



Announcement

**Group Financial Results for the quarter ended 31 March 2018**

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Nicosia, 29 May 2018

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014.



## Key Highlights for the quarter ended 31 March 2018

### Continued progress on Balance Sheet repair

- Twelve consecutive quarters of organic NPE reduction
- NPEs reduced by €454 mn (5%) qoq to €8.3 bn (reduced by 44% since December 2014)
- NPE ratio at 45%; NPE coverage at 51% including IFRS 9 First Time Adoption
- Continue to explore other structured solutions to accelerate de-risking

### Adequate capital position

- CET1 ratio at 12.0%, with organic capital generation offset by previously guided impact of EBA CRR definition and DTA phasing-in
- CET1 ratio fully loaded at 11.7% (allowing for IFRS 9 transitional arrangements)
- Total Capital ratio at 13.5%
- Capital ratios comfortably above SREP minimum requirement, with capacity to issue up to 150 bps of AT1 and further Tier 2

### Strong liquidity position

- Deposits increased by 1% qoq to €18.0 bn, with local deposits increasing by €291 mn in 1Q2018
- Full liquidity compliance (Group: LCR at 229%, NSFR 111%; Bank: LCR including local add-on at 109%)
- Loan to deposit ratio at 80%

### Positive performance in 1Q2018

- Total income of €231 mn for 1Q2018, including non-recurring treasury gains of €19 mn
- Operating profit of €125 mn for 1Q2018
- Profit after tax of €43 mn, EPS of 10 cents in 1Q2018
- Cost to income ratio of 46% for 1Q2018
- Cost of risk of 1.2%

### 2018 Targets Unchanged

- EPS guidance of c.40 cents maintained
- CET1 >13.0% and Total capital ratio >15.0%
- ~€2 bn organic NPE reduction, cost of risk <1%
- All targets and guidance continue to exclude the impact of any accelerated asset disposals

## Group Chief Executive Statement

*“Our results this quarter reflect continuing delivery against our core objective of balance sheet repair.*

*We have again maintained good momentum in organically addressing our NPE stock. This was the twelfth consecutive quarter of material NPE reduction. In 1Q2018 we reduced the stock of NPEs by €454 mn and have reduced the overall stock of NPEs by 44% since December 2014. Coverage levels against non-performing exposures increased to 51% (post IFRS 9 First Time Adoption), well-above the EU average of 44% and in line with our medium-term target of coverage above 50%.*

*We remain confident that we can make further progress in reducing our NPE stock during the coming quarters and we remain on-track to achieve our full year target of ~€2 bn organic NPE reduction. At the same time, we continue to actively explore certain structured solutions to further accelerate NPE reduction and more quickly return the Bank to a more normalised position.*

*Deposits have remained broadly stable in the quarter, allowing full compliance with our regulatory liquidity requirements. Local deposits grew by €291 mn in the quarter. New lending reached €717 mn in the first quarter, exceeding new lending during the same period in 2017. We are pleased to have maintained our leading lending position in the fast-growing Cypriot economy that expanded by 3.8% during the first quarter. Reduced provisioning, albeit slightly higher than the 1% full year 2018 target, and the positive contribution of this new lending, in combination with non-recurring treasury gains from the disposal of bonds, have allowed us to deliver a positive result of €43 mn for the first quarter, generating EPS of 10 cents.*

*Our capital levels remain adequate. In the first quarter, both the Bank’s CET1 ratio (transitional) and the Total Capital Ratio decreased in line with expectations to reflect the ‘phasing-in’ of deferred tax asset charges and the early adoption of changes to risk-weighted asset calculations to align the Bank with the CRR default definition. The Bank’s capital remained in excess of regulatory requirements and we remain on target to exceed 13% on a CET1 basis by the end of the year, based on organic balance sheet repair.*

*We are pleased with the good momentum we are seeing in the business and, as our guidance continues to exclude the impact of any accelerated asset disposals, our expectations for the full year are unchanged.”*

**John Patrick Hourican**

## A. Group Financial Results – Underlying Basis

### Unaudited Interim Condensed Consolidated Income Statement

€ mn	1Q2018	4Q2017	1Q2017	qoq ±%	yoy ±%
Net interest income	124	129	156	-3%	-21%
Net fee and commission income	41	47	43	-14%	-6%
Net foreign exchange gains and net gains on other financial instruments and disposal/ dissolution of subsidiaries	29	16	11	80%	154%
Insurance income net of claims and commissions	12	11	10	10%	19%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	19	5	9	301%	118%
Other income	6	6	4	-3%	88%
<b>Total income</b>	<b>231</b>	<b>214</b>	<b>233</b>	<b>8%</b>	<b>-1%</b>
Staff costs	(58)	(60)	(54)	-2%	8%
Other operating expenses	(41)	(43)	(41)	-5%	-1%
Special levy and contribution to Single Resolution Fund	(7)	(6)	(12)	26%	-39%
<b>Total expenses</b>	<b>(106)</b>	<b>(109)</b>	<b>(107)</b>	<b>-2%</b>	<b>-1%</b>
<b>Operating profit</b>	<b>125</b>	<b>105</b>	<b>126</b>	<b>18%</b>	<b>-1%</b>
Provision charge	(58)	(50)	(64)	16%	-9%
Impairments of other financial and non-financial assets	(7)	(27)	(32)	-75%	-78%
Provisions for litigation and regulatory matters	(2)	(25)	(17)	-93%	-90%
<b>Total provisions and impairments</b>	<b>(67)</b>	<b>(102)</b>	<b>(113)</b>	<b>-35%</b>	<b>-40%</b>
Share of profit from associates and joint ventures	1	4	2	-60%	-23%
<b>Profit before tax and restructuring costs</b>	<b>59</b>	<b>7</b>	<b>15</b>	<b>731%</b>	<b>271%</b>
Tax	(4)	(1)	(6)	315%	-34%
Loss/ (profit) attributable to non-controlling interests	2	3	(0)	-54%	-780%
<b>Profit after tax and before restructuring costs</b>	<b>57</b>	<b>9</b>	<b>9</b>	<b>496%</b>	<b>503%</b>
Advisory, VEP and other restructuring costs	(14)	(8)	(7)	58%	87%
<b>Profit after tax</b>	<b>43</b>	<b>1</b>	<b>2</b>	<b>-</b>	<b>-</b>

Key Performance Ratios	1Q2018	4Q2017	1Q2017	qoq ±	yoy ±
Net Interest Margin (annualised)	2.51%	2.57%	3.33%	-6 bps	-82 bps
Cost to income ratio	46%	51%	46%	-5 p.p.	-
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	43%	48%	41%	-5 p.p.	+2 p.p.
Operating profit return on average assets (annualised)	2.2%	1.8%	2.3%	+40 bps	-10 bps
Basic (losses)/earnings per share attributable to the owners of the Company (€ cent)	9.67	0.20	0.48	9.47	9.19

## A. Group Financial Results – Underlying Basis (continued)

### Unaudited Interim Condensed Consolidated Balance Sheet

€ mn	31.03.2018	31.12.2017	±%
Cash and balances with central banks	3,281	3,394	-3%
Loans and advances to banks	1,413	1,193	18%
Debt securities, treasury bills and equity investments	988	1,121	-12%
Net loans and advances to customers	14,373	14,602	-2%
Stock of property	1,552	1,641	-5%
Other assets	1,806	1,648	10%
<b>Total assets</b>	<b>23,413</b>	<b>23,599</b>	<b>-1%</b>
Deposits by banks	436	495	-12%
Funding from central banks	940	930	1%
Repurchase agreements	260	257	1%
Customer deposits	17,996	17,850	1%
Subordinated loan stock	286	302	-6%
Other liabilities	1,154	1,148	1%
<b>Total liabilities</b>	<b>21,072</b>	<b>20,982</b>	<b>0%</b>
<b>Shareholders' equity</b>	<b>2,298</b>	<b>2,586</b>	<b>-11%</b>
Non-controlling interests	43	31	38%
<b>Total equity</b>	<b>2,341</b>	<b>2,617</b>	<b>-11%</b>
<b>Total liabilities and equity</b>	<b>23,413</b>	<b>23,599</b>	<b>-1%</b>

Key Balance Sheet figures and ratios	31.03.2018	31.12.2017	±
Gross loans (€ mn)	18,586	18,755	-1%
Accumulated provisions (€ mn)	4,245	4,204	1%
Customer deposits (€ mn)	17,996	17,850	1%
Loan to deposit ratio (net)	80%	82%	-2 p.p.
NPE ratio	45%	47%	-2 p.p.
NPE provisioning coverage ratio	51%	48%	+3 p.p.
Quarterly average interest earning assets (€ mn)	20,020	19,826	1 %
Leverage ratio	9.2%	10.4%	-1.2 p.p.
<b>Capital ratios and risk weighted assets</b>	<b>31.03.2018</b>	<b>31.12.2017</b>	<b>±</b>
Common Equity Tier 1 capital ratio (CET1) (transitional)	12.0%	12.7%	-70 bps
CET1 (fully loaded) (allowing for IFRS 9 transitional arrangements)	11.7%	12.2%	-50 bps
Total capital ratio	13.5%	14.2%	-70 bps
Risk weighted assets (€ mn)	17,961	17,260	4%

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

Reclassifications to comparative information were made to conform to current year presentation. Specifically, investments previously classified in 'Life insurance business assets attributable to policyholders' totaling €91 mn were reclassified to 'Investments' and an amount of €2 mn was reclassified from 'Prepayments, accrued income and other assets' to 'Life insurance assets attributable to policyholders'. Additionally, negative interest income on loans and advances to banks and central banks amounting to €1 mn was reclassified from 'Interest income' to 'Interest expense'. Such reclassification did not have an impact on the results for the year or equity of the Group.

## A. Group Financial Results – Underlying Basis (continued)

### A.1. Balance Sheet Analysis

#### A.1.1 Capital Base

Shareholders' equity totalled €2,298 mn at 31 March 2018, compared to €2,586 mn at 31 December 2017. The **Common Equity Tier 1 capital (CET1) ratio (transitional basis)** stood at 12.0% at 31 March 2018, compared to 12.7% at 31 December 2017. During 1Q2018 the CET1 ratio was positively affected by the profit for the quarter, but, as previously highlighted, negatively affected by the deferred tax asset phasing-in and the increase in Risk-Weighted Assets (RWA) resulting from the early adoption of changes to almost align the EBA CRR definition with the NPE definition, effective as from 1 January 2018. Adjusting for Deferred Tax Assets, the CET1 ratio on a **fully-loaded basis (IFRS 9 transitional)** totalled 11.7% at 31 March 2018, compared to 12.2% at 31 December 2017. As at 31 March 2018, the Total Capital ratio stood at 13.5%, compared to 14.2% at 31 December 2017, mainly affected by the aforementioned definition alignment changes. Capital ratios include unaudited / unreviewed profits for 1Q2018.

The Group's capital ratios are comfortably above the minimum CET1 regulatory capital ratio of 9.375%, comprising a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and a phased-in CCB of 1.875% and the overall Total Capital Ratio requirement of 12.875%, comprising a Pillar I requirement of 8.00% (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a Pillar II requirement of 3.00% (in the form of CET1), as well as a phased-in CCB of 1.875%. The European Central Bank (ECB) has also provided non-public guidance for an additional Pillar II CET1 buffer.

The Group continues to explore opportunities, subject to market conditions, to raise up to 1.5% of Additional Tier 1 (AT1) capital in the near term to further strengthen the Group's capital base and create greater versatility for the future. In preparation for a potential issuance of AT1 capital instruments, Bank of Cyprus Holdings Public Limited Company ("BOC Holdings", or the "Company") will proceed (subject to approval by the shareholders and the Irish courts) with a capital reduction process which will result in the reclassification of up to €1,5 bn of the Company's share premium as distributable reserves, which will have the effect of eliminating the Company's accumulated losses of €0,5 bn (as at 31 December 2017), resulting in total net distributable reserves of c.€1 bn on a pro forma basis (as at 31 December 2017). The reduction of capital will be proposed as a special resolution for approval by shareholders at the Company's upcoming Annual General Meeting in August this year. The reduction of capital will not have any impact on regulatory capital or the total equity position of the Company, the Bank or the Group.

The distributable reserves created will provide the basis for the calculation of distributable items under the Capital Requirements Regulation (EU) No. 575/2013 ('CRR') which provides that coupons on AT1 capital instruments may only be funded from distributable items. Distributable items for the purposes of the CRR are determined, in part, by reference to distributable reserves.

The Company is currently subject to a prohibition on dividend distributions. However, such prohibition will not apply to the payment of coupons on any AT1 capital instruments issued by the Company.

#### IFRS 9 - Financial Instruments

The Group applied IFRS 9 on 1 January 2018. The new accounting standard requires the impact on the implementation date, 1 January 2018, to be recognised through equity rather than the income statement.

The Group's IFRS 9 impact on transition is assessed to result in a decrease of shareholders' equity of €308 mn and is primarily driven by credit impairment provisions. This reduction in shareholders' equity equates to a decrease in the tangible net asset value at 31 December 2017 of €0.69 per share.

The Group elected to apply the European Union (EU) dynamic transitional arrangements for regulatory capital purposes which result in only 5% of the estimated IFRS 9 impact affecting the capital ratios during 2018. Allowing for IFRS 9 transitional arrangements the impact is a reduction of c.9 bps on Group capital ratios on transition.

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

#### Default Definition

According to the European Banking Authority (EBA) guidelines that govern the CRR default definition, issued in January 2017, the default definition will gradually evolve to align with the Non-Performing Exposure (NPE) definition by 1 January 2021. The Group, in line with regulatory discussions, has proceeded with the early adoption of these changes to almost align the EBA CRR definition with the NPE definition as from 1 January 2018, resulting in an increase in RWA, equivalent to a decrease of c.50 bps on regulatory capital ratios.

## **A. Group Financial Results – Underlying Basis (continued)**

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

#### **A.1.2 Funding and Liquidity**

##### **Funding**

###### ***Funding from Central Banks***

At 31 March 2018, the Bank's funding from central banks totalled €940 mn, which relates wholly to ECB funding (compared to ECB funding of €930 mn as at 31 December 2017), comprising €830 mn of funding through Targeted Longer-Term Refinancing Operations (TLTRO II) and €110 mn of funding through Main Refinancing Operations (MRO).

The Bank fully repaid ELA in January 2017.

###### ***Deposits***

Group customer deposits increased by 1% to €17,996 mn at 31 March 2018, compared to €17,850 mn at 31 December 2017, with customer deposits in Cyprus increasing by €123 mn (1%). Cyprus deposits stood at €16,105 mn at 31 March 2018, accounting for 89% of Group customer deposits. Cyprus deposits remained broadly stable, as the increase of 2% qoq in local deposits offsets the decrease of 4% qoq in deposits of International Business Units (IBUs). The Bank's deposit market share in Cyprus reached 34.1% at 31 March 2018 (compared to 33.3% at 31 January 2018). Customer deposits accounted for 77% of total assets at 31 March 2018. The Loan to Deposit ratio (L/D) stood at 80% at 31 March 2018, down from 82% at 31 December 2017, compared to a high of 151% at 31 March 2014. The 2 p.p. qoq reduction in L/D ratio relates both to the 1% increase in deposits and the 1% decrease in net loans during the quarter.

###### ***Subordinated Loan Stock***

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

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

##### **Liquidity**

At 31 March 2018, the Group Liquidity Coverage Ratio (LCR) stood at 229% (compared to 190% at 31 December 2017) and was in compliance with the minimum regulatory requirement of 100% (increased from a requirement of 80% on 31 December 2017).

The Net Stable Funding Ratio (NSFR) was not introduced on 1 January 2018, as opposed to what was expected. The minimum requirement of NSFR will be 100%. At 31 March 2018, the Group's NSFR, on the basis of Basel III standards, stood at 111% (at the same level as at 31 December 2017).

## A. Group Financial Results – Underlying Basis (continued)

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

#### A.1.2 Funding and Liquidity (continued)

##### Liquidity (continued)

In accordance with the Capital Requirements Regulation (CRR), the local regulatory liquidity requirements set by the Central Bank of Cyprus (CBC) were abolished on 1 January 2018. The CBC introduced a macroprudential measure in the form of a liquidity add-on imposed on top of the LCR requirement of the Bank, which became effective on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity in the Cyprus banking system arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applies stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that are not subject to outflow rates under the LCR. The measure is to be implemented in two stages, the first stage being applicable from 1 January 2018 until 30 June 2018 and the second stage from 1 July 2018 until 31 December 2018, with a reduction of 50% of the add-on rates from 1 July 2018. As at 31 March 2018, the Bank was in compliance with the LCR including the add-on, which stood at 109%.

#### A.1.3 Loans

Group gross loans totalled €18,586 mn at 31 March 2018, compared to €18,755 mn at 31 December 2017. Gross loans in Cyprus totalled €16,478 mn at 31 March 2018 and accounted for 89% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a market share of 37.4% at 31 March 2018, compared to an adjusted market share of 37.5% as at 31 January 2018 (please refer to section G for the change in the basis of calculation post IFRS 9 adoption). Gross loans in the UK amounted to €1,764 mn at 31 March 2018 and accounted for 9% of Group total gross loans.

New loan originations for the Group reached €717 mn for 1Q2018 (of which €563 mn were granted in Cyprus and €154 mn by the UK subsidiary), exceeding new lending in 1Q2017.

At 31 March 2018, the Group net loans and advances to customers totalled €14,373 mn (31 December 2017: €14,602 mn). At 31 March 2018 and at 31 December 2017, there were no net loans and advances to customers which were classified as held for sale in line with IFRS 5.

#### A.1.4 Loan portfolio quality

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

**NPEs as defined by the EBA were reduced by €454 mn or 5% during 1Q2018** to €8,349 mn at 31 March 2018, accounting for 45% of gross loans, compared to 47% at 31 December 2017. The Group remains on track to deliver its 2018 NPE organic reduction target of ~€2 bn.



## A. Group Financial Results – Underlying Basis (continued)

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

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

The provisioning coverage ratio of NPEs stood at 51% at 31 March 2018, compared to 48% at 31 December 2017. When taking into account tangible collateral at fair value, NPEs are fully covered.

	31.03.2018		31.12.2017	
	€ mn	% of gross loans	€ mn	% of gross loans
NPEs as per EBA definition	<b>8,349</b>	<b>44.9%</b>	8,804	46.9%
Of which:				
- NPEs with forbearance measures, no arrears	<b>1,495</b>	<b>8.0%</b>	1,619	8.6%

The Group has recorded significant organic NPE reductions for twelve consecutive quarters and expects the organic reduction of NPEs to continue during the coming quarters. In parallel, the Group continues to actively explore alternative avenues to accelerate this reduction via structured solutions to accelerate de-risking, potentially in the near term, in one or more transactions. The Group's financial results for the 1Q2018 and all targets and guidance do not include any material impact from such considerations. The financial results of subsequent quarters may be affected, as transaction execution and any financial consequences become more certain.

As from 1 January 2018 and following IFRS 9 implementation, the Bank's disclosure in relation to the loan portfolio quality is based on Non-Performing Exposures (NPEs), in line with the EBA standards and ECB NPEs Guidance to the banks. Exposures that meet the NPE definition are considered to be in default and hence credit-impaired, and are classified in Stage 3 under IFRS 9 staging classification. Such loans are also considered to be in default for credit risk management purposes.

## A. Group Financial Results – Underlying Basis (continued)

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

#### A.1.5. Real Estate Management Unit

The **Real Estate Management Unit (REMU)** on-boarded €134 mn of assets in 1Q2018 (down by 19% qoq and up by 4% yoy) via the execution of debt for asset swaps. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed disposals of €55 mn in 1Q2018 (at similar levels as in 4Q2017), resulting in a profit on disposal of €11 mn for 1Q2018. Post 31 March 2018 and up to 4 May 2018, the Group completed additional disposals of €27 mn. During the quarter ended 31 March 2018 and up to 4 May 2018, the Group executed sale-purchase agreements (SPAs) with contract value of €97 mn (123 properties). In addition, the Group signed SPAs for disposals of assets with contract value of €17 mn.

Following the incorporation of the CYREIT, in line with IFRSs, properties of carrying value €166 mn were reclassified from the stock of properties (measured at the lower of cost and net realisable value under IAS 2) to investment properties (measured at fair value under IAS 40). These properties continue to be managed by REMU. A valuation gain of €8.4 mn has been recognised in the income statement upon reclassification.

As at 31 March 2018, assets held by REMU had a carrying value of €1.6 bn, in addition to investment properties of €166 mn.

<b>Assets held by REMU (Group) (€ mn)</b>	<b>1Q2018</b>	<b>4Q2017</b>	<b>1Q2017</b>	<b>FY2017</b>
Opening balance	1,641	1,548	1,427	1,427
On-boarded assets	134	164	128	520
Sales	(55)	(54)	(110)	(258)
Reclassification into investment properties	(166)	-	-	-
Closing balance	1,552	1,641	1,436	1,641

<b>Analysis by type and country</b>	<b>Cyprus</b>	<b>Greece</b>	<b>Romania</b>	<b>Total</b>
<b>31 March 2018 (€ mn)</b>				
Residential properties	159	28	0	187
Offices and other commercial properties	229	38	12	279
Manufacturing and industrial properties	94	34	0	128
Hotels	57	0	-	57
Land (fields and plots)	831	6	4	841
Properties under construction	60	-	-	60
<b>Total</b>	<b>1,430</b>	<b>106</b>	<b>16</b>	<b>1,552</b>

	<b>Cyprus</b>	<b>Greece</b>	<b>Romania</b>	<b>Total</b>
<b>31 December 2017 (€ mn)</b>				
Residential properties	146	29	0	175
Offices and other commercial properties	288	39	9	336
Manufacturing and industrial properties	113	34	0	147
Hotels	78	0	-	78
Land (fields and plots)	837	6	5	848
Properties under construction	57	-	-	57
<b>Total</b>	<b>1,519</b>	<b>108</b>	<b>14</b>	<b>1,641</b>

## A. Group Financial Results – Underlying Basis (continued)

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

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

The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 31 March 2018 are as follows:

€ mn	31 March 2018	31 December 2017
Greece	184	193
Romania	77	79
Serbia	7	9
Russia	28	31

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

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

In addition to the above, at 31 March 2018 there were overseas exposures of €184 mn in Greece (compared to exposures of €168 mn in Greece as at 31 December 2017), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

## A. Group Financial Results – Underlying Basis (continued)

### A.2. Income Statement Analysis

#### A.2.1 Total income

€ mn	1Q2018	4Q2017	1Q2017	qoq ±%	yoy ±%
<b>Net interest income</b>	<b>124</b>	<b>129</b>	<b>156</b>	-3%	-21%
Net fee and commission income	41	47	43	-14%	-6%
Net foreign exchange gains and net gains on other financial instruments and disposal/ dissolution of subsidiaries	29	16	11	80%	154%
Insurance income net of claims and commissions	12	11	10	10%	19%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	19	5	9	301%	118%
Other income	6	6	4	-3%	88%
<b>Non-interest income</b>	<b>107</b>	<b>85</b>	<b>77</b>	25%	39%
<b>Total income</b>	<b>231</b>	<b>214</b>	<b>233</b>	8%	-1%
Net Interest Margin (annualised)	2.51%	2.57%	3.33%	-6 bps	-82 bps
Average interest earning assets (€ mn)	20,020	19,826	19,027	1%	5%

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

**Net interest income (NII) and net interest margin (NIM)** for 1Q2018 amounted to €124 mn and 2.51% respectively. NII was down by 3% compared to €129 mn for 4Q2017 and down by 21% compared to €156 mn a year earlier. The NIM for 1Q2018 was at 2.51% compared to 2.57% for 4Q2017 and 3.33% a year earlier. The yoy decline in NIM reflects the cost of liquidity compliance, the lower volume on loans and pressure on lending rates.

**Quarterly average interest earning assets** for 1Q2018 amounted to €20,020 mn, up by 1% qoq and 5% yoy.

**Non-interest income** for 1Q2018 amounted to €107 mn, mainly comprising net fee and commission income of €41 mn, net foreign exchange income and net gains on financial instruments and disposal/ dissolution of subsidiaries of €29 mn and net insurance income of €12 mn.

**Net gains on other financial instruments and disposal/ dissolution of subsidiaries** of €29 mn for 1Q2018, increased by 80% qoq, mainly due to the gains on disposal of bonds during the quarter of €19 mn.

**Net fee and commission income** for 1Q2018 amounted to €41 mn, compared to €47 mn for 4Q2017 (down by 14% qoq) and €43 mn for 1Q2017 (down by 6% yoy). The qoq reduction is mainly due to the implementation of IFRS 9 under which certain commission income types are not recognised on Stage 3 loans.

**Net gains from revaluation and disposal of investment properties and on disposal of stock of properties** for 1Q2018 amounted to €19 mn (compared to €9 mn for 1Q2017), comprising net profit from the disposal of stock of properties of €11 mn (REMU gains) and a valuation gain on reclassification of €8 mn.

Following the incorporation of the CYREIT, in line with IFRSs, properties of carrying value €166 mn were reclassified from the stock of properties (measured at the lower of cost and net realisable value under IAS 2) to investment properties (measured at fair value under IAS 40). A valuation gain of €8.4 mn has been recognised in the income statement upon reclassification.

**Total income** for 1Q2018 amounted to €231 mn, compared to €214 mn for 4Q2017, up by 8% qoq.

## A. Group Financial Results – Underlying Basis (continued)

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

#### A.2.2 Total expenses

€ mn	1Q2018	4Q2017	1Q2017	qoq ±	yoy ±
Staff costs	(58)	(60)	(54)	-2%	8%
Other operating expenses	(41)	(43)	(41)	-5%	-1%
Total operating expenses	(99)	(103)	(95)	-4%	4%
Special levy and contribution to Single Resolution Fund (SRF)	(7)	(6)	(12)	26%	-39%
Total expenses	<b>(106)</b>	<b>(109)</b>	<b>(107)</b>	-2%	-1%
Cost to income ratio	46%	51%	46%	-5 p.p.	-
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	43%	48%	41%	-5 p.p.	+2 p.p.

**Total expenses** for 1Q2018 were €106 mn (compared to €109 mn for 4Q2017 and €107 mn for 1Q2017), 55% of which related to staff costs (€58 mn), 39% to other operating expenses (€41 mn) and 7% to special levy and contribution to Single Resolution Fund (SRF) (€7 mn, comprising the special levy of €6 mn and contribution to SRF of €1 mn).

**Staff costs** of €58 mn for 1Q2018 were increased by 8% yoy, mainly due to the effect of the renewal of the annual collective agreement with the employees' union. Staff costs were decreased by 2% qoq mainly due to the effect of the year end actuarial valuations in 4Q2017. The renewal of the collective agreement for 2018 is under discussion.

The cost to income ratio for 1Q2018 was 46%, compared to 51% for 4Q2017, principally reflecting the 8% qoq increase in total income.

## A. Group Financial Results – Underlying Basis (continued)

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

#### A.2.3 Profit before tax and restructuring costs

€ mn	1Q2018	4Q2017	1Q2017	qoq ±%	yoy ±%
Operating profit	125	105	126	18%	-1%
Provision charge	(58)	(50)	(64)	16%	-9%
Impairments of other financial and non-financial assets	(7)	(27)	(32)	-75%	-78%
Provisions for litigation and regulatory matters	(2)	(25)	(17)	-93%	-90%
<b>Total provisions and impairments</b>	<b>(67)</b>	<b>(102)</b>	<b>(113)</b>	<b>-35%</b>	<b>-40%</b>
Share of profit from associates and joint ventures	1	4	2	-60%	-23%
<b>Profit before tax and restructuring costs</b>	<b>59</b>	<b>7</b>	<b>15</b>	<b>731%</b>	<b>271%</b>

**Operating profit** for 1Q2018 was €125 mn, compared to €105 mn for 4Q2017, up by 18% qoq, reflecting the increase in total income.

**Provisions** for 1Q2018 totalled €58 mn, compared to €50 mn for 4Q2017 (up by 16% qoq) and to €64 mn for 1Q2017 (down by 9% yoy).

The annualised provisioning charge for 1Q2018 accounted for 1.2% of gross loans, compared to a provisioning charge of 4.0% for FY2017. An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk for FY2017.

At 31 March 2018, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures, totalled €4,245 mn (compared to €4,204 mn at 31 December 2017) and accounted for 22.8% of gross loans (compared to 22.4% at 31 December 2017). The increase in accumulated provisions in 1Q2018 amounted to €41 mn.

**Impairments of other financial and non-financial assets** for 1Q2018 totalled €7 mn, compared to €27 mn for 4Q2017 (down by 75% qoq), and to €32 mn for 1Q2017 (down by 78% yoy). The 4Q2017 charge of €27 mn includes an impairment loss on legacy properties in Cyprus and Greece.

**Provisions for litigation and regulatory matters** for 1Q2018 amounted to €2 mn, compared to €25 mn for 4Q2017 (down by 93% qoq) and to €17 mn for 1Q2017 (down by 90% yoy). The charge during 1Q2017 related to a fine imposed by the Cyprus Commission for the Protection of Competition.

## A. Group Financial Results – Underlying Basis (continued)

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

#### A.2.4 Profit after tax

€ mn	1Q2018	4Q2017	1Q2017	qoq ±%	yoy ±%
<b>Profit before tax and restructuring costs</b>	<b>59</b>	<b>7</b>	<b>15</b>	731%	271%
Tax	(4)	(1)	(6)	315%	-34%
Loss/(profit) attributable to non-controlling interests	2	3	(0)	-54%	-780%
<b>Profit after tax and before restructuring costs</b>	<b>57</b>	<b>9</b>	<b>9</b>	496%	503%
Advisory, VEP and other restructuring costs	(14)	(8)	(7)	58%	87%
<b>Profit after tax</b>	<b>43</b>	<b>1</b>	<b>2</b>	-	-

The **tax charge** for 1Q2018 totalled €4 mn compared to €1 mn in 4Q2017 and €6 mn a year earlier.

**Profit after tax and before restructuring costs** for 1Q2018 was €57 mn, compared to €9 mn for 4Q2017 and to €9 mn a year earlier.

**Advisory, VEP and other restructuring costs** for 1Q2018 were €14 mn, compared to €8 mn for 4Q2017 and to €7 mn a year earlier.

**Profit after tax** attributable to the owners of the Company for 1Q2018 was €43 mn, compared to €1 mn for 4Q2017 and to €2 mn a year earlier.

## B. Operating Environment

Economic recovery in Cyprus accelerated in 2017 and continued in the first quarter of 2018. The medium term outlook is favourable driven by an improving labour market, broadening investments and increasing resilience. Cyprus continues to face challenges primarily in relation to public and private indebtedness and non-performing exposures, which have shown, however, steady improvement.

Real GDP in Cyprus increased by 3.9% in 2017 compared with 3.4% increase in 2016 according to the Cyprus Statistical Service (the Statistical Service). The flash estimate for first quarter 2018 real GDP growth was 3.8% in seasonally adjusted terms. In the labour market, the unemployment rate dropped to 11% on average in 2017 down from 13% the year before. Average consumer inflation was marginally positive at 0.5% in 2017 after four years of deflation and reversed to marginally negative again in the first quarter of 2018 (Statistical Service). In the public sector the budget surplus increased significantly and funding conditions in the banking sector continued to improve against a backdrop of favourable developments regarding non-performing exposures.

GDP growth is expected to remain robust in the medium term and average 3% per annum in 2018-2020 according to the IMF (World Economic Outlook database, April 2018). On the supply side, growth is expected to be driven by favourable developments in the tourism sector and robust performance in business services. Tourism remains robust and continues to benefit from geopolitical uncertainties in competing destinations. Tourist arrivals in 2017 reached 3.7 mn persons, an all-time high, and revenues reached an estimated €2.6 bn or c.13.7% of GDP.

Cyprus' fiscal performance has been very positive. The fiscal surplus rose to 1.8% of GDP in 2017, from 0.3% of GDP the year before (Cyprus Statistical Service), and the Cyprus Government is expected to continue to record significant surpluses in the medium term according to the IMF (World Economic outlook, April 2018). Fiscal performance has been supported by strong cyclical economic activity, low interest rates and continued prudent policies. The primary surplus was 5% of GDP in 2017 and debt service costs amounted to 3.2% of GDP.

In this context, debt dynamics appear to have reversed and continue to point toward a firm downward trend in relation to GDP. The public debt to GDP ratio dropped to 97.5% in 2017 from 106.6% the previous year. This provides the Government with the capacity to absorb any materialisation of contingent liabilities arising from the banking sector, particularly the credit cooperative sector.

Deleveraging is on-going and domestic private sector debt has declined by 20.1% between end-December 2012 and end-December 2017. Total domestic private sector debt was 224.4% of GDP at the end of December. However, net of provisions domestic private sector debt drops to 172.9% of GDP. At the same time household deposits were 123% of GDP and the ratio of net loans to domestic deposits dropped to 87.9% indicating comfortable liquidity conditions. Rising corporate earnings, recovering housing prices and expected reforms enhancing the foreclosure and insolvency framework can improve debt resolution.

The outlook over the medium term is generally positive according to the IMF and the European Commission, while the economy continues to face challenges. Upside factors relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and stronger investment spending as property prices are stabilising and as projects in tourism, energy and public works are being implemented. Downside risks to this outlook are associated with the still high levels of non-performing loans, and public debt ratio, and with a possible deterioration of the external environment.

### Recent developments

In March 2018, the Cyprus Cooperative Bank (CyCB), the second largest credit institution in the country, effectively wholly owned by the Cyprus Government, launched a process to identify interested parties for an investment in either the fully licensed bank entity or all or part of CyCB's assets and liabilities, in the context of its strategic plan. In April 2018, the Cyprus Government deposited €2.5 bn in CyCB, after it bought new issues of government bonds under domestic law totalling €2.4 bn to alleviate depositors' concerns ahead of the expected sale of the state's majority stake in the CyCB. This will lead to an increase in the gross debt to GDP ratio, but will not affect the underlying debt dynamics. The Bank is not participating in the current process being run by the Government to attract investment into the CyCB and does not intend to acquire any of the assets of CyCB.

On 6 April 2018, the United States Office of Foreign Asset Control (OFAC) imposed additional sanctions on Russia, adding to the list of Specially Designated Nationals (SDNs) one of the Bank's shareholders. The Bank complies fully with the US sanctions regime, as well as all requirements of the US Patriot Act, where these are relevant or applicable to foreign financial institutions. The Bank also fully complies with the UN and EU sanctions regimes. The Bank is fully independent with no shareholder or shareholding group having special rights or influence.



## B. Operating Environment (continued)

### Recent developments (continued)

In the context of a strengthening economy and narrowing imbalances, the Cypriot sovereign has benefited from a series of upgrades. Most recently in April 2018, Fitch Ratings upgraded its Long-Term Issuer Default ratings to 'BB+' from 'BB' which is one notch below investment grade, maintaining its 'positive' outlook. In March 2018, S&P Global Ratings affirmed its long-term sovereign rating at BB+, also one notch below investment grade, and maintained its outlook to 'positive'. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 to reflect Cyprus' economic recovery and maintained its outlook to positive. Moody's Investors Service reiterated its credit rating and positive outlook on the Cyprus sovereign in a February 2018 update. The key drivers for rating upgrades have been stronger than expected economic performance, progress in the banking sector and consistent fiscal outperformance.

## C. Business Overview

As the Cypriot operations account for 89% of gross loans and 89% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's recovery. Most recently in March 2018, Fitch Ratings Limited affirmed their long-term issuer default rating of B- with stable outlook. In October 2017, Standard and Poor's assigned the Bank 'B/B' long- and short-term issuer credit ratings with a positive outlook. The Bank currently has a long-term deposit rating from Moody's Investors Service of Caa1 with a positive outlook. The key drivers for the ratings were the improvement in the Bank's financial fundamentals, mainly in asset quality, and its funding position.

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

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

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

Management is also placing emphasis on diversifying income streams by boosting fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Group's income streams. The insurance income net of insurance claims for 1Q2018 amounted to €12 mn, up by 19% yoy, compared to €10 mn for 1Q2017, contributing to 11% of non-interest income.

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

The Bank is committed to a modernisation agenda designed to transform its business model in order to ensure it can compete efficiently and better service the needs of its customers. To facilitate momentum in delivering changes through an accelerated multi-year **Digital Transformation Programme**, the Bank has been working with IBM, its Strategic Digital Transformation Partner, since July 2017. In collaboration with IBM, the Bank aims to use market leading digital innovation to improve efficiency and agility across the Group in order to provide a significantly superior experience to its customers.

On 18 May 2018, the shares of CYREIT Variable Capital Investment Company PLC (Alternative Investment Fund), the Real Estate Fund which the Bank has registered in Cyprus, were listed on the Non-Tradeable Collective Investment Schemes Market of the Cyprus Stock Exchange (CSE).

## D. Strategy and Outlook

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

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

- **Materially reduce** the level of delinquent loans
- **Further improve the funding structure**
- **Maintain an appropriate capital position** by internally generating capital
- Focus on the **core Cyprus market**
- **Achieve a lean operating model**
- **Deliver value** to shareholders and other stakeholders

KEY PILLARS	PLAN OF ACTION
1. <b>Materially reduce</b> the level of delinquent loans	<ul style="list-style-type: none"> <li>• Sustain momentum in restructuring</li> <li>• Focus on terminated portfolios (in Recovery Unit) – “accelerated consensual foreclosures”</li> <li>• Real estate management via REMU</li> <li>• Explore alternative accelerating NPE reduction measures such as NPE sales, securitisations etc.</li> </ul>
2. <b>Further improve the funding structure</b>	<ul style="list-style-type: none"> <li>• Focus on shape and cost of deposit franchise</li> <li>• Increase loan pool for the Additional Credit Claim framework of ECB</li> <li>• Further diversify funding sources</li> </ul>
3. <b>Maintain an appropriate capital position</b>	<ul style="list-style-type: none"> <li>• Internally generate capital</li> <li>• Potential AT1 issuance</li> </ul>
4. <b>Focus on core markets</b>	<ul style="list-style-type: none"> <li>• Targeted lending in Cyprus into promising sectors to fund recovery</li> <li>• New loan origination, while maintaining lending yields</li> <li>• Revenue diversification via fee income from international business, wealth, and insurance</li> </ul>
5. <b>Achieve a lean operating model</b>	<ul style="list-style-type: none"> <li>• Implementation of digital transformation program underway, aimed at enhancing productivity distribution channels and reducing operating costs over time</li> </ul>
6. <b>Deliver returns</b>	<ul style="list-style-type: none"> <li>• Deliver appropriate medium term risk-adjusted returns</li> </ul>

## D. Strategy and Outlook (continued)

The table below shows the Group's performance against the 2018 Targets and the Medium-Term Guidance.

Group Key Performance Indicators <sup>6</sup>		Actual Dec-2017	Actual March 2018 <sup>5</sup>	2018 Targets <sup>5</sup>	Medium-Term Guidance <sup>5</sup>
<b>Asset Quality</b>	NPE ratio	47%	45%	<40% ~€2 bn organic reduction	<25%
	NPE coverage ratio	48%	51%	>50%	>50%
	Cost of Risk (Provisioning charge) <sup>1</sup>	4.0% <sup>1</sup>	1.2%	<1.0%	<1.0%
<b>Capital</b>	CET1 Ratio	12.7%	12.0%	>13% <sup>2,3</sup>	>13% <sup>2,3</sup>
	Total Capital Ratio	14.2%	13.5%	>15% <sup>2,3</sup>	>15% <sup>2,3</sup>
<b>Profitability</b>	Total income	€ 907 mn	€231 mn	>€800 mn	Total income to grow in excess of cost <sup>4</sup>
	Cost to Income ratio	47%	46%	<50% <sup>4</sup>	
	Net fee and commission income / total income	20%	18%	>20%	>20%
<b>Balance Sheet</b>	Total assets	€23.6 bn	€23.4 bn	~€23 bn	>€25 bn
<b>Earnings per share</b>	EPS (€ cent)	(123.72)	10	~40	

<sup>1</sup> An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions in FY2017 is included in the cost of risk.

<sup>2</sup> Allowing for IFRS 9 transitional arrangements for regulatory capital purposes in line with European Union Regulation (2018: 5%, 2019: 15%, 2020: 30%, 2021: 50% and 2022: 75%).

<sup>3</sup> Including the impact of the adoption of the changes aligning the EBA CRR default definition with the NPE definition.

<sup>4</sup> Excluding the special levy and SRF contribution.

<sup>5</sup> The Group continues to actively explore alternative avenues to accelerate the reduction of NPEs via structured solutions to accelerate de-risking, potentially in the near term, in one or more transactions. The Group's financial results for 1Q2018 and all targets and guidance do not include any material impact from such considerations. The financial results of subsequent quarters may be affected, as transaction execution and any financial consequences become more certain.

<sup>6</sup> The NIM and the Net Loans to Deposits (L/D) targets have been removed. A new target on Total Income has been included in the key metrics considering the focus of the Group on total revenue generation and the shift of income to other lines of the Income Statement. The L/D ratio has been removed as it is not considered representative following the efforts of the Group to comply with the LCR ratio including the LCR add-on.

## E. Statutory Financial Results

### Unaudited Interim Consolidated Income Statement

	Three months ended 31 March	
	2018	2017
	€000	€000
Turnover	271,881	294,082
Interest income	168,413	209,292
Interest expense	(45,576)	(52,907)
Net interest income	122,837	156,385
Fee and commission income	43,256	45,830
Fee and commission expense	(2,598)	(2,576)
Net foreign exchange gains	6,983	10,641
Net income/gains on financial instrument transactions and disposal/dissolution of subsidiaries	19,964	600
Insurance income net of claims and commissions	12,440	10,423
Net gains/(losses) from revaluation and disposal of investment properties	8,272	(1,925)
Net gains on disposal of stock of property	10,516	10,536
Other income	6,369	3,383
	228,039	233,297
Staff costs	(58,230)	(54,053)
Special levy on deposits on credit institutions in Cyprus	(7,311)	(12,027)
Other operating expenses	(56,068)	(65,109)
	106,430	102,108
Net gains on derecognition of financial assets measured at amortised cost	20,594	20,393
Credit loss expense on financial assets	(75,826)	(84,136)
Impairment of other financial instruments	(1,926)	(23,286)
Impairment of non-financial instruments	(5,006)	(8,287)
<b>Profit before share of profit from associates and joint ventures</b>	<b>44,266</b>	<b>6,792</b>
Share of profit from associates and joint ventures	1,490	1,931
<b>Profit before tax</b>	<b>45,756</b>	<b>8,723</b>
Income tax	(4,161)	(6,343)
<b>Profit for the period</b>	<b>41,595</b>	<b>2,380</b>
<b>Attributable to:</b>		
Owners of the Company	43,155	2,151
Non-controlling interests	(1,560)	229
<b>Profit for the period</b>	<b>41,595</b>	<b>2,380</b>
<b>Basic and diluted earnings per share attributable to the owners of the Company (€ cent)</b>	<b>9.7</b>	<b>0.5</b>

## E. Statutory Financial Results (continued)

### Unaudited Interim Consolidated Statement of Comprehensive Income

	Three months ended 31 March	
	2018	2017
	€000	€000
<b>Profit for the period</b>	<b>41,595</b>	2,380
<b>Other comprehensive income (OCI)</b>		
<b>OCI to be reclassified in the consolidated income statement in subsequent periods</b>		
<b>Fair value reserve (debt instruments)</b>		
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)	(5,468)	-
Transfer to the consolidated income statement on disposal	(18,474)	-
	<b>(23,942)</b>	-
<b>Foreign currency translation reserve</b>		
Profit/(loss) on translation of net investment in foreign branches and subsidiaries	3,105	(4,357)
(Loss)/profit on hedging of net investments in foreign branches and subsidiaries	(3,248)	4,471
Transfer to the consolidated income statement on disposal/dissolution of foreign operations	(47)	-
	<b>(190)</b>	114
<b>Available-for-sale investments</b>		
Net gains from fair value changes before tax	-	4,509
Share of net gains from fair value changes of associates	-	379
Transfer to the consolidated income statement on impairment	-	(42)
	-	4,846
	<b>(24,132)</b>	4,960
<b>OCI not to be reclassified in the consolidated income statement in subsequent periods</b>		
<b>Fair value reserve (equity instruments)</b>		
Share of net losses from fair value changes of associates	(868)	-
Net gains on investments in equity instruments designated at FVOCI	1,670	-
	<b>802</b>	-
<b>Property revaluation</b>		
Tax	16	445
<b>Actuarial gain on the defined benefit plans</b>		
Remeasurement gains on defined benefit plans	443	385
	<b>1,261</b>	830
<b>Other comprehensive (loss)/income after tax for the period</b>	<b>(22,871)</b>	5,790
<b>Total comprehensive income for the period</b>	<b>18,724</b>	8,170
<b>Attributable to:</b>		
Owners of the Company	20,284	7,842
Non-controlling interests	(1,560)	328
<b>Total comprehensive income for the period</b>	<b>18,724</b>	8,170

## E. Statutory Financial Results (continued)

### Unaudited Interim Consolidated Balance Sheet

	31 March 2018	31 December 2017
<b>Assets</b>	<b>€000</b>	<b>€000</b>
Cash and balances with central banks	3,281,321	3,393,934
Loans and advances to banks	1,413,174	1,192,633
Derivative financial assets	7,072	18,027
Investments	688,995	830,483
Investments pledged as collateral	298,507	290,129
Loans and advances to customers	14,373,358	14,602,454
Life insurance business assets attributable to policyholders	414,691	429,890
Prepayments, accrued income and other assets	245,837	226,105
Stock of property	1,551,672	1,641,422
Investment properties	195,417	19,646
Property and equipment	277,238	279,814
Intangible assets	166,384	165,952
Investments in associates and joint ventures	118,468	118,113
Deferred tax assets	380,772	383,498
Non-current assets held for sale	-	6,500
<b>Total assets</b>	<b>23,412,906</b>	<b>23,598,600</b>
<b>Liabilities</b>		
Deposits by banks	436,099	495,308
Funding from central banks	940,000	930,000
Repurchase agreements	259,806	257,322
Derivative financial liabilities	35,058	50,892
Customer deposits	17,995,799	17,849,919
Insurance liabilities	596,941	605,448
Accruals, deferred income and other liabilities	477,071	444,602
Subordinated loan stock	285,659	302,288
Deferred tax liabilities	45,188	46,113
<b>Total liabilities</b>	<b>21,071,621</b>	<b>20,981,892</b>
<b>Equity</b>		
Share capital	44,620	44,620
Share premium	2,794,358	2,794,358
Revaluation and other reserves	242,535	273,708
Accumulated losses	(783,291)	(527,128)
<b>Equity attributable to the owners of the Company</b>	<b>2,298,222</b>	<b>2,585,558</b>
<b>Non-controlling interests</b>	<b>43,063</b>	<b>31,150</b>
<b>Total equity</b>	<b>2,341,285</b>	<b>2,616,708</b>
<b>Total liabilities and equity</b>	<b>23,412,906</b>	<b>23,598,600</b>

Reclassifications to comparative information were made to conform to current year presentation as disclosed in Section A of this Announcement.

## E. Statutory Financial Results (continued)

### Unaudited Interim Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Accumulated losses	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2018	44,620	2,794,358	(21,463)	(527,128)	92,878	54,485	6,059	105,651	36,098	<b>2,585,558</b>	31,150	<b>2,616,708</b>
Impact of adopting IFRS 9 at 1 January 2018 (Section F2)	-	-	-	(299,150)	-	(8,470)	-	-	-	<b>(307,620)</b>	-	<b>(307,620)</b>
<b>Restated balance at 1 January 2018</b>	<b>44,620</b>	<b>2,794,358</b>	<b>(21,463)</b>	<b>(826,278)</b>	<b>92,878</b>	<b>46,015</b>	<b>6,059</b>	<b>105,651</b>	<b>36,098</b>	<b>2,277,938</b>	<b>31,150</b>	<b>2,309,088</b>
Profit/(loss) for the period	-	-	-	43,155	-	-	-	-	-	<b>43,155</b>	(1,560)	<b>41,595</b>
Other comprehensive income/(loss) after tax for the period	-	-	-	443	16	(23,140)	-	-	(190)	<b>(22,871)</b>	-	<b>(22,871)</b>
Total comprehensive income/(loss) for the period	-	-	-	43,598	16	(23,140)	-	-	(190)	<b>20,284</b>	(1,560)	<b>18,724</b>
Increase in value of in-force life insurance business	-	-	-	(800)	-	-	-	800	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	100	-	-	-	(100)	-	-	-	-
Transfer of gain on disposal of FVOCI equity investments to accumulated losses	-	-	-	89	-	(89)	-	-	-	-	-	-
Increase in non-controlling interests due to change in the shareholding of subsidiary	-	-	-	-	-	-	-	-	-	-	13,473	<b>13,473</b>
<b>31 March 2018</b>	<b>44,620</b>	<b>2,794,358</b>	<b>(21,463)</b>	<b>(783,291)</b>	<b>92,894</b>	<b>22,786</b>	<b>6,059</b>	<b>106,351</b>	<b>35,908</b>	<b>2,298,222</b>	<b>43,063</b>	<b>2,341,285</b>

## E. Statutory Financial Results (continued)

### Unaudited Interim Consolidated Statement of Changes in Equity (continued)

	Attributable to the owners of the Company											Non-controlling interests	Total equity
	Share capital	Share premium	Capital reduction reserve	Treasury shares	(Accumulated losses)/retained earnings	Property revaluation reserve	Financial instruments fair value reserve	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
<b>1 January 2017</b>	<b>892,294</b>	<b>552,618</b>	<b>1,952,486</b>	<b>(25,333)</b>	<b>(544,930)</b>	<b>90,936</b>	<b>7,139</b>	<b>6,059</b>	<b>103,251</b>	<b>36,626</b>	<b>3,071,146</b>	<b>34,959</b>	<b>3,106,105</b>
Profit for the period	-	-	-	-	2,151	-	-	-	-	-	2,151	229	2,380
Other comprehensive income after tax for the period	-	-	-	-	385	445	4,747	-	-	114	5,691	99	5,790
Total comprehensive income for the period	-	-	-	-	2,536	445	4,747	-	-	114	7,842	328	8,170
Increase in value of in-force life insurance business	-	-	-	-	628	-	-	-	(628)	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	-	(79)	-	-	-	79	-	-	-	-
Transfer of realised profits on sale of properties	-	-	-	-	754	(754)	-	-	-	-	-	-	-
Cancellation of shares due to reorganisation	(892,294)	-	-	21,463	-	-	-	-	-	-	(870,831)	-	(870,831)
Change of parent company to Bank of Cyprus Holdings Public Limited Company and issue of new shares	44,620	2,241,740	(1,952,486)	(21,463)	558,420	-	-	-	-	-	870,831	-	870,831
Disposals of treasury shares	-	-	-	3,870	(3,863)	-	-	-	-	-	7	-	7
<b>31 March 2017</b>	<b>44,620</b>	<b>2,794,358</b>	<b>-</b>	<b>(21,463)</b>	<b>13,466</b>	<b>90,627</b>	<b>11,886</b>	<b>6,059</b>	<b>102,702</b>	<b>36,740</b>	<b>3,078,995</b>	<b>35,287</b>	<b>3,114,282</b>



## F. Notes

### F.1 Reconciliation of income statement between statutory and underlying basis

€mn	Underlying Basis	Reclassification	Statutory Basis
Net interest income	124	(1)	123
Net fee and commission income	41	-	41
Net foreign exchange gains and net income/gains on financial instrument transactions and disposal/dissolution of subsidiaries	29	(2)	27
Insurance income net of claims and commissions	12	-	12
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	19	-	19
Other income	6	-	6
<b>Total income</b>	<b>231</b>	<b>(3)</b>	<b>228</b>
<b>Total expenses</b>	<b>(106)</b>	<b>(16)</b>	<b>(122)</b>
<b>Operating profit</b>	<b>125</b>	<b>(19)</b>	<b>106</b>
Credit loss expense on financial assets net of gains on derecognition of financial assets	(58)	3	(55)
Impairments of other financial and non-financial instruments	(7)	-	(7)
Provisions for litigation and regulatory matters	(2)	2	-
Share of profit from associates and joint ventures	1	-	1
<b>Profit before tax and restructuring costs</b>	<b>59</b>	<b>(14)</b>	<b>45</b>
Tax	(4)	-	(4)
Loss attributable to non-controlling interests	2	-	2
<b>Profit after tax and before restructuring costs</b>	<b>57</b>	<b>(14)</b>	<b>43</b>
Advisory and other restructuring costs	(14)	14	-
<b>Profit after tax</b>	<b>43</b>	<b>-</b>	<b>43</b>

The reclassification differences between the underlying and statutory bases relate to: €1mn net interest income from FVPL financial instruments not disclosed within net interest income per IFRS 9 on the statutory basis, €3 mn fair value changes on FVPL financial instruments disclosed within net income/gains on financial instruments on the statutory basis and €16 mn expenses (€2 mn relate to Provisions for litigation and regulatory matters and €14 mn relate to Advisory and other restructuring costs), which are monitored and reported below the operating profit for management reporting purposes.

## F. Notes (continued)

### F.2 Transitional Consolidated Balance Sheet on adoption of IFRS 9

	31 December 2017	Re- measurements	1 January 2018 post IFRS 9
<b>Assets</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Cash and balances with central banks	3,393,934	(5,872)	3,388,062
Loans and advances to banks	1,192,633	(20)	1,192,613
Derivative financial assets	18,027	-	18,027
Investments	830,483	(1,861)	828,622
Investments pledged as collateral	290,129	-	290,129
Loans and advances to customers	14,602,454	(318,211)	14,284,243
Life insurance business assets attributable to policyholders	429,890	-	429,890
Prepayments, accrued income and other assets	226,105	(576)	225,529
Stock of property	1,641,422	-	1,641,422
Investment properties	19,646	-	19,646
Property and equipment	279,814	-	279,814
Intangible assets	165,952	-	165,952
Investments in associates and joint ventures	118,113	-	118,113
Deferred tax assets	383,498	-	383,498
Non-current assets held for sale	6,500	-	6,500
<b>Total assets</b>	<b>23,598,600</b>	<b>(326,540)</b>	<b>23,272,060</b>
<b>Liabilities</b>			
Deposits by banks	495,308	-	495,308
Funding from central banks	930,000	-	930,000
Repurchase agreements	257,322	-	257,322
Derivative financial liabilities	50,892	-	50,892
Customer deposits	17,849,919	-	17,849,919
Insurance liabilities	605,448	-	605,448
Accruals, deferred income and other liabilities	444,602	(18,920)	425,682
Subordinated loan stock	302,288	-	302,288
Deferred tax liabilities	46,113	-	46,113
<b>Total liabilities</b>	<b>20,981,892</b>	<b>(18,920)</b>	<b>20,962,972</b>
<b>Equity</b>			
Share capital	44,620	-	44,620
Share premium	2,794,358	-	2,794,358
Revaluation and other reserves	273,708	(8,470)	265,238
Accumulated losses	(527,128)	(299,150)	(826,278)
<b>Equity attributable to the owners of the Company</b>	<b>2,585,558</b>	<b>(307,620)</b>	<b>2,277,938</b>
<b>Non-controlling interests</b>	<b>31,150</b>	<b>-</b>	<b>31,150</b>
<b>Total equity</b>	<b>2,616,708</b>	<b>(307,620)</b>	<b>2,309,088</b>
<b>Total liabilities and equity</b>	<b>23,598,600</b>	<b>(326,540)</b>	<b>23,272,060</b>

The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial adoption. As permitted by IFRS 9 the Group has not restated comparative periods. The impact on the adoption date, 1 January 2018, was therefore recognised through equity rather than the consolidated income statement. The effect of the adoption of IFRS 9 remains subject to change until the Group finalises its financial statements for the year ending 31 December 2018.

Under IFRS 9, the recognition and measurement of expected credit losses differs from under IAS 39. Credit loss exposure on financial assets for the period ended 31 March 2017 are computed in accordance to IAS 39 and are therefore not necessarily comparable to the amounts recorded for the current period.

## F. Notes (continued)

### F.3 Customer deposits

Analysis of customer deposits is presented below:

	31 March 2018	31 December 2017
<i>By type of deposit</i>	€000	€000
Demand	6,397,156	6,313,244
Savings	1,681,025	1,536,576
Time or notice	9,917,618	10,000,099
	<b>17,995,799</b>	<b>17,849,919</b>
<i>By currency</i>		
Euro	14,118,047	13,829,991
US Dollar	1,573,434	1,743,513
British Pound	2,120,651	2,110,265
Russian Rouble	72,767	49,788
Swiss Franc	10,449	14,943
Other currencies	100,451	101,419
	<b>17,995,799</b>	<b>17,849,919</b>

<i>By customer sector</i>	Cyprus	United Kingdom	Total
<b>31 March 2018</b>	€000	€000	€000
Corporate	1,565,038	26,441	1,591,479
SMEs	691,463	198,276	889,739
Retail	9,112,528	1,665,660	10,778,188
Restructuring			
– Corporate	115,596	-	115,596
– SMEs	28,990	-	28,990
– Retail other	9,304	-	9,304
Recoveries	6,482	-	6,482
International banking services	3,994,886	-	3,994,886
Wealth management	581,135	-	581,135
	<b>16,105,422</b>	<b>1,890,377</b>	<b>17,995,799</b>
<b>31 December 2017</b>			
Corporate	1,529,521	29,742	1,559,263
SMEs	665,940	201,536	867,476
Retail	8,670,625	1,635,736	10,306,361
Restructuring			
– Corporate	145,084	-	145,084
– SMEs	40,743	-	40,743
Recoveries	6,615	-	6,615
International banking services	4,163,384	-	4,163,384
Wealth management	760,993	-	760,993
	<b>15,982,905</b>	<b>1,867,014</b>	<b>17,849,919</b>

## F. Notes (continued)

### F.4 Credit risk concentration of gross loans and advances to customers

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

31 March 2018	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition and on loans classified as FVPL	Gross loans after fair value adjustment on initial recognition and on loans classified as FVPL
By economic activity	€000	€000	€000	€000	€000	€000	€000	€000
Trade	1,947,764	-	13,438	9,577	47,484	2,018,263	(51,833)	1,966,430
Manufacturing	643,300	-	10,475	7,969	16,434	678,178	(15,573)	662,605
Hotels and catering	1,287,694	-	105,225	6,344	-	1,399,263	(27,657)	1,371,606
Construction	2,074,249	-	3,021	17,612	11,558	2,106,440	(106,172)	2,000,268
Real estate	1,758,876	22,157	1,418,988	91,595	1	3,291,617	(108,977)	3,182,640
Private individuals	6,667,583	214	155,670	549	-	6,824,016	(172,231)	6,651,785
Professional and other services	1,103,255	-	54,662	10,517	64,007	1,232,441	(50,880)	1,181,561
Other sectors	995,481	3,370	2,196	35,130	-	1,036,177	(32,827)	1,003,350
	<b>16,478,202</b>	<b>25,741</b>	<b>1,763,675</b>	<b>179,293</b>	<b>139,484</b>	<b>18,586,395</b>	<b>(566,150)</b>	<b>18,020,245</b>
<b>By customer sector</b>								
Corporate	6,615,342	25,527	1,390,409	172,433	130,031	8,333,742	(283,649)	8,050,093
SMEs	3,413,152	-	228,828	6,780	9,453	3,658,213	(108,577)	3,549,636
Retail								
- housing	4,135,289	-	130,633	-	-	4,265,922	(84,870)	4,181,052
- consumer, credit cards and other	1,997,851	214	13,805	80	-	2,011,950	(81,563)	1,930,387
International banking services	256,773	-	-	-	-	256,773	(2,857)	253,916
Wealth management	59,795	-	-	-	-	59,795	(4,634)	55,161
	<b>16,478,202</b>	<b>25,741</b>	<b>1,763,675</b>	<b>179,293</b>	<b>139,484</b>	<b>18,586,395</b>	<b>(566,150)</b>	<b>18,020,245</b>
<b>By business line</b>								
Corporate	3,508,429	25,527	1,390,356	107,116	130,031	5,161,459	(67,514)	5,093,945
SMEs	1,226,526	-	228,828	6,780	9,453	1,471,587	(13,825)	1,457,762
Retail								
- housing	3,003,975	-	130,633	-	-	3,134,608	(29,768)	3,104,840
- consumer, credit cards and other	1,097,700	214	13,805	80	-	1,111,799	(13,790)	1,098,009
Restructuring								
- major corporate	1,158,136	-	-	54,991	-	1,213,127	(106,511)	1,106,616
- corporate	744,135	-	-	-	-	744,135	(11,852)	732,283
- SMEs	1,044,525	-	-	-	-	1,044,525	(31,665)	1,012,860
- retail housing	420,221	-	-	-	-	420,221	(5,386)	414,835
- retail other	243,784	-	-	-	-	243,784	(7,859)	235,925
Recoveries								
- corporate	1,204,642	-	53	10,326	-	1,215,021	(97,772)	1,117,249
- SMEs	1,142,101	-	-	-	-	1,142,101	(63,087)	1,079,014
- retail housing	711,093	-	-	-	-	711,093	(49,716)	661,377
- retail other	656,367	-	-	-	-	656,367	(59,914)	596,453
International banking services	256,773	-	-	-	-	256,773	(2,857)	253,916
Wealth management	59,795	-	-	-	-	59,795	(4,634)	55,161
	<b>16,478,202</b>	<b>25,741</b>	<b>1,763,675</b>	<b>179,293</b>	<b>139,484</b>	<b>18,586,395</b>	<b>(566,150)</b>	<b>18,020,245</b>

## F. Notes (continued)

### F.4 Credit risk concentration of gross loans and advances to customers (continued)

31 December 2017	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
By economic activity	€000	€000	€000	€000	€000	€000	€000	€000
Trade	1,969,360	-	13,859	8,925	49,322	2,041,466	(71,636)	1,969,830
Manufacturing	630,101	-	6,468	7,416	20,567	664,552	(19,968)	644,584
Hotels and catering	1,283,512	-	103,808	6,208	-	1,393,528	(47,257)	1,346,271
Construction	2,310,057	-	3,398	12,236	11,764	2,337,455	(144,899)	2,192,556
Real estate	1,760,498	15,003	1,339,680	80,930	1	3,196,112	(89,647)	3,106,465
Private individuals	6,677,670	214	97,992	87	-	6,775,963	(195,686)	6,580,277
Professional and other services	1,181,920	-	54,616	9,223	62,325	1,308,084	(61,954)	1,246,130
Other sectors	1,000,434	338	1,231	35,552	-	1,037,555	(37,438)	1,000,117
	<b>16,813,552</b>	<b>15,555</b>	<b>1,621,052</b>	<b>160,577</b>	<b>143,979</b>	<b>18,754,715</b>	<b>(668,485)</b>	<b>18,086,230</b>
<b>By customer sector</b>								
Corporate	7,100,987	15,341	1,295,710	153,694	133,701	8,699,433	(333,740)	8,365,693
SMEs	3,254,742	-	238,509	6,801	10,278	3,510,330	(121,514)	3,388,816
Retail								
- housing	4,097,800	-	72,856	-	-	4,170,656	(88,799)	4,081,857
- consumer, credit cards and other	2,049,335	214	13,977	82	-	2,063,608	(116,752)	1,946,856
International banking services	256,554	-	-	-	-	256,554	(3,005)	253,549
Wealth management	54,134	-	-	-	-	54,134	(4,675)	49,459
	<b>16,813,552</b>	<b>15,555</b>	<b>1,621,052</b>	<b>160,577</b>	<b>143,979</b>	<b>18,754,715</b>	<b>(668,485)</b>	<b>18,086,230</b>
<b>By business line</b>								
Corporate	3,321,730	15,341	1,293,304	96,498	133,701	4,860,574	(83,251)	4,777,323
SMEs	1,219,350	-	238,509	6,801	10,278	1,474,938	(14,566)	1,460,372
Retail								
- housing	3,007,487	-	72,856	-	-	3,080,343	(30,274)	3,050,069
- consumer, credit cards and other	1,085,146	214	13,977	82	-	1,099,419	(14,348)	1,085,071
Restructuring								
- major corporate	1,292,607	-	-	33,860	-	1,326,467	(55,850)	1,270,617
- corporate	777,460	-	-	-	-	777,460	(15,303)	762,157
- SMEs	1,085,221	-	-	-	-	1,085,221	(37,096)	1,048,125
- retail housing	437,892	-	-	-	-	437,892	(6,319)	431,573
- retail other	226,623	-	-	-	-	226,623	(8,037)	218,586
Recoveries								
- corporate	1,709,190	-	2,406	23,336	-	1,734,932	(179,336)	1,555,596
- SMEs	950,171	-	-	-	-	950,171	(69,852)	880,319
- retail housing	652,421	-	-	-	-	652,421	(52,206)	600,215
- retail other	737,566	-	-	-	-	737,566	(94,367)	643,199
International banking services	256,554	-	-	-	-	256,554	(3,005)	253,549
Wealth management	54,134	-	-	-	-	54,134	(4,675)	49,459
	<b>16,813,552</b>	<b>15,555</b>	<b>1,621,052</b>	<b>160,577</b>	<b>143,979</b>	<b>18,754,715</b>	<b>(668,485)</b>	<b>18,086,230</b>

## F. Notes (continued)

### F.4 Credit risk concentration of gross loans and advances to customers (continued)

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.

### F.5 Credit quality of gross loans and advances to customers

The following table presents the credit quality of the Group's gross loans and advances to customers:

31 March 2018	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition and on loans classified as FVPL	Gross loans after fair value adjustment on initial recognition and on loans classified as FVPL
By staging	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1	4,129,540	-	1,632,083	998	-	5,762,621	(43,095)	5,719,526
Stage 2	4,071,151	-	111,354	195	-	4,182,700	(55,475)	4,127,225
Stage 3	6,344,078	25,741	20,238	174,225	139,484	6,703,766	(99,770)	6,603,996
POCI	1,464,213	-	-	3,875	-	1,468,088	(287,375)	1,180,713
FVPL	469,220	-	-	-	-	469,220	(80,435)	388,785
	<b>16,478,202</b>	<b>25,741</b>	<b>1,763,675</b>	<b>179,293</b>	<b>139,484</b>	<b>18,586,395</b>	<b>(566,150)</b>	<b>18,020,245</b>

## F.6 Credit losses

### F.6.1 Credit loss expense on financial assets

	Three months ended 31 March	
	2018	2017
	€000	€000
Loans and advances to customers	77,533	83,579
Financial guarantees and commitments	(1,185)	557
Investments	(1,511)	-
Loans and advances to banks	679	-
Balances with central banks	124	-
Other financial assets	186	-
	<b>75,826</b>	<b>84,136</b>

## F. Notes (continued)

### F.6 Credit losses (continued)

#### F.6.2 Credit losses of loans and advances to customers

The movement of credit losses of loans and advances to customers and the closing balance analysis by staging is as follows:

<b>31 March 2018</b>	Cyprus	United Kingdom	Other countries	<b>Total</b>
	€000	€000	€000	<b>€000</b>
1 January	3,236,103	7,522	240,151	<b>3,483,776</b>
Impact of adopting IFRS 9 at 1 January 2018	287,336	(107)	723	<b>287,952</b>
Restated balance at 1 January 2018	3,523,439	7,415	240,874	<b>3,771,728</b>
Change in the basis of calculation of gross carrying values	1,632,322	126	57,049	<b>1,689,497</b>
Foreign exchange and other adjustments	(161)	52	(577)	<b>(686)</b>
Applied in writing off impaired loans and advances	(1,914,544)	(2,546)	(24,034)	<b>(1,941,124)</b>
Interest accrued on impaired loans and advances	40,383	4,351	2,590	<b>47,324</b>
Collection of loans and advances previously written off	2,615	-	-	<b>2,615</b>
Charge for the period	78,746	(266)	(947)	<b>77,533</b>
<b>31 March</b>	<b>3,362,800</b>	<b>9,132</b>	<b>274,955</b>	<b>3,646,887</b>
Stage 1	10,026	1,338	26	<b>11,390</b>
Stage 2	62,432	4,821	1	<b>67,254</b>
Stage 3	2,801,140	2,973	271,074	<b>3,075,187</b>
POCI	489,202	-	3,854	<b>493,056</b>
<b>Total</b>	<b>3,362,800</b>	<b>9,132</b>	<b>274,955</b>	<b>3,646,887</b>
<b>31 March 2017</b>	Cyprus	United Kingdom	Other countries	<b>Total</b>
	€000	€000	€000	<b>€000</b>
1 January	3,170,161	10,782	371,298	<b>3,552,241</b>
Transfer between geographical areas	23	(23)	-	<b>-</b>
Foreign exchange and other adjustments	26,578	5	7,389	<b>33,972</b>
Applied in writing off impaired loans and advances	(174,165)	(12)	(42,561)	<b>(216,738)</b>
Interest accrued on impaired loans and advances	(28,917)	-	(487)	<b>(29,404)</b>
Collection of loans and advances previously written off	3,620	-	-	<b>3,620</b>
Charge for the period	72,773	1,687	9,119	<b>83,579</b>
<b>31 March</b>	<b>3,070,073</b>	<b>12,439</b>	<b>344,758</b>	<b>3,427,270</b>
<b>Individual impairment</b>	<b>2,688,174</b>	<b>9,935</b>	<b>344,726</b>	<b>3,042,835</b>
<b>Collective impairment</b>	<b>381,899</b>	<b>2,504</b>	<b>32</b>	<b>384,435</b>

The above table does not include the fair value adjustment on initial recognition of loans acquired from Laiki Bank and provisions for credit losses on financial guarantees and commitments which are part of other liabilities on the balance sheet.

As from 1 January 2018, to comply with the requirements of IFRS 9, the gross carrying amount of the loans has therefore increased by an amount of €1,689,497 thousand and an equivalent adjustment is effected on the accumulated provisions. There was no impact on the net carrying amount of the customer loans and advances from this change in the presentation.

During the three months ended 31 March 2018 the total non-contractual write-offs recorded by the Group amounted to €1,882,213 thousand (year 2017: €466,248 thousand).

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of the collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

At 31 March 2018 the weighted average haircut (including liquidity haircut and selling expenses) used in the collectively assessed provisions calculation is c.33% (31 December 2017: c.34%).

The timing of recovery from real estate collaterals used in the collectively assessed provision calculation has been estimated to be on average 6 years (2017: average of 6 years).

## F. Notes (continued)

### F.6 Credit losses (continued)

#### F.6.2 Credit losses of loans and advances to customers (continued)

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. For stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios; base, adverse and best. Under the adverse scenario operational cash flows are decreased by 50%, applied haircuts on real estate collateral are increased by 50% and the timing of recovery of collaterals is increased by 1 year, whereas under the best scenario applied haircuts are decreased by 5%, with no change in the recovery period.

Any positive cumulative average future change in property values during the quarter ended 31 March 2018 and the year ended 31 December 2017 was capped to zero. For stage 3 customers, this applies to all scenarios.

The above assumptions are also influenced by the ongoing regulatory dialogue Bank of Cyprus Public Company Ltd (BOC PCL) maintains with its lead regulator, the European Central Bank (ECB), and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and the European Banking Authority (EBA), which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

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

### F.7 Rescheduled loans and advances to customers

#### Credit quality

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
<b>31 March 2018</b>	€000	€000	€000	€000	€000	€000
Stage 1	607,047	-	-	-	-	<b>607,047</b>
Stage 2	1,000,853	-	-	4,235	61	<b>1,005,149</b>
Stage 3	3,499,989	3,370	68,933	5,345	14,355	<b>3,591,992</b>
POCI	501,117	-	-	-	1,466	<b>502,583</b>
FVPL	301,346	-	-	-	-	<b>301,346</b>
	<b>5,910,352</b>	<b>3,370</b>	<b>68,933</b>	<b>9,580</b>	<b>15,882</b>	<b>6,008,117</b>
<b>31 December 2017</b>						
Neither past due nor impaired	3,158,894	-	-	5,383	79	<b>3,164,356</b>
Past due but not impaired	1,218,160	-	-	2,354	-	<b>1,220,514</b>
Impaired	1,895,892	338	70,595	2,149	18,170	<b>1,987,144</b>
	<b>6,272,946</b>	<b>338</b>	<b>70,595</b>	<b>9,886</b>	<b>18,249</b>	<b>6,372,014</b>

### F.8 Credit risk disclosures

According to the EBA standards and ECB's Guidance to Banks on Non-Performing loans (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:

- (i) The 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 the Capital Requirement Regulation (CRR) (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.



## **F. Notes (continued)**

### **F.8 Credit risk disclosures (continued)**

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.
- (iv) No unlikely-to-Pay criteria exist for the debtor.
- (v) The debtor has made post-forbearance payments of a not-insignificant amount of capital (different capital thresholds exist according to the facility type).

## F. Notes (continued)

### F.8 Credit risk disclosures (continued)

The tables below present the analysis of loans and advances to customers in accordance with the EBA standards.

31 March 2018	Gross loans and advances to customers				Provision for impairment, accumulated negative changes in fair value and fair value adjustment on initial recognition			
	Group gross customer loans and advances <sup>1,2</sup>	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment, accumulated negative changes in fair value and fair value adjustment on initial recognition <sup>2</sup>	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>88,388</b>	2,460	4,167	2,356	<b>5,532</b>	1,753	1,936	1,687
<b>Other financial corporations</b>	<b>374,664</b>	251,291	207,852	185,920	<b>74,906</b>	66,149	27,112	25,956
<b>Non-financial corporations</b>	<b>10,377,002</b>	4,769,924	3,710,809	2,702,140	<b>2,537,033</b>	2,421,432	1,117,516	1,090,409
Of which: Small and Medium sized Enterprises (SMEs) <sup>3</sup>	<b>7,919,470</b>	4,203,871	3,025,543	2,236,529	<b>2,254,753</b>	2,150,391	901,863	878,491
Of which: Commercial real estate <sup>3</sup>	<b>7,583,012</b>	3,733,899	3,093,006	2,232,717	<b>1,847,703</b>	1,757,721	872,769	851,596
<b>Non-financial corporations by sector</b>								
Construction	<b>2,071,896</b>	1,514,849			<b>715,893</b>			
Wholesale and retail trade	<b>1,947,009</b>	822,548			<b>463,686</b>			
Accommodation and food service activities	<b>1,323,054</b>	342,800			<b>170,163</b>			
Real estate activities	<b>2,847,733</b>	1,010,481			<b>575,053</b>			
Manufacturing	<b>659,310</b>	347,149			<b>194,117</b>			
Other sectors	<b>1,528,000</b>	732,097			<b>418,121</b>			
<b>Households</b>	<b>7,746,341</b>	3,325,659	2,371,740	1,682,237	<b>1,595,566</b>	1,541,523	561,815	548,185
Of which: Residential mortgage loans <sup>3</sup>	<b>5,391,910</b>	2,351,966	1,871,057	1,283,920	<b>967,578</b>	924,404	379,108	367,197
Of which: Credit for consumption <sup>3</sup>	<b>969,740</b>	466,781	277,051	216,814	<b>276,973</b>	267,164	86,475	84,020
<b>Total on-balance sheet</b>	<b>18,586,395</b>	<b>8,349,334</b>	<b>6,294,568</b>	<b>4,572,653</b>	<b>4,213,037</b>	<b>4,030,857</b>	<b>1,708,379</b>	<b>1,666,237</b>

<sup>1</sup> Excluding loans and advances to central banks and credit institutions.

<sup>2</sup> Including the accumulated negative changes in fair value of the performing loans and advances at FVPL amounting to €842 thousand.

<sup>3</sup> The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

F. Notes (continued)

F.8 Credit risk disclosures (continued)

31 December 2017	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>88,780</b>	2,618	4,263	2,358	<b>2,098</b>	1,128	1,367	1,061
<b>Other financial corporations</b>	<b>387,169</b>	264,809	202,501	180,836	<b>97,237</b>	95,696	41,254	40,532
<b>Non-financial corporations</b>	<b>10,586,922</b>	5,187,722	4,025,293	2,851,028	<b>2,702,685</b>	2,604,430	1,228,304	1,181,589
Of which: Small and Medium sized Enterprises <sup>2</sup>	<b>8,695,078</b>	4,843,832	3,630,398	2,661,059	<b>2,464,383</b>	2,378,953	1,089,330	1,049,587
Of which: Commercial real estate <sup>2</sup>	<b>8,002,352</b>	4,153,585	3,497,693	2,431,002	<b>2,037,490</b>	1,952,487	1,013,916	973,244
<b>Non-financial corporations by sector</b>								
Construction	<b>2,303,375</b>	1,743,627			<b>893,938</b>			
Wholesale and retail trade	<b>1,973,382</b>	876,763			<b>495,099</b>			
Accommodation and food service activities	<b>1,314,939</b>	420,392			<b>222,789</b>			
Real estate activities	<b>2,768,637</b>	1,028,638			<b>518,261</b>			
Manufacturing	<b>648,131</b>	342,666			<b>172,232</b>			
Other sectors	<b>1,578,458</b>	775,636			<b>400,366</b>			
<b>Households</b>	<b>7,691,844</b>	3,348,567	2,452,419	1,700,494	<b>1,350,241</b>	1,287,442	500,603	480,676
Of which: Residential mortgage loans <sup>2</sup>	<b>5,254,483</b>	2,294,294	1,918,345	1,277,136	<b>732,039</b>	684,818	307,742	292,726
Of which: Credit for consumption <sup>2</sup>	<b>1,000,327</b>	504,304	285,386	221,049	<b>275,873</b>	266,760	84,288	80,526
<b>Total on-balance sheet</b>	<b>18,754,715</b>	<b>8,803,716</b>	<b>6,684,476</b>	<b>4,734,716</b>	<b>4,152,261</b>	<b>3,988,696</b>	<b>1,771,528</b>	<b>1,703,858</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.

## **F. Notes (continued)**

### **F.9 Pending litigation, claims and regulatory matters**

The Group in the ordinary course of business is subject to enquiries and examinations, requests for information, audits, investigations and legal and other proceedings by regulators, governmental and other public bodies, actual and threatened, relating to the suitability and adequacy of advice given to clients or the absence of advice, lending and pricing practices, selling and disclosure requirements, record keeping, filings and a variety of other matters. In addition, as a result of the deterioration of the Cypriot economy and banking sector in 2012 and the subsequent Restructuring of BOC PCL in 2013 as a result of the Bail-in Decrees, BOC PCL is subject to a large number of proceedings and investigations that either precede, or result from the events that occurred during the period of the Bail-in Decrees. Most ongoing investigations and proceedings of significance relate to matters arising during the period prior to the issue of the Bail-in Decrees. Provisions have been recognised for those cases where the Group is able to estimate probable losses. Where an individual provision is material, the fact that a provision has been made is stated. Any provision recognised does not constitute an admission of wrongdoing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings and regulatory matters.

### **F.10 Liquidity regulation**

The Group has to comply with provisions on the Liquidity Coverage Ratio (LCR) under CRD IV/CRR (as supplemented by the Commission Delegated Regulation (EU) No 2015/61 which prescribes the criteria for liquid assets and methods of calculation as from 1 October 2015 and the Commission Implementing Regulation (EU) No 2016/322 which prescribes supervisory reporting requirements and applied from 10 September 2016). It also monitors its position against the Net Stable Funding Ratio (NSFR) as proposed under Basel III. The LCR is designed to promote short-term resilience of a Group's liquidity risk profile by ensuring that it has sufficient high quality liquid resources to survive an acute stress scenario lasting for 30 days. The NSFR has been developed to promote a sustainable maturity structure of assets and liabilities.

In October 2014, the Basel Committee on Banking Supervision proposed the methodology for calculating the NSFR. It is noted that the NSFR did not become effective on 1 January 2018 as opposed to what was expected.

As at 31 March 2018 the Group was in compliance with its regulatory liquidity requirements with respect to the LCR. On the basis of the Commission Delegated Regulation (EU) 2015/61 the Group's LCR as at 31 March 2018 was 229% (31 December 2017: 190%); on the basis of Basel standards the Group's NSFR was 111% (31 December 2017: 111%).

In addition to the above, each banking unit must also comply with any liquidity requirements applicable in the country where it operates.

As at 31 March 2018, Bank of Cyprus UK Ltd was in compliance with the local regulatory liquidity ratios. On 1 January 2018, the local regulatory liquidity requirements with which the BOC PCL was not in full compliance (with respect to its operations in Cyprus), were abolished, in accordance with the CRR. In December 2017, the CBC introduced a macroprudential measure in the form of a liquidity add-on that was imposed on top of the LCR of BOC PCL with effect on 1 January 2018. The objective of the measure is to ensure that there will be a gradual release of the excess liquidity in the Cyprus banking system arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place.

The LCR add-on applies stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR than those defined in the Commission Delegated Regulation (EU) 2015/61 as well as additional liquidity requirements in the form of outflow rates on items that are not subject to outflow rates as per the aforementioned regulation. The measure is to be implemented in two stages. The first stage requires stricter outflow and inflow rates which are applicable from 1 January 2018 until 30 June 2018. The second stage requires more relaxed outflow and inflow rates compared to the initial ones, and are applicable from 1 July 2018 until 31 December 2018. Specifically, there will be a reduction of 50% of the add-on rates on 1 July 2018. The additional liquidity requirement is expected to be implemented up to 31 December 2018. The CBC may propose to modify or extend the period of application of this macroprudential measure depending on the results of the follow-up of the banks' actions on how the excess liquidity is utilised. As at 31 March 2018, BOC PCL was in compliance with the liquidity requirements including the add-on.

## F. Notes (continued)

### F.11 Liquidity reserves

The below table sets out the Group's liquidity reserves:

Composition of the liquidity reserves	31 March 2018			31 December 2017		
	Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible Level 1		Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61 LCR eligible Level 1	
		Level 1	Level 2A		Level 1	Level 2A
	€000	€000	€000	€000	€000	€000
Cash and balances with central banks	3,128,183	2,922,960	-	3,239,985	2,896,935	-
Nostro and overnight placements with banks	256,032	-	-	676,431	-	-
Other placements with banks	887,838	-	-	283,735	-	-
Liquid investments	496,537	481,585	82,441	591,565	548,706	69,782
Available ECB Buffer	4,138	-	-	2,151	-	-
<b>Total</b>	<b>4,772,728</b>	<b>3,404,545</b>	<b>82,441</b>	<b>4,793,867</b>	<b>3,445,641</b>	<b>69,782</b>

Investments under Liquidity Reserve are shown at market value net of haircut in order to reflect the actual liquidity value that can be obtained. Liquid investments exclude local issues of the Cyprus Government Bonds and include off balance sheet Bank of England Treasury Bills acquired by Bank of Cyprus UK Ltd through the encumbrance of customer loans with the Bank of England.

Under the LCR Liquidity Reserves, all Cyprus Government Bonds are eligible for inclusion as Level 1 assets given that they are issued by a Member State in the local currency. LCR does not require liquid assets to be eligible as collateral for central bank operations and are included at market value. Under LCR, only €34 million of Bank of Cyprus UK Ltd liquid assets are included since this is the amount required to bring the Bank of Cyprus UK Ltd's LCR ratio to 100% as per Article 8(2) of the Commission Delegated Regulation (EU) 2015/61 which requires that in the case there is no free transferability of liquid assets from a third country, the institution can only use those assets that meet the liquidity outflows of that country.

### F.12 Capital management

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

With the exception of certain specified provisions, the CRR and Capital Requirements Directive (CRD IV) came into effect on 1 January 2014. The CRR and CRD IV transposed the new capital, liquidity and leverage standards of Basel III into the EU's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage for credit institutions and investment firms. It is directly applicable in all EU member states. CRD IV governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency. Unlike the CRR, member states were required to transpose the CRD IV into national laws and it allowed national regulators to impose additional capital buffer requirements. CRR introduced significant changes in the prudential regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, which will be largely fully effective by 2019. In addition, the Regulation (EU) 2016/445 of the ECB on the exercise of options and discretions available in Union law (ECB/2016/4) provides certain transitional arrangements which supersede the national discretions unless they are stricter than the EU Regulation 2016/445.

The CET1 ratio of the Group at 31 March 2018 stands at 12.0% and the total capital ratio at 13.5% on a transitional basis.

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

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

## F. Notes (continued)

### F.12 Capital management (continued)

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

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

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

The capital position of the Group and BOC PCL at 31 March 2018 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

Based on the provisions of the Macroprudential Oversight of Institutions Law of 2015 which came into force on 1 January 2016, the CBC is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV.

In accordance with the provisions of the above law, the CBC sets, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined for all the countries in the European Economic Area (EEA) by their local competent authorities ahead of the beginning of each quarter. The CBC has set the level of the CCyB for Cyprus at 0% for the six months up to June 2018 and the year 2017. The CCyB for the Group has been calculated at 0% for the three months up to March 2018 and the year 2017.

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

Following the enactment of the amendments in the Cypriot Banking Law on 3 February 2017, the Capital Conservation Buffer (CCB) is gradually phased-in at 0.625% in 2016, 1.25% in 2017, 1.875% in 2018 and is fully implemented on 1 January 2019 at 2.5%.

The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. Although the precise calibration and ultimate designation of the Group's MREL has not yet been finalised, BOC PCL is monitoring developments in this area very closely.

The Group's overseas banking subsidiaries comply with the regulatory capital requirements of the local regulators in the countries in which they operate. The insurance subsidiaries of the Group comply with the requirements of the Superintendent of Insurance including the minimum solvency ratio. The regulated investment firms of the Group comply with the regulatory capital requirements of the CySEC laws and regulations.

## F. Notes (continued)

### F.12 Capital management (continued)

#### F.12.1 Capital position

The capital position of the Group and BOC PCL under CRD IV/CRR basis (after applying the transitional arrangements) is presented below.

Regulatory capital	Group		BOC PCL	
	31 March 2018	31 December 2017	31 March 2018	31 December 2017
	€000	€000	€000	€000
Transitional Common Equity Tier 1 (CET1) <sup>4,5</sup>	2,163,758	2,184,152	1,987,561	2,022,949
Transitional Additional Tier 1 capital (AT1)	-	-	-	-
Tier 2 capital (T2)	262,088	266,174	250,000	255,026
<b>Transitional total regulatory capital<sup>4</sup></b>	<b>2,425,846</b>	<b>2,450,326</b>	<b>2,237,561</b>	<b>2,277,975</b>
Risk weighted assets – credit risk <sup>6</sup>	16,241,258	15,538,637	15,268,831	14,491,974
Risk weighted assets – market risk	2,190	4,731	-	2,448
Risk weighted assets – operational risk	1,717,125	1,717,125	1,613,463	1,613,463
<b>Total risk weighted assets</b>	<b>17,960,573</b>	<b>17,260,493</b>	<b>16,882,294</b>	<b>16,107,885</b>
Transitional Common Equity Tier 1 ratio (%)	12.0	12.7	11.8	12.6
Transitional total capital ratio (%)	13.5	14.2	13.3	14.1
<b>IFRS 9 fully loaded</b>				
Common Equity Tier 1 ratio (%)	10.5	n/a	10.3	n/a
Total capital ratio (%)	12.0	n/a	11.8	n/a

During the three months ended 31 March 2018, the CET1 was positively affected by the profit for the period and it was negatively affected by the phase in of transitional adjustments, mainly deferred tax asset and the adoption of IFRS 9.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually and fully absorbed at the end of the five-years. For the year 2018 the impact on the capital ratios will be 5% of the impact on the difference in the impairment amounts.

The Risk-Weighted Assets (RWA) were negatively affected by the change in the default definition (according to the EBA guidelines that govern the CRR default definition, issued in January 2017, the default definition will gradually evolve to align with the NPE definition by 1 January 2021. The Group, in line with regulatory discussions, early adopted changes that will almost align the EBA CRR definition with the NPE definition as from 1 January 2018).

As a result of the above, the CET1 ratio decreased by 70 bps during the period.

<sup>4</sup> CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €164,668 thousand and €135,205 thousand as at 31 March 2018 and 31 December 2017 respectively.

<sup>5</sup> Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the deferred tax asset phase-in period reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016.

<sup>6</sup> Includes Credit Valuation Adjustments (CVA)



## F. Notes (continued)

### F.12 Capital management (continued)

#### F.12.2 Overview of RWA

		RWA		Minimum capital requirements
		31 March 2018	31 December 2017	31 March 2018
		€000	€000	€000
<b>1</b>	Credit risk (excluding counterparty credit risk (CCR))	<b>15,361,305</b>	14,640,711	<b>1,228,904</b>
<b>2</b>	Of which the standardised approach	<b>15,361,305</b>	14,640,711	<b>1,228,904</b>
<b>6</b>	CCR	<b>34,520</b>	41,013	<b>2,762</b>
<b>7</b>	Of which mark to market	<b>18,520</b>	21,788	<b>1,482</b>
<b>11</b>	Of which risk exposure amount for contributions to the default fund of a Central Counterparty (CCP)	-	-	-
<b>12</b>	Of which Credit Valuation Adjustment (CVA)	<b>16,000</b>	19,225	<b>1,280</b>
<b>13</b>	Settlement Risk	-	-	-
<b>19</b>	Market risk	<b>2,190</b>	4,731	<b>175</b>
<b>20</b>	Of which the standardised approach	<b>2,190</b>	4,731	<b>175</b>
<b>22</b>	Large exposures	-	-	-
<b>23</b>	Operational risk	<b>1,717,125</b>	1,717,125	<b>137,370</b>
<b>25</b>	Of which standardised approach	<b>1,717,125</b>	1,717,125	<b>137,370</b>
<b>27</b>	Amounts below the thresholds for deduction (subject to 250% risk weight)	<b>845,433</b>	856,913	<b>67,635</b>
<b>29</b>	Total	<b>17,960,573</b>	17,260,493	<b>1,436,846</b>

The rows not applicable to the Group are not presented in the table above.

The amounts reported for 31 March 2018 relate to RWA calculated on a transitional basis according to article 473a paragraph 7 of the CRR. The main changes in RWA are observed in lines 2, 6 and 19. The RWA movement observed in line 2 mainly relates to the alignment of the default definition used in the RWA calculation with the NPE definition, despite the deleveraging actions over the period resulting to the redistribution of the exposures to lower risk exposure classes. Particularly, (a) a significant decrease in balance sheet amounts in the higher risk exposure classes (exposures in default and higher-risk categories) due to repayments and intense increased provisioning and (b) a movement of exposure amounts from higher risk exposure classes (exposures in default and higher-risk categories) towards lower risk categories (Corporate, Retail, Secured by mortgages on immovable properties, and Other items) due to customer loan restructurings, new customer loans, and debt-for-property and debt-for-equity swaps deleveraging actions. The decrease observed in the Counterparty Credit Risk (CCR), line 6, reflects the significant decrease in the derivatives and long settlement exposure values. Finally the decrease in line 19, Market Risk, reflects the decrease in the exposure amounts held for trading as they were reclassified from held for trading to credit risk exposures.



## F. Notes (continued)

### F.12 Capital management (continued)

#### F.12.3 Standardised approach – Credit risk exposure and Credit Risk Mitigation (CRM) effects

The table below illustrates the effect of all CRM techniques applied in accordance with the CRR under the financial collateral comprehensive method.

Exposure classes	31 March 2018		31 December 2017	
	RWA and RWA density		RWA and RWA density	
	RWA	RWA density	RWA	RWA density
	€000	%	€000	%
Central governments or central banks	542,200	13.5	-	0.0
Regional government or local authorities	1,354	20.0	767	20.0
Public sector entities	-	0.0	1	0.0
Multilateral development banks	-	0.0	-	0.0
International organisations	-	0.0	-	0.0
Institutions	340,902	24.9	309,468	26.2
Corporates	3,378,956	98.6	3,687,153	98.6
Retail	1,275,232	70.9	1,470,032	70.9
Secured by mortgages on immovable property	1,345,052	36.0	1,422,667	36.0
Exposures in default	4,362,601	114.6	3,194,550	107.3
Higher-risk categories	2,509,095	150.0	2,529,759	150.0
Covered bonds	13,321	10.0	10,014	10.0
Collective investment undertakings	228	100.0	47	100.0
Equity	327,619	224.9	326,093	227.7
Other items	2,110,178	90.4	2,547,073	105.9
<b>Total</b>	<b>16,206,738</b>	<b>71.8</b>	<b>15,497,624</b>	<b>69.0</b>

Exposure classes with zero exposure values are not included in the table above.

The amounts reported for 31 March 2018 relate to RWA calculated on a transitional basis according to article 473a paragraph 7 of the CRR. The RWA density has significantly increased since 31 December 2017 due to the alignment of the default definition used in the RWA calculation with the NPE definition, despite the deleveraging actions over the period resulting to the redistribution of the exposures to lower risk exposure classes. Additionally, the increase in the RWA density observed in the “Central governments or central banks” arises from the application of Article 114, paragraph 6(a) of the CRR which came into effect on 1 January 2018 that relates to exposures to Member States denominated in a currency other than the domestic currency of that Member State, thus increasing the risk weights of such exposures that were previously risk weighted at 0%.

### F.13 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:

	31 March 2018	31 December 2017
	€000	€000
<b>Transitional basis</b>		
Capital measure (CET1)	2,163,758	2,184,152
Total exposure measure	23,595,865	23,547,545
Leverage ratio (%)	9.2	9.3
<b>IFRS 9 fully loaded</b>		
Capital measure (CET1)	1,834,018	n/a
Total exposure measure	23,166,542	n/a
Leverage ratio (%)	7.9	n/a

## **F. Notes (continued)**

### **F.14 Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and SREP and ECB 2018 Stress Test**

The Group prepares the ICAAP and ILAAP reports annually. Both reports for 2017 were approved by the Board of Directors and have been submitted to the ECB in April 2018.

The Group also undertakes a quarterly review of its ICAAP results considering the latest actual and forecasted information. During the quarterly review, the Group's risk profile and risk management policies and processes are reviewed and any changes since the annual ICAAP exercise are taken into consideration. The ICAAP process demonstrates that the Group has sufficient capital under both the base case and stress scenarios.

A quarterly review is also performed for the ILAAP through quarterly stress tests submitted to the Assets and Liabilities Committee (ALCO) and Board Risk Committee. 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 Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate.

The ECB, as part of its supervisory role, has been conducting the SREP and onsite inspections on the Group. SREP is a holistic assessment of, amongst other things, the Group's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of the SREP is for the ECB to form an up-to-date supervisory view of the Group's risks and viability and to form the basis for supervisory measures and dialogue with the Group. Additional capital and other requirements could be imposed on the Group as a result of these supervisory processes, including a revision of the level of Pillar II add-ons as the Pillar II add-on capital requirements are a point-in-time assessment and therefore subject to change over time.

#### *ECB 2018 Stress Test*

The EBA in cooperation with the European Systemic Risk Board (ESRB) initiated the 2018 EU-wide stress tests to assess the resilience of financial institutions to adverse market developments and is expected to be completed in the fourth quarter of 2018. The Group participates in the bi-annual ECB 2018 Stress test, as in 2016.

## G. Definitions & Explanations

Accelerated phase-in period	Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the DTA phase-in period was reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016. The applicable rate of the DTA phase-in is 60% for 2017, 80% for 2018 and 100% for 2019 (fully phased-in).
Accumulated provisions	Comprise (i) provisions for impairment of customer loans and advances, (ii) the fair value adjustment on initial recognition of loans acquired from Laiki Bank and on loans classified at FVPL, and (iii) provisions for off-balance sheet exposures disclosed on the balance sheet within other liabilities.
Advisory, VEP and other restructuring costs	Comprise mainly: 1) fees of external advisors in relation to: (i) disposal of operations and non-core assets, (ii) customer loan restructuring activities which are not part of the effective interest rate and (iii) the listing on the London Stock Exchange and 2) voluntary exit plan cost.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Basel II requirements.
CET1 fully loaded	CET1 fully loaded is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service of the Republic of Cyprus	The latest data was published on 15 May 2018.
Deferred Tax Asset adjustments	The DTA adjustments relate to Deferred Tax Assets totalling €381 mn and recognised on tax losses totalling €3.05 bn and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%. There are tax losses of c.€7.1 bn for which no deferred tax asset has been recognised. The recognition of deferred tax assets is supported by the Bank's business forecasts and takes into account the recoverability of the deferred tax assets within their expiry period.
Earnings per Share (EPS)	The 2018 target for the earnings per share (EPS) does not include the impact of any unplanned or unforeseen risk reduction trades, or macro events.
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
Gross loans	Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) and on loans classified at FVPL, amounting to €566 mn at 31 March 2018 (compared to €668 mn at 31 December 2017).
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or "the Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries.

## G. Definitions & Explanations (continued)

Leverage ratio	The leverage ratio is the ratio of tangible total equity to total assets for the relevant period.
Profit after tax and before restructuring costs	Profit after tax excludes advisory, VEP and other restructuring costs
Market Shares	Both deposit and loan market shares are based on data from the Central Bank of Cyprus.  The Bank is the single largest credit provider in Cyprus with a market share of 37.4% at 31 March 2018, compared to an adjusted market share of 37.5% as at 31 January 2018. The market share on loans has been affected following the change in the basis of calculation of the gross carrying value which in turn has been affected by IFRS 9 and the increased non-contractual write-offs during 1Q2018. Adjusting the market share on loans for 31 January 2018 on the same calculation basis as for 31 March 2018, the market share is adjusted to 37.5% from 39.5% on the previous basis.
Net fee and commission income over total income	Net fee and commission income over total income is the net fee and commission income divided by the total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net customer loans and advances, plus investments (excluding equities and mutual funds) and derivatives.
Net loans and advances	Loans and advances net of accumulated provisions.
Net loan to deposit ratio	Net loan to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits, including loans and deposits held for sale.
Net Stable Funding Ratio (NSFR)	The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF), on the basis of Basel III standards. Its calculation is a SREP requirement. EBA is working on finalising the NSFR and enforcing it as a regulatory ratio.
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains and net gains on other financial instruments and disposal/ dissolution of subsidiaries, Insurance income net of claims and commissions, Net gains from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.
Non-performing exposures (NPEs)	According to the EBA reporting standards on forbearance and non-performing exposures (NPEs), published in 2014 and ECB's Guidance to Banks on Non-Performing Loans published in March 2017, a loan is considered an NPE if: (i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due, or (ii) the exposures are impaired i.e. in cases where there is a specific provision, or (iii) there are material exposures which are more than 90 days past due, or (iv) there are performing forborne exposures under probation for which additional forbearance measures are extended, or (v) there are performing forborne exposures under probation that present more than 30 days past due within the probation period. The NPEs are reported before the deduction of accumulated provisions (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).
Operating profit	Comprises profit before total provisions and impairments (as defined), share of profit from associates and joint ventures, tax, loss/ (profit) attributable to non-controlling interests, advisory, VEP and other restructuring costs (where applicable).
Operating profit return on average assets	Operating profit return on average assets is calculated as the operating profit divided by the average of total assets for the relevant period.

## G. Definitions & Explanations (continued)

Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Provision charge	The provision charge comprises provisions for impairments of customer loans, net of gain/(loss) on derecognition of loans and advances to customers and changes in expected cash flows.
Provisioning charge (cost of risk)	Provisioning charge (cost of risk) (year to date) is calculated as the provisions for impairment of customer loans and provisions for off-balance sheet exposures, net of gain on derecognition of loans and advances to customers and changes in expected cash flows divided by average gross loans (the average balance calculated as the average of the opening balance and the closing balance). An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk for FY2017.
Provisioning coverage ratio for NPEs	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs (as defined).
Quarterly average interest earning assets	Average of interest earning assets as at the beginning and end of the relevant quarter. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net customer loans and advances, plus investments (excluding equities and mutual funds) and derivatives.
qoq	Quarter on quarter change
Special levy	Relates to the special levy on deposits of credit institutions in Cyprus.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
Total expenses	Total expenses comprise staff costs, other operating expenses and the special levy and contribution to the Single Resolution Fund. It does not include restructuring costs (advisory, VEP and other restructuring costs). Restructuring costs amount to €13.6 mn for the three months ended 31 March 2018 and €29.3 mn for the year ended 31 December 2017.
Total income	Total income comprises net interest income and non-interest income (as defined).
Total provisions and impairments	Total provisions and impairments comprise provision charge (as defined), plus provisions for litigation and regulatory matters plus impairments of other financial and non-financial assets.
Underlying basis	Statutory basis adjusted for certain items as detailed in the Basis of Presentation.
Write offs	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 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.
yoy	Year on year change

## Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, “BOC Holdings” or “the Company”, its subsidiary Bank of Cyprus Public Company Limited, the “Bank” and together with the Bank’s subsidiaries, the “Group”, for the quarter ended 31 March 2018.

At 31 December 2016, the Bank was listed on the CSE and the Athens Exchange. On 18 January 2017, BOC Holdings, incorporated in Ireland, was introduced in the Group structure as the new holding company of the Bank. On 19 January 2017, the total issued share capital of BOC Holdings was admitted to listing and trading on the LSE and the CSE.

Financial information presented in this announcement is being published for the purposes of providing an overview of Group financial results for the quarter ended 31 March 2018. The financial information in this announcement does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2017, upon which the auditors have given an unqualified report, were published on 27 March 2018 and are expected to be delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2018. The Board of Directors approved the Group statutory financial statements for the quarter ended 31 March 2018 on 29 May 2018.

**Statutory basis:** Statutory information is set out on pages 20-24. However, a number of factors have had a significant effect on the comparability of the Group’s financial position and results. Accordingly, the results are also presented on an underlying basis.

**Underlying basis:** The statutory results are adjusted for certain items (as described on page 25) to allow a comparison of the Group’s underlying performance, as set out on pages 4-5.

The financial information included in this announcement is neither reviewed nor audited by the Group’s external auditors.

This announcement and the presentation for the Group Financial Results for the quarter ended 31 March 2018 have been posted on the Group’s website [www.bankofcyprus.com](http://www.bankofcyprus.com) (Investor Relations/Financial Results).

**Definitions:** The Group uses a number of definitions in the discussion of its business performance and financial position which are set out in section G.

The Group Financial Results for the quarter ended 31 March 2018 are presented in Euro (€) and all amounts are rounded as indicated. A comma is used to separate thousands and a dot is used to separate decimals.

## Forward Looking Statements

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

## Contacts

For further information please contact:

**Investor Relations**

+ 357 22 122239

investors@bankofcyprus.com

The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Bank of Cyprus Group operates through a total of 123 branches, of which 121 operate in Cyprus, 1 in Romania and 1 in the United Kingdom. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,396 staff worldwide. At 31 March 2018, the Group’s Total Assets amounted to €23.4 bn and Total Equity was €2.3 bn. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.