sector</b>								
Construction	<b>4.023.260</b>	3.440.287			<b>1.391.760</b>			
Wholesale and retail trade	<b>2.286.348</b>	1.308.725			<b>552.581</b>			
Accommodation and food service activities	<b>1.484.868</b>	975.111			<b>329.840</b>			
Real estate activities	<b>3.034.255</b>	1.789.356			<b>705.072</b>			
Manufacturing	<b>809.277</b>	510.071			<b>219.188</b>			
Other sectors	<b>2.049.332</b>	1.423.937			<b>740.175</b>			
<b>Households</b>	<b>8.339.490</b>	4.246.315	2.912.440	2.133.845	<b>1.286.170</b>	1.193.223	327.292	310.740
Of which: Residential mortgage loans <sup>2</sup>	<b>5.565.680</b>	2.879.120	2.168.251	1.622.346	<b>614.752</b>	553.454	181.776	172.587
Of which: Credit for consumption <sup>2</sup>	<b>1.109.776</b>	637.137	306.799	255.511	<b>315.413</b>	298.330	70.554	66.974
<b>Total on-balance sheet</b>	<b>22.592.475</b>	<b>13.967.892</b>	<b>9.332.461</b>	<b>7.381.829</b>	<b>5.400.843</b>	<b>5.204.523</b>	<b>2.066.776</b>	<b>2.016.998</b>

<sup>1</sup> Excluding loans and advances to central banks and credit institutions.

<sup>2</sup> 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 Group for further collateral or liquidity requirements. The total encumbered assets of the Group amounted to €12.386.932 thousand as at 30 June 2016 (31 December 2015: €14.023.263 thousand).

An asset is categorised as unencumbered if it has not been pledged against secured funding and other collateralised obligations. Unencumbered assets are further analysed into those that are available and can be pledged and those that are not readily available to be pledged. As at 30 June 2016, the Group held €6.109.401 thousand (31 December 2015: €4.686.789 thousand) of unencumbered assets that can be pledged and can be used to support potential liquidity funding needs and €2.726.493 thousand (31 December 2015: €3.067.147 thousand) of unencumbered assets that are not readily available to be pledged for funding requirements in their current form.

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		Total
	Pledged as collateral	which can be pledged	which are not readily available to be pledged	
30 June 2016	€000	€000	€000	€000
Cash and bank placements	165.534	2.081.776	445.476	2.692.786
Investments	597.934	210.598	31.211	839.743
Loans and advances to customers	11.530.650	2.585.194	2.137.393	16.253.237
Non-current assets held for sale	-	11.101	359	11.460
Property	92.814	1.220.732	112.054	1.425.600
<b>Total on-balance sheet</b>	<b>12.386.932</b>	<b>6.109.401</b>	<b>2.726.493</b>	<b>21.222.826</b>
Bonds guaranteed by the Republic of Cyprus	500.000	500.000	-	1.000.000
<b>Total</b>	<b>12.886.932</b>	<b>6.609.401</b>	<b>2.726.493</b>	<b>22.222.826</b>

31 December 2015				
Cash and bank placements	154.896	2.210.295	371.791	2.736.982
Investments	892.728	62.688	53.871	1.009.287
Loans and advances to customers	12.882.139	1.834.519	2.474.974	17.191.632
Non-current assets and disposal group held for sale	-	15.018	33.485	48.503
Property	93.500	564.269	133.026	790.795
<b>Total on-balance sheet</b>	<b>14.023.263</b>	<b>4.686.789</b>	<b>3.067.147</b>	<b>21.777.199</b>
Bonds guaranteed by the Republic of Cyprus	1.000.000	-	-	1.000.000
<b>Total</b>	<b>15.023.263</b>	<b>4.686.789</b>	<b>3.067.147</b>	<b>22.777.199</b>

## **2. Liquidity risk and funding (continued)**

### **2.1 Encumbered and unencumbered assets (continued)**

Encumbered assets primarily consist of loans and advances to customers, investments in debt securities (primarily Cyprus Government bonds) and property. These are mainly pledged for the funding facilities under the Eurosystem monetary policy operations and the Emergency Liquidity Assistance of the CBC (Note 30 of the interim consolidated financial statements for the six months ended 30 June 2016) and for the covered bond. In the case of the Emergency Liquidity Assistance (ELA), as collateral is not usually released upon repayment of the funding, there may be an inherent buffer which could be utilised for further funding if required. Investments are also used as collateral for repurchase transactions with the ECB and other commercial banks as well as for the covered bond (Note 45 of the interim consolidated financial statements for the six months ended 30 June 2016). Encumbered assets include cash and other liquid assets placed with banks as collateral under ISDA/GMRA agreements which are not immediately available for use by the Group but are released once the transactions are terminated. Cash is mainly used to cover collateral required for (i) derivatives and repurchase transactions, (ii) trade finance transactions and guarantees issued, and (iii) the covered bond.

As at 30 June 2016 one of the two bonds guaranteed by the Republic of Cyprus of €500.000 thousand (fair value €516.987 thousand) was pledged as collateral for obtaining funding from the central banks. The other bond of €500.000 thousand (fair value €517.662 thousand) has been released in June 2016 from the ELA pool of collateralised assets. The fair value of both bonds at 31 December 2015 was €1.056.720 thousand. After taking into consideration the significant reduction of ELA funding, the Board of Directors of the Company at its meeting held on 16 August 2016, decided to proceed with the cancellation of the two bonds. Given the decision for the cancellation, the CBC released the second bond on 19 August 2016. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities. The delisting from the CSE will be announced by the CSE in due course.

On 29 September 2015 the terms of the Covered Bond Programme and outstanding €1.000 million covered bond were amended to a Conditional Pass-Through structure. As part of the restructuring, the outstanding principal of the retained covered bond was reduced to €650.000 thousand with a new maturity date of 12 December 2018. The credit rating of the covered bond was upgraded to an investment grade rating and the covered bond has become eligible collateral for the Eurosystem credit operations. Currently, the covered bond is placed as collateral for accessing funding from the ECB. Through this transaction, the Company has raised €550.000 thousand of ECB funding. Prior to the rating upgrade, the covered bond was used as collateral for ELA.

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

In May 2016, the Group raised €200 million of funding from ECB's Main Refinancing Operations using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

Additionally, in May 2016 the Company has also concluded a repurchase transaction which is its first wholesale funding transaction since 2013.

In August 2016 the CBC has released loans and advances with contractual amount of €2 billion held as collateral for ELA.

## 2. Liquidity risk and funding (continued)

### 2.1 Encumbered and unencumbered assets (continued)

Unencumbered assets that are available and can be pledged include Cyprus loans and advances which are less than 90 days past due as well as loans of overseas subsidiaries and branches which are not pledged. Customer loans of overseas subsidiaries and branches cannot be pledged with the CBC as collateral for ELA. Moreover, for some of the overseas subsidiaries and branches, these assets are only available to be pledged for other purposes for the needs of the particular subsidiary/branch and not to provide liquidity to any other entity of the Group. Balances with central banks are reported as unencumbered and can be pledged, to the extent that there is excess available over the minimum reserve requirement. The minimum reserve requirement is reported as unencumbered since it is not readily available as collateral.

Unencumbered assets that are not readily available to be pledged primarily consist of loans and advances which are prohibited by contract or law to be encumbered or which are over 90 days past due or for which there are pending litigations or other legal actions against the customer, a proportion of which would be suitable for use in secured funding structures but are conservatively classified as not readily available for collateral. Properties whose legal title has not been transferred in the name of the Company or the subsidiary are not considered to be readily available as collateral.

Insurance assets held by Group insurance subsidiaries are not included in the table below as they are primarily due to the insurance policyholders.

The carrying and fair value of the encumbered and unencumbered investments of the Group as at 30 June 2016 and 31 December 2015 are as follows:

	Carrying value of encumbered investments	Fair value of encumbered investments	Carrying value of unencumbered investments	Fair value of unencumbered investments
<b>30 June 2016</b>	€000	€000	€000	€000
Equity securities	1.309	1.309	47.399	47.399
Debt securities	596.625	599.612	194.410	194.199
<b>Total investments</b>	<b>597.934</b>	<b>600.921</b>	<b>241.809</b>	<b>241.598</b>

<b>31 December 2015</b>				
Equity securities	1.027	1.027	91.644	91.644
Debt securities	891.701	900.287	24.915	24.915
<b>Total investments</b>	<b>892.728</b>	<b>901.314</b>	<b>116.559</b>	<b>116.559</b>

### 2.2 Liquidity regulation

In addition to regulatory liquidity ratios disclosed in Note 45 of the interim consolidated financial statements for the six months ended 30 June 2016, the Group has to comply with the Liquidity Coverage Ratio (EU) 2015/61 (LCR). It also monitors its position against the Basel Quantitative Impact Study (QIS) Net Stable Funding Ratio (NSFR). The LCR is designed to promote short-term resilience of a Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

The CRR requires phased-in compliance with the LCR standard as from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% in 2016, 80% in 2017 and 100% by January 2018. In October 2014, the European Commission published a final Delegated Act for the LCR. During 2015, the monthly LCR was calculated as per the CRR and also quarterly as per the Delegated Act (as part of the SREP Short Term Exercise). Starting from January 2016, the LCR is also calculated monthly based on the final published Delegated Regulation (EU) 2015/61. When the Delegated Regulation is enacted in September 2016, the LCR will only be calculated under this Regulation (LCR as per Regulation (EU) 680/2014 will be abandoned).

## 2. Liquidity risk and funding (continued)

### 2.2 Liquidity regulation(continued)

In October 2014, the Basel Committee on Banking Supervision published a final standard for the NSFR with the minimum requirement to be introduced in January 2018 at 100%. The methodology for calculating the NSFR is based on an interpretation of the Basel standards published in October 2014 and includes a number of assumptions which are subject to change prior to adoption by the European Commission through the CRR.

Based on Regulation (EU) 680/2014 and Basel QIS standards respectively, as at 30 June 2016 the Group had a LCR of 70% (31 December 2015: 76%) and a Basel QIS NSFR of 85% (31 December 2015: 83%). According to the LCR Delegated Regulation (EU) 2015/61, as at 30 June 2016 the LCR was 0%. Under the Delegated Regulation, the ELA funding is deducted from High Quality Liquid Assets, thus resulting in a zero LCR. It should be noted, however, that the Company considers that it has sufficient available liquidity to meet its day-to-day needs and the zero ratio is due to the above adjustment.

### 2.3 Liquidity reserves

Composition of the liquidity reserves	30 June 2016		31 December 2015	
	Liquidity reserves	Liquidity reserves of which CRR (Delegated Regulation (EU) 2015/61) LCR eligible Level 1	Liquidity reserves	Liquidity reserves of which Basel 3 LCR eligible Level 1
	€000	€000	€000	€000
Cash and balances with central banks	1.516.766	1.119.205	1.421.733	1.002.649
Nostro and overnight loans and advances to banks	494.579	-	537.722	-
Other loans and advances to banks	372.831	-	477.604	-
Liquid investments	21.281	170.959	19.594	2.421
Available ECB Buffer	32.794	-	178.792	178.792
Other investments	9.387	-	8.637	-
<b>Total</b>	<b>2.447.638</b>	<b>1.290.164</b>	<b>2.644.082</b>	<b>1.183.862</b>

Liquidity reserves include available cash and cash equivalents, unencumbered highly liquid securities and other unencumbered securities that can be sold in the market or used for secured funding purposes. The minimum reserve amount is included in the balances with central banks under 'Liquidity Reserves' but excluded from the LCR Liquidity Reserves. Moreover, in the LCR Liquidity Reserves, only the part of the overseas units liquids required to maintain a ratio of 100% is included (since any excess is not transferable to be used by other units).

Investments under Liquidity Reserve are shown at market value net of haircut (as prescribed by regulators) in order to reflect the actual liquidity value that can be obtained and include only the international issues of Government of Cyprus. Under LCR Liquidity Reserves, all Cyprus Government Bonds remain eligible for inclusion as Level 1 assets given that they are issued by a Member State. LCR does not require liquid assets to be eligible as collateral for central bank operations and are included at market value.

The Liquidity Reserves are managed by Group Treasury.



## **2. Liquidity risk and funding (continued)**

### **2.3 Liquidity reserves (continued)**

Cyprus exited its economic adjustment programme in March 2016. The credit ratings of the Republic of Cyprus by the main credit rating agencies continue to be below investment grade. As a result, the ECB is no longer able to include Cypriot Government Bonds in its asset purchase programme, or as eligible collateral for Eurosystem monetary operations, as was the case when the waiver for collateral eligibility due to the country being under an economic adjustment programme existed. This resulted in the repayment of ECB funding at the end of March 2016 for an amount of €100 million which was collateralised by Cyprus Government bonds and materially reduced the available ECB buffer (this buffer represents the amount that could be drawn from the ECB based on the collateral pledged). Any Cyprus Government bonds that remain unencumbered can be considered as ELA eligible collateral.

The Council of Ministers and the Committee on Financial and Budgetary Affairs of the House of Representatives have approved in January 2014 the issuance of up to €2,9 billion of guarantees for bonds/loans issued by credit institutions under the 'Granting of Government Guarantees for Loans and/or issuance of Bonds by Credit Institutions Law of 2012'. It is expected that the Group will be able to make use of the above guarantees if the need arises, subject to the approval of the Ministry of Finance. Furthermore, the Company maintains the rights and obligations as issuer of two bonds guaranteed by the Republic of Cyprus of €500 million maturing in November 2017. On 16 August 2016, the Board of Directors decided to proceed with the cancellation of the two bonds. The two bonds were cancelled on 25 August 2016, following the approval/consent from the competent authorities.

In May 2016, the Group raised €200 million of funding from ECB's Main Refinancing Operations using as collateral a pool of housing loans that satisfy the criteria of the Additional Credit Claims as set out in accordance with the Implementation of the Eurosystem Monetary Policy Framework Directives of 2015 and 2016.

Additionally, in May 2016 the Company has also concluded a repurchase transaction which is its first wholesale funding transaction since 2013.

On 29 June 2016, the Company repaid the amount borrowed through the TLTRO amounting to €500 million.

In August 2016 the CBC has released loans and advances with contractual amount of €2 billion held as collateral for ELA.

## **3. Minimum Required Own Funds for Credit, Market and Operational Risk**

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

The Group's capital projections are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Group's risk profile, regulatory and business needs.

The Group's capital projections are frequently monitored against relevant internal target capital ratios to ensure they remain appropriate and consider risks to the plan, including possible future regulatory changes.

The plan takes into account the key pillars of the Group's strategy which are set out below:

- Materially reduce the level of delinquent loans
- Normalise the funding structure and fully repay the ELA funding
- Maintain an appropriate capital position by internally generating capital
- Focus on the core Cyprus market and on the UK operations
- Achieve a lean operating model
- Deliver value to shareholders and other stakeholders



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

#### 3.1 Credit Risk

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

Exposure Class	30 June 2016	31 December 2015
	€000	€000
Collective investment undertakings (CIU)	3	9
Corporates	222.335	203.679
Equity	25.351	25.719
Exposures in default	344.761	435.215
Institutions	32.596	33.779
Items associated with particularly high risk	277.234	320.497
Other items	174.641	124.184
Regional governments or local authorities	135	105
Retail	130.848	130.952
Secured by mortgages on immovable property	139.805	132.237
Covered bonds	11	109
<b>Total Capital Requirement for Credit Risk</b>	<b>1.347.720</b>	<b>1.406.485</b>

#### 3.2 Market Risk

The minimum capital requirement calculated in accordance with Title IV: Own funds requirements for market risk of the CRR is as follows:

Portfolio Transactions	30 June 2016	31 December 2015
	€000	€000
<b>Risk Type</b>		
<b>Position risk</b>	<b>599</b>	<b>625</b>
<b>Total Capital Requirement for Market Risk</b>	<b>599</b>	<b>625</b>

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

#### 3.3 Operational Risk

The Group uses the Standardised Approach for the operational risk capital calculation.

As at 30 June 2016, the minimum capital requirement in relation to operational risk calculated in accordance with the Standardised Approach amounts to €163.191 thousand (31 December 2015: €163.191 thousand).

30 June 2016/31 December 2015	Standardised approach
	€000
Corporate finance (CF)	118
Trading and Sales (TS)	2.591
Retail Brokerage (RBr)	99
Commercial Banking (CB)	127.867
Retail Banking (RB)	24.880
Payment and Settlement (PS)	7.218
Agency Services (AS)	210
Asset Management (AM)	208
<b>Total Capital Requirements for Operational Risk</b>	<b>163.191</b>

#### 3.4 Credit Valuation Adjustment (CVA) Risk

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

	30 June 2016	31 December 2015
	€000	€000
<b>CVA (Credit Valuation Adjustment) Capital Requirement</b>	<b>5.955</b>	<b>3.001</b>

### 4. Other risks

#### Political risk

External factors which are beyond the control of the Group, such as economic and political developments and government actions in Cyprus and in other countries, may adversely affect the operations of the Group, its strategy and prospects, either directly or indirectly through their possible impact on the domestic economy.

Important political risk factors include a possible government intervention in the economy that may affect the Group's activities; social, economic and political developments in overseas countries where the Group operates or maintains exposure; and international developments particularly in the EU and the Eurozone that may lead to payments crises, changes in the regulatory and supervisory framework, or a Euro exit of a Eurozone member state. The exit of the UK following the EU referendum of 23 June 2016 may lead to economic recession in the UK itself and to possible disruptions in the Eurozone with pressure to bear on the euro and the currency markets generally. 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 neighbouring countries and/or other overseas areas may adversely impact on the Cyprus economy.

#### 4. Other risks (continued)

##### Political risk (continued)

An exit of the UK from the EU may impact Cyprus. Cyprus has trade and investment links with the UK and it is a popular tourist destination for British tourists. In 2015 the UK accounted for 39% of all tourist arrivals and about 33% of tourist receipts as per the Cyprus Statistical Service. The possible loss of UK tourist arrivals may be mitigated at least in part, by increases in arrivals of tourists from other destinations, as tourist traffic may continue to divert away from other regional destinations. In total 9% of Cyprus imports and 7% of Cyprus exports are made with the UK. Additionally there is a relatively sizeable community of British expatriates in Cyprus many of which have purchased homes and live on the island permanently.

Consequences for the Cyprus economy may potentially derive from the wider implications of the UK exit on the EU and the global economy. This may affect access to international markets and investment inflows.

The European Union is already stressed by economic crisis and by the refugee crisis that are creating insular reactions by member states. The UK exit from the EU may create other problems as other members choose to demand changes in the future in pursuing their own national priorities. These developments may be leading to a more fragmented Europe which may stop and sometimes reverse the process of integration. This may lead to slower growth, reduce intra-EU trade and aggravate the risk of recession.

Russia is an important economic partner of Cyprus both in terms of tourism and international business flows. Any developments that impact negatively on these linkages will have a negative impact on the economy and will thus affect the Group's operations. The standoff between Russia and the West over Ukraine continues and the United States and the European Union maintain sanctions against Russia. Russia continues its military operations over Syria and relations with Turkey remain complicated despite the August (2016) rapprochement and the normalisation of diplomatic and economic relations.

As a result of sanctions and most importantly the steep decline in oil and commodity prices, Russia entered a steep recession in 2015 when the economy contracted by 3,7% and expected to contract further by 1,2% in 2016 according to the IMF (Country Report, July 2016). Adjusting to lower oil prices requires an ambitious fiscal consolidation programme over the medium term. Monetary policy has been on hold but normalisation can resume once underlying inflation is firmly on a declining path. Lower oil prices and necessary fiscal adjustment will keep the economy in recession in 2016 and growth is expected to resume in 2017 and reach 1% as per the IMF, Country Report Russian Federation, July 2016. However, with adverse demographics, and barring significant structural reforms that increase productivity growth, potential growth is likely to be at around 1,5% over the medium term. A fall in oil prices is the main risk to the outlook.

In relation to Greece, the economy contracted by 0,2% in 2015 and is expected to contract further in 2016 by 0,3% according to the European Commission before growing by 2,7% in 2017. Greece signed a third Memorandum of Understanding (MoU) with the European Commission in August 2015 for further stability support accompanied by a third economic adjustment programme. The IMF was not part of the agreement. The Greek authorities also signed a Financial Assistance Facility Agreement with the European Stability Mechanism (ESM) to specify the financial terms of the loan.

Following a positive assessment of the programme implementation made by the European Commission in liaison with the ECB, and the approval of the Board of Governors of the ESM, Greece and the European Commission signed a Supplemental MoU on 16 June 2016 which updates the policy conditionalities set out in the MoU of August 2015 to reflect the progress achieved in programme implementation. This process leads to the disbursement of the second tranche of the ESM programme amounting to €10.3 billion.

It is now recognised that Greece will need debt relief and there is agreement on the methodology of how to assess debt sustainability. The IMF agreed that debt relief measures will be agreed at the end of the programme period and not upfront which was its initial position. In this context the IMF is expected to support the Greek programme before the end of the year.

#### 4. Other risks (continued)

##### Political risk (continued)

The Greek government has a slight majority in parliament but has so far been successful in passing important reforms. Unemployment is about 25% in Greece and youth unemployment is in excess of 50% as per Eurostat. With a shrinking labour force, low fertility rates and inefficient tax collection, the country will face considerable stresses meeting programme obligations and hence, discontent and social unrest may grow. Social unrest may remain a threat throughout 2016 and 2017, and with it, political instability will ensue. Early elections cannot be ruled out. In this context, the enforceability of the bailout programme and Greece's membership in the Eurozone may again come to be questioned.

Global economy risks remain elevated as highlighted by exceedingly easy monetary policies by most central banks, extremely low interest rates, which turned negative in many European countries and Japan, including in some cases, acceleration in credit expansion where credit outstanding is already elevated, as in China. Monetary policies have started to diverge between the Federal Reserve on the one hand, set on normalising interest rates, and most of the rest of the world on the other. These divergences are starting to put pressure on exchange rates at a time when the global financial system is particularly sensitive to a dollar appreciation. Changes in monetary policies therefore or loss of confidence in the ability of central banks to manage economic pressures, might lead to financial distress in the emerging world with broader consequences for economic activity in the advanced countries.

#### 5. Capital management

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

The Capital Requirements Regulation (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework on 1 January 2014. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, CRD IV needs to be transposed into national laws, and allows national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 2019 and some other transitional provisions provide for phase in until 2024. The CBC has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions.

Since June 2016, the CET 1 minimum capital requirement applicable to the Group is 4,5% of RWA. The total capital requirement is 8,0% and may be met with up to 1,5% by Additional Tier 1 (AT1) capital and up to 2,0% by Tier 2 capital.

The capital conservation buffer is 2,5% of RWA over the minimum CET1 ratio and was fully phased in since 2015.

In addition to the above minimum capital requirements, the following capital buffer requirements are effective and are gradually being phasing-in and will become fully effective on 1 January 2022.

The level of the Countercyclical Capital buffer (CCyB) is set on a quarterly basis by the CBC in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015 in accordance with the methodology set out in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for the first three quarters of 2016.

Since 2015, the Group has been designated as an Other Systemically Important Institution (O-SII). The CBC set the O-SII buffer for the Group at 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0,5% and increasing by 0,5% every year thereafter, until being fully implemented (2,0%) on 1 January 2022.

## 5. Capital management (continued)

The Group is also subject to additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons). However, the Group's Pillar II add-on capital requirement is a point-in-time assessment and therefore is subject to change over time. Following the completion of the supervisory review and evaluation process (SREP) for year 2015, the ECB notified the Group of the minimum required CET1 ratio. The Pillar II minimum CET1 capital requirement was determined by the ECB at 11,75% and it also includes the capital conservation buffer. The Group's capital position as at 30 June 2016 exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group. The Group expects that the results of the 2016 SREP cycle will be communicated by the ECB in September 2016.

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency II ratio which is effective from 1 January 2016. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

### 5.1 Capital position

The capital position of the Group under CRD IV/CRR basis (after applying the transitional arrangements set by the CBC) is presented below.

	30 June 2016	31 December 2015
<b>Regulatory capital</b>	<b>€000</b>	<b>€000</b>
Transitional Common Equity Tier 1 (CET1) <sup>3</sup>	2.735.509	2.747.772
Transitional Additional Tier 1 capital (AT1)	-	-
Tier 2 capital (T2)	20.872	30.290
<b>Transitional total regulatory capital</b>	<b>2.756.381</b>	<b>2.778.062</b>
Risk weighted assets – credit risk <sup>4</sup>	16.920.944	17.618.578
Risk weighted assets – market risk	7.489	7.811
Risk weighted assets – operational risk	2.039.888	2.039.888
<b>Total risk weighted assets</b>	<b>18.968.321</b>	<b>19.666.277</b>
	%	%
Transitional Common Equity Tier 1 ratio	14,4	14,0
<b>Transitional total capital ratio</b>	<b>14,5</b>	<b>14,1</b>

During the six months ended 30 June 2016, the CET1 was positively affected by the profit for the period and by the disposal of non-core assets and it was negatively affected by the phase in of transitional adjustments, mainly deferred tax asset. The reduction of risk-weighted assets is primarily due to the Group's ongoing efforts for risk-weighted assets optimisation. As a result of the above, the CET1 ratio increased by 40 bps during the period.

<sup>3</sup> CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €53.052 thousand and €35.193 thousand as at 30 June 2016 and 31 December 2015 respectively.

<sup>4</sup> Includes CVA.

## 6. Leverage ratio

According to CRR Article 429, the leverage ratio, expressed as a percentage, is calculated as the capital measure divided by the total exposure measure of the Group.

The leverage ratio of the Group is presented below:

	<b>30 June 2016</b>	31 December 2015
	<b>€000</b>	€000
<b>Transitional basis</b>		
Capital measure (CET1)	<b>2.735.509</b>	2.747.772
Total exposure measure	<b>22.321.852</b>	22.866.525
<b>Leverage ratio (%)</b>	<b>12,3</b>	12,1
<b>Fully loaded basis</b>		
Capital measure (CET1)	<b>2.580.221</b>	2.568.503
Total exposure measure	<b>22.201.372</b>	22.687.256
<b>Leverage ratio (%)</b>	<b>11,6</b>	11,3

## 7. Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and Supervisory Review and Evaluation Process (SREP)

The Group prepared the ICAAP and ILAAP reports for year 2015. Both reports were approved by the Board of Directors and have been submitted to the ECB in April 2016.

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

A quarterly review is also performed for the ILAAP through quarterly stress tests submitted to ALCO and Board Risk Committee, as from 2016. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows.

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

Following the completion of the SREP in 2015, the ECB notified the Group of the minimum required CET1 ratio of 11,75%. The Group's capital position as at 30 June 2016 exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group. The Group expects that the results of the 2016 SREP cycle will be communicated by the ECB in September 2016.

## Financial Information for the Period from 1 January 2016 to 30 June 2016

as stipulated by Decision 4/507/28.04.2009 of  
the Board of Directors of the Greek Capital Markets Commission

The financial information presented below is aiming to provide a general awareness about the financial position and results of the Bank of Cyprus Group (the 'Group') and the holding company Bank of Cyprus Public Company Ltd (the 'Company'). We recommend to the reader, before any investment decision or transaction is performed with the Group, to visit the Group's website where the financial statements prepared in accordance with International Financial Reporting Standards are available, together with the independent auditors' report, and the detailed explanatory statement of results. These documents are also available at the Registered Office of the Company (51 Stassinou Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, CY-1398 Nicosia, Cyprus, Telephone: +357 22 122128, Fax: +357 22 378422).

Website: [www.bankofcyprus.com](http://www.bankofcyprus.com) - Investor Relations/Financial Information.

Members of the Board of Directors: Josef Ackermann (Chairman), Wilbur L. Ross Jr. (Vice Chairman), Maksim Goldman (Vice Chairman), Arne Berggren, Michael Heger, Marios Kalochoritis, Christodoulos Patsalides, Michalis Spanos, Ioannis Zographakis and John Patrick Hourican.

Date of approval of the Interim Consolidated Financial Statements for the period ended 30 June 2016 by the Board of Directors: 30 August 2016.

Independent auditors: Ernst & Young Cyprus Ltd.

Type of auditor's report: Unmodified opinion, emphasis of matter.



# BANK OF CYPRUS GROUP

## Extracts from the Interim Consolidated Income Statement and Statement of Comprehensive Income

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
<b>Continuing operations</b>				
Net interest income	360.462	438.586	175.669	211.791
Net fee and commission income	73.868	79.117	37.902	35.818
Net foreign exchange gains	16.313	23.292	8.884	25.540
Net gains on financial instrument transactions	57.389	28.717	58.044	29.965
Insurance income net of claims and commissions	24.633	20.269	11.040	8.382
Gains/(losses) from revaluation and disposal of investment properties	5.806	(23.384)	2.114	(15.795)
(Losses)/gains on disposal of stock of property	(3.533)	243	(1.111)	35
Other income	7.577	8.846	5.731	6.162
	542.515	575.686	298.273	301.898
Staff costs	(179.279)	(118.017)	(115.196)	(58.902)
Other operating expenses	(109.556)	(97.401)	(57.606)	(46.253)
	253.680	360.268	125.471	196.743
Gain on derecognition of loans and advances to customers and changes in expected cash flows	22.166	230.039	37.607	187.033
Provisions for impairment of loans and advances to customers and other customer credit losses	(179.925)	(463.926)	(133.033)	(310.481)
Impairment of other financial instruments	(12.228)	(31.168)	(11.252)	(30.355)
Impairment of non-financial instruments	(9.362)	-	(2.359)	-
<b>Profit before share of profit from associates and joint ventures</b>	<b>74.331</b>	<b>95.213</b>	<b>16.434</b>	<b>42.940</b>
Share of profit from associates and joint ventures	1.606	3.438	805	1.598
<b>Profit before tax from continuing operations</b>	<b>75.937</b>	<b>98.651</b>	<b>17.239</b>	<b>44.538</b>
Income tax	(13.695)	(10.475)	(5.559)	(2.501)
<b>Profit after tax from continuing operations</b>	<b>62.242</b>	<b>88.176</b>	<b>11.680</b>	<b>42.037</b>
<b>Discontinued operations</b>				
Loss after tax from discontinued operations	-	(36.267)	-	(13.774)
<b>Profit for the period</b>	<b>62.242</b>	<b>51.909</b>	<b>11.680</b>	<b>28.263</b>
<b>Attributable to:</b>				
Owners of the Company – continuing operations	56.372	89.325	6.147	42.882
Owners of the Company – discontinued operations	-	(29.105)	-	(11.186)
<b>Total profit attributable to the owners of the Company</b>	<b>56.372</b>	<b>60.220</b>	<b>6.147</b>	<b>31.696</b>
Non-controlling interests – continuing operations	5.870	(1.149)	5.533	(845)
Non-controlling interests – discontinued operations	-	(7.162)	-	(2.588)
Total profit/(loss) attributable to non-controlling interests	5.870	(8.311)	5.533	(3.433)
<b>Profit for the period</b>	<b>62.242</b>	<b>51.909</b>	<b>11.680</b>	<b>28.263</b>
<b>Basic and diluted earnings per share (€) attributable to the owners of the Company - continuing operations</b>	<b>0,0063</b>	<b>0,0100</b>	<b>0,0007</b>	<b>0,0048</b>
<b>Basic and diluted earnings per share (€) attributable to the owners of the Company</b>	<b>0,0063</b>	<b>0,0068</b>	<b>0,0007</b>	<b>0,0036</b>
<b>Profit for the period</b>	<b>62.242</b>	<b>51.909</b>	<b>11.680</b>	<b>28.263</b>
Other comprehensive loss after tax	(63.075)	(16.820)	(59.512)	(19.320)
<b>Total comprehensive (loss)/income for the period</b>	<b>(833)</b>	<b>35.089</b>	<b>(47.832)</b>	<b>8.943</b>
<b>Attributable to:</b>				
Owners of the Company	(2.004)	47.415	(48.671)	11.697
Non-controlling interests	1.171	(12.326)	839	(2.754)
<b>Total comprehensive (loss)/income for the period</b>	<b>(833)</b>	<b>35.089</b>	<b>(47.832)</b>	<b>8.943</b>



BANK OF CYPRUS GROUP  
Extracts from the Interim Consolidated Balance Sheet

		30 June 2016	31 December 2015
<b>Assets</b>	<i>Notes</i>	<b>€000</b>	€000
Cash and balances with central banks		<b>1.518.663</b>	1.422.602
Loans and advances to banks		<b>1.174.123</b>	1.314.380
Derivative financial assets		<b>14.303</b>	14.023
Investments	3	<b>316.357</b>	588.255
Investments pledged as collateral	3	<b>523.386</b>	421.032
Loans and advances to customers		<b>16.253.237</b>	17.191.632
Life insurance business assets attributable to policyholders		<b>481.409</b>	475.403
Prepayments, accrued income and other assets		<b>238.118</b>	281.780
Stock of property		<b>1.128.793</b>	515.858
Investment properties		<b>37.505</b>	34.628
Property and equipment		<b>282.640</b>	264.333
Intangible assets		<b>138.537</b>	133.788
Investments in associates and joint ventures		<b>110.009</b>	107.753
Deferred tax assets		<b>451.126</b>	456.531
Non-current assets and disposal group held for sale		<b>11.460</b>	48.503
<b>Total assets</b>		<b>22.679.666</b>	23.270.501
<b>Liabilities</b>			
Deposits by banks		<b>342.762</b>	242.137
Funding from central banks		<b>3.100.667</b>	4.452.850
Repurchase agreements		<b>398.408</b>	368.151
Derivative financial liabilities		<b>59.037</b>	54.399
Customer deposits		<b>14.746.473</b>	14.180.681
Insurance liabilities		<b>569.681</b>	566.925
Accruals, deferred income and other liabilities	4	<b>321.435</b>	282.831
Debt securities in issue		-	712
Deferred tax liabilities		<b>45.211</b>	40.807
Non-current liabilities and disposal group held for sale		-	3.677
<b>Total liabilities</b>		<b>19.583.674</b>	20.193.170
<b>Equity</b>			
Share capital		<b>892.294</b>	892.294
Share premium		<b>552.618</b>	552.618
Capital reduction reserve		<b>1.952.486</b>	1.952.486
Revaluation and other reserves		<b>240.004</b>	258.709
Accumulated losses		<b>(583.710)</b>	(601.152)
<b>Equity attributable to the owners of the Company</b>		<b>3.053.692</b>	3.054.955
<b>Non-controlling interests</b>		<b>42.300</b>	22.376
<b>Total equity</b>		<b>3.095.992</b>	3.077.331
<b>Total liabilities and equity</b>		<b>22.679.666</b>	23.270.501

## BANK OF CYPRUS GROUP

## Extracts from the Interim Consolidated Statement of Changes in Equity

	Six months ended 30 June	
	2016	2015
	€000	€000
<b>Total equity at 1 January</b>	<b>3.077.331</b>	3.481.047
Profit for the period	<b>62.242</b>	51.909
Other comprehensive loss after tax for the period	<b>(63.075)</b>	(16.820)
Issue of share capital	-	135
Acquisition of subsidiary	<b>18.753</b>	-
Disposals of treasury shares	<b>741</b>	2.867
<b>Total equity at 30 June</b>	<b>3.095.992</b>	3.519.138

## BANK OF CYPRUS GROUP

## Extracts from the Interim Consolidated Statement of Comprehensive Income

	Six months ended 30 June		Three months ended 30 June	
	2016	2015	2016	2015
	€000	€000	€000	€000
<b>Profit for the period</b>	<b>62.242</b>	51.909	<b>11.680</b>	28.263
Foreign currency translation reserve	<b>3.342</b>	(14.933)	<b>2.334</b>	(14.500)
Available-for-sale investments	<b>(51.253)</b>	(2.065)	<b>(50.383)</b>	(4.998)
Property revaluation	<b>(21)</b>	178	<b>(21)</b>	178
Actuarial loss for the defined benefit plans	<b>(15.143)</b>	-	<b>(11.442)</b>	-
<b>Total comprehensive (loss)/income for the period</b>	<b>(833)</b>	35.089	<b>(47.832)</b>	8.943

## BANK OF CYPRUS GROUP

## Extracts from the Interim Consolidated Statement of Cash Flows

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>€000</b>	€000 (represented)
<b>Net cash flow from operating activities</b>	<b>1.150.538</b>	577.959
<b>Net cash flow from investing activities</b>	<b>202.814</b>	880.167
<b>Net cash flow used in financing activities</b>	<b>(1.373.637)</b>	(1.924.637)
<b>Net decrease in cash and cash equivalents for the period</b>	<b>(20.285)</b>	(466.511)
Foreign exchange adjustments	<b>6.421</b>	(24.116)
<b>Total cash outflow for the period</b>	<b>(13.864)</b>	(490.627)
Cash and cash equivalents at 1 January	<b>2.406.344</b>	2.238.601
<b>Cash and cash equivalents at 30 June</b>	<b>2.392.480</b>	1.747.974

BANK OF CYPRUS PUBLIC COMPANY LTD  
Extracts from the Interim Income Statement and Statement  
of Comprehensive Income

	Six months ended 30 June		Three months ended 30 June	
	2016	2015 (represented)	2016	2015 (represented)
	€000	€000	€000	€000
Net interest income	347.509	425.499	169.216	206.545
Net fee and commission income	64.776	71.545	33.270	31.895
Net foreign exchange gains	40.707	6.001	21.220	19.162
Net gains on financial instrument transactions	36.505	28.019	36.822	30.130
Dividends from subsidiary companies	24.000	-	24.000	-
Gains/(losses) from revaluation and disposal of investment properties	4.948	(23.017)	814	(15.335)
Losses on disposal of stock of property	(119)	-	(99)	-
Other income	3.064	8.290	1.781	6.865
	521.390	516.337	287.024	279.262
Staff costs	(159.816)	(102.402)	(103.636)	(51.012)
Other operating expenses	(95.088)	(83.604)	(50.467)	(39.392)
	266.486	330.331	132.921	188.858
Gain on derecognition of loans and advances to customers and changes in expected cash flows	22.166	230.038	37.607	187.032
Provisions for impairment of loans and advances to customers and other customer credit losses	(171.438)	(458.564)	(124.216)	(311.870)
Impairment of other financial instruments	(37.351)	(42.000)	(32.232)	(41.187)
Impairment of non-financial instruments	(6.544)	-	(2.458)	-
<b>Profit before tax</b>	<b>73.319</b>	59.805	<b>11.622</b>	22.833
Income tax	(8.827)	(8.534)	(2.927)	(1.354)
<b>Profit for the period</b>	<b>64.492</b>	51.271	<b>8.695</b>	21.479

<b>Basic and diluted earnings per share (€)</b>	<b>0,0072</b>	0,0057	<b>0,0009</b>	0,0024
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<b>Profit for the period</b>	<b>64.492</b>	51.271	<b>8.695</b>	21.479
Other comprehensive (loss)/income after tax	(48.102)	9.978	(43.158)	(4.756)
<b>Total comprehensive income/(loss) for the period</b>	<b>16.390</b>	61.249	<b>(34.463)</b>	16.723

BANK OF CYPRUS PUBLIC COMPANY LTD  
Extracts from the Interim Balance Sheet

		30 June 2016	31 December 2015
<b>Assets</b>	<i>Notes</i>	€000	€000
Cash and balances with central banks		1.225.744	1.111.354
Loans and advances to banks		1.021.626	1.112.337
Derivative financial assets		14.299	14.022
Investments	3	259.990	512.631
Investments pledged as collateral	3	523.386	421.032
Loans and advances to customers		15.075.977	16.005.878
Balances with Group companies		1.211.945	735.579
Prepayments, accrued income and other assets		126.573	167.486
Stock of property		391.461	276.095
Investment properties		12.351	11.688
Property and equipment		198.653	198.227
Intangible assets		16.093	14.773
Investments in associates and joint ventures		97.293	97.293
Investments in Group companies		249.739	207.781
Deferred tax assets		451.074	456.479
Non-current assets held for sale		359	9.767
<b>Total assets</b>		<b>20.876.563</b>	<b>21.352.422</b>
<b>Liabilities</b>			
Deposits by banks		339.575	237.860
Funding from central banks		3.100.667	4.452.850
Repurchase agreements		398.408	368.151
Derivative financial liabilities		58.980	54.408
Customer deposits		13.316.896	12.694.130
Balances with Group companies		634.454	568.486
Accruals, deferred income and other liabilities	4	268.209	233.084
Debt securities in issue		-	712
Deferred tax liabilities		20.111	19.868
<b>Total liabilities</b>		<b>18.137.300</b>	<b>18.629.549</b>
<b>Equity</b>			
Share capital		892.294	892.294
Share premium		551.368	551.368
Capital reduction reserve		1.952.486	1.952.486
Revaluation and other reserves		79.891	76.462
Accumulated losses		(736.776)	(749.737)
<b>Total equity</b>		<b>2.739.263</b>	<b>2.722.873</b>
<b>Total liabilities and equity</b>		<b>20.876.563</b>	<b>21.352.422</b>

BANK OF CYPRUS PUBLIC COMPANY LTD  
Extracts from the Interim Statement of Changes in Equity

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	Six months ended 30 June	
	2016	2015
	€000	€000
<b>Total equity at 1 January</b>	<b>2.722.873</b>	3.128.679
Profit for the period	<b>64.492</b>	51.271
Other comprehensive (loss)/income after tax for the period	<b>(48.102)</b>	9.978
Issue of shares	-	135
<b>Total equity at 30 June</b>	<b>2.739.263</b>	3.190.063

BANK OF CYPRUS PUBLIC COMPANY LTD  
Extracts from the Interim Statement of Comprehensive Income

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	Six months ended 30 June		Three months ended 30 June	
	2016	2015	2016	2015
	€000	€000	€000	€000
<b>Profit for the period</b>	<b>64.492</b>	51.271	<b>8.695</b>	21.479
Foreign currency translation reserve	<b>(327)</b>	11.326	<b>590</b>	(1.372)
Available-for-sale investments	<b>(33.072)</b>	(1.348)	<b>(32.467)</b>	(3.384)
Property revaluation	<b>(21)</b>	-	<b>(21)</b>	-
Actuarial loss on defined benefit plans	<b>(14.682)</b>	-	<b>(11.260)</b>	-
<b>Total comprehensive income/(loss) for the period</b>	<b>16.390</b>	61.249	<b>(34.463)</b>	16.723



BANK OF CYPRUS PUBLIC COMPANY LTD  
Extracts from the Interim Statement of Cash Flows

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	Six months ended 30 June	
	2016	2015
	€000	€000
<b>Net cash flow from operating activities</b>	<b>1.276.930</b>	699.290
<b>Net cash flow from investing activities</b>	<b>131.344</b>	874.401
<b>Net cash flow used in financing activities</b>	<b>(1.374.378)</b>	(1.925.702)
<b>Net increase/(decrease) in cash and cash equivalents for the period</b>	<b>33.896</b>	(352.011)
Foreign exchange adjustments	<b>17.401</b>	10.775
<b>Total cash inflow/(outflow) for the period</b>	<b>51.297</b>	(341.236)
Cash and cash equivalents at 1 January	<b>1.902.429</b>	1.486.608
<b>Cash and cash equivalents at 30 June</b>	<b>1.953.726</b>	1.145.372

1. The interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.
2. The accounting policies adopted are consistent with those followed for the preparation of the annual Consolidated Financial Statements for the year ended 31 December 2015, except for the adoption of new and amended standards and interpretations as explained in Note 2.2.1 of the Interim Consolidated Financial Statements.

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

The nature and the effect of these changes are disclosed in Note 2.2.1. of the Interim Consolidated Financial Statements. Although these new standards and amendments were applied for the first time in 2016, they did not have an impact on the Interim Consolidated Financial Statements of the Group.

3. Investments of the Group and the Company are analysed as follows:

	30 June 2016	31 December 2015
Group	€000	€000
<b>Investments</b>		
Investments at fair value through profit or loss	50.145	50.785
Investments available-for-sale	54.567	100.535
Investments classified as loans and receivables	211.645	436.935
	316.357	588.255
<b>Investments pledged as collateral</b>		
Investments available-for-sale	362.291	421.032
Investments classified as loans and receivables	161.095	-
	523.386	421.032
	839.743	1.009.287

	30 June 2016	31 December 2015
Company	€000	€000
<b>Investments</b>		
Investments at fair value through profit or loss	19.193	19.727
Investments available-for-sale	29.152	55.969
Investments classified as loans and receivables	211.645	436.935
	259.990	512.631
<b>Investments pledged as collateral</b>		
Investments available-for-sale	362.291	421.032
Investments classified as loans and receivables	161.095	-
	523.386	421.032
	783.376	933.663

4. Accruals, deferred income and other liabilities at 30 June 2016 include provisions for pending litigation and claims of €26.650 thousand for the Group and €25.768 thousand for the Company and other provisions of €22.083 thousand for the Group and €21.426 thousand for the Company. The Group's provision for pending litigation and claims at 30 June 2016 is set out in Note 33 of the Interim Consolidated Financial Statements. There are no other significant pending litigation, claims or assessments against the Group, the outcome of which would have a material effect on the Group's financial position or operations.
5. The number of persons employed by the Group as at 30 June 2016 was 4.279 (30 June 2015: 6.668) and by the Company was 3.729 (30 June 2015: 4.027).
6. Shares of the Company held by entities controlled by the Group (including shares that are held by life insurance subsidiary which holds the shares as part of financial assets that are invested for the benefit of insurance policyholders) at 30 June 2016 were 2.889 thousand and their cost of acquisition was €25.333 thousand.
7. The Group subsidiaries, branches, associates and joint ventures as at 30 June 2016 and the method of consolidation used are set out in Notes 49 and 51 of the Interim Consolidated Financial Statements.
8. **Related party transactions:**
  - (a) Loans and other advances to members of the Board of Directors and key management personnel: €2.968 thousand for the Group and the Company.
  - (b) Loans and other advances to other connected persons: €439 thousand for the Group and €1.212.384 thousand for the Company.
  - (c) Contingent liabilities and commitments (mainly documentary credits, guarantees and commitments to lend): €406 thousand for the Group and the Company.
  - (d) Deposits by members of the Board of Directors and key management personnel: €2.960 thousand for the Group and the Company.
  - (e) Deposits by other connected persons: €2.926 thousand for the Group and €637.380 thousand for the Company.
  - (f) Interest income: €55 thousand for the Group and €12.151 thousand for the Company.
  - (g) Interest expense: €38 thousand for the Group and €2.806 thousand for the Company.
  - (h) Remuneration and other transactions of members of the Board of Directors, key management personnel and connected persons: €3.574 thousand for the Group and €3.284 thousand for the Company.

## 9. Other information

The total capital expenditure of the Group for the period ended 30 June 2016 amounted to €14.100 thousand.

## 10. Events after the reporting date

### Contemplating listing in London Stock Exchange

As previously announced on 30 June 2016, the Company is considering a premium listing on the London Stock Exchange (LSE). The Group also intends to maintain a listing on the Cyprus Stock Exchange. In order to achieve such a listing and to be eligible for inclusion in the FTSE UK index series, the Company is considering the incorporation of a new holding company. Although no decision has been taken, the Company confirms that after examining a number of potential Eurozone jurisdictions, the Republic of Ireland is currently considered to be the most suitable jurisdiction as it is a FTSE eligible Eurozone country, has a common law legal system similar to that of Cyprus and is a commonly adopted jurisdiction for companies wishing to apply for a listing on the LSE.

Bank of Cyprus Holdings PLC was incorporated in the Republic of Ireland on 11 July 2016 for this purpose. Should the listing proceed, the Company's headquarters, management and operations would all remain in Cyprus. The new holding company would be, and the Company would remain, tax resident in Cyprus. The Company would continue to be regulated by the European Central Bank and the Central Bank of Cyprus.

**10. Events after the reporting date** (continued)

**Contemplating listing in London Stock Exchange** (continued)

The Company continues to monitor market conditions and to consult with its shareholders and other stakeholders in determining the appropriate course of action.

**Other events after the reporting date**

The material events which occurred after the reporting date are disclosed in Notes 45 and 49 of these interim consolidated financial statements.