Bank of Cyprus Holdings

Announcement

Group Financial Results for the six months ended 30 June 2019

Nicosia, 27 August 2019

Key Highlights for the six months ended 30 June 2019

Good Capital Position

- Total Capital ratio of 18.1% pro forma for the disposal of investment in CNP (17.8% as reported)
- CET1 ratio of 15.2% pro forma for the disposal of investment in CNP (14.9% as reported)
- Project Helix completed, adding 140 bps to capital in 2Q2019

Continuing Progress on Balance Sheet Repair

- Completion of sale of €2.7 bn NPEs (Project Helix)
- NPEs of €4.3 bn (€2.2 bn net); 71% reduction since 2014; NPE ratio reduced to 33%, coverage increased to 50%
- Seventeen consecutive quarters of organic NPE reduction; €300 mn NPE reduction in 2Q2019; €457 mn in 1H2019
- REMU sales (organic) of €110 mn in 1H2019; Completion of sale of Cyreit in 2Q2019
- Management continues to actively explore strategies to further accelerate de-risking including further portfolio sales

Strong Liquidity Position

- Deposits at €16.4 bn at quarter end, broadly flat qoq
- Significant liquidity surplus of €3.8 bn, reflecting €1.2 bn increase on Project Helix completion
- Loan to deposit ratio of 67%

2Q2019 Performance Reflects Continued De-risking

- Total Income of €177 mn, Operating profit of €72 mn, Underlying profit after tax, excluding Helix & CNP, of €21 mn
- Cost of risk of 1.23% reflecting continued de-risking and IFRS 9 model volatility
- Agreement for the sale of investment in CNP; net loss of €23 mn (+30 bps of capital on completion)
- Profit after tax of €2 mn for 2Q2019 and €97 mn for 1H2019

Outgoing Group Chief Executive Statement

"Our results this quarter reflect continuing progress against our core objective of balance sheet repair.

We completed the sale of c.€2.7 bn non-performing loans in Project Helix in June, which added 140 bps of capital. Our on-going organic non-performing exposure (NPE) reduction amounted to €300 mn for the quarter, bringing total organic reduction in the first half of 2019 to €457 mn, in line with our organic target of c.€800 mn for 2019. This was the seventeenth consecutive quarter of organic reductions in NPEs.

Since the peak in 2014, we have now reduced the stock of NPEs by 71% to €4.3 bn. This stock of NPEs is now covered by 50% loan credit losses. Overall, since 2014 we have managed a reduction in NPEs of €10.7 bn, of which €8 bn has been through organic actions.

In June 2019 we agreed the sale of our minority stake in CNP Cyprus Insurance Holdings Ltd (CNP). At completion this is expected to add c.30 bps of capital. The sale enables the Group to focus on its core assets and is in line with the Group's strategy of delivering value for shareholders.

The Bank's capital position remains good. As at 30 June 2019 the CET1 ratio (IFRS 9 transitional) was 15.2% and the Total Capital ratio was 18.1%, both pro forma for the disposal of our investment in CNP, well in excess of our regulatory requirements.

During the quarter our deposits remained broadly flat at €16.4 bn and our cost of deposits reduced by 8 bps. Overall our cost of deposits has reduced by 52 bps since January 2018. In the second quarter of 2019 new lending rose 13% from the prior year to €548 mn, helping support the continued growth in the Cypriot economy. Overall in the first half of 2019, we lent €1.1 bn to customers in Cyprus. Our loan to deposit ratio at the quarter-end stood at 67%. The Bank continues to operate with a significant liquidity surplus, which at the end of the second quarter amounted to €3.8 bn.

During the second quarter of the year, the Group generated total income of €177 mn and a positive operating result of €72 mn. The underlying result after tax is a profit of €21 mn, excluding Helix and the CNP disposal. On a reported basis, after the €23 mn net loss from the sale of our investment in CNP, the result was a profit after tax for the second quarter of €2 mn. The reported profit after tax for the first half of the year amounted to €97 mn.

I am extremely proud of the progress the Bank has made since late 2013 when I joined the executive team. The Bank is returning to strength, through a disciplined approach to balance sheet repair and disposal of non-core business. It is now well placed to support the strengthening Cypriot economy, which expanded by 3.3% during the first half of the year. I firmly believe that our new CEO, Panicos Nicolaou, whom I have worked closely with for a number of years, will confidently lead the Bank in its next chapter. I know the management will remain focused on continuing to make the Bank stronger, safer and future- focused."

John Patrick Hourican

Group Chief Executive Designate Statement

"I am excited to be taking over on 1 September. John is leaving, with the Bank being entirely transformed from its position at the time he arrived and we are very grateful for the work he and my fellow executive team have done. There remains more to do and our initial focus will be to continue the good work that he and the team have achieved. The strategy to de-risk the Bank and strengthen the balance sheet remains as important today as it was in 2013.

Together with the continued de-risking of the Bank, my focus will be on ensuring our business model is best placed for the future and we will further rationalise and modernise the Bank and identify ways to reduce the cost of running the Bank. As with all other European banks, the changed interest rate environment presents a challenge to our profitability levels. In response, we will remain focused on actively managing our funding costs and identifying ways to reduce our cost base, while looking for opportunities to enhance our revenue dynamics.

I am fully committed to ensuring Bank of Cyprus continues to play a vital role in supporting the local economy. I am under no illusions about how much there remains to be done, but I am excited at the opportunity and our potential."

Panicos Nicolaou

A. Group Financial Results – Statutory Basis

Interim Consolidated Income Statement for the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018 (represented)
	€000	€000
Turnover	**487,145**	521,469
Interest income	**251,805**	286,581
Income similar to interest income	**26,683**	26,296
Interest expense	**(50,415)**	(78,016)
Expense similar to interest expense	**(23,964)**	(22,777)
Net interest income	**204,109**	212,084
Fee and commission income	**87,467**	85,282
Fee and commission expense	**(12,955)**	(4,946)
Net foreign exchange gains	**14,117**	18,039
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	**12,155**	37,378
Insurance income net of claims and commissions	**30,036**	25,094
Net (losses)/ gains from revaluation and disposal of investment properties	**(1,349)**	1,165
Net gains on disposal of stock of property	**17,747**	20,266
Other income	**15,679**	11,276
	367,006	405,638
Staff costs	**(114,244)**	(104,670)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund	**(12,477)**	(12,073)
Other operating expenses	**(112,967)**	(102,292)
	127,318	186,603
Net gains on derecognition of financial assets measured at amortised cost	**5,429**	19,381
Credit losses to cover credit risk on loans and advances to customers	**(108,911)**	(252,953)
Credit losses of other financial instruments	**(7,367)**	(3,331)
Impairment of non-financial instruments	**(11,585)**	(10,117)
Profit/(loss) before share of profit from associates and remeasurement	**4,884**	(60,417)
Remeasurement of investment in associate classified as held for sale	**(25,943)**	-
Share of profit from associates	**5,312**	4,520
Loss before tax from continuing operations	**(15,747)**	(55,897)
Income tax	**115,144**	(3,890)
Profit/(loss) after tax from continuing operations	**99,397**	(59,787)
Profit after tax from discontinued operations	**-**	4,010
Profit/ (loss) for the period	**99,397**	(55,777)
Attributable to:		
Owners of the Company-continuing operations profit/(loss)	**97,398**	(58,058)
Owners of the Company-discontinuing operations profit	**-**	4,010
Total profit/ (loss) attributable to the owners of the Company	**97,398**	(54,048)
Non-controlling interests-continuing operations profit/(loss)	**1,999**	(1,729)
Profit/ (loss) for the period	**99,397**	(55,777)
Basic and diluted profit/ (losses) per share attributable to the owners of the Company (€ cent) - continuing operations	**21.8**	(13.0)
Basic and diluted profit/ (losses) per share attributable to the owners (€ cent)	**21.8**	(12.1)

A. Group Financial Results – Statutory Basis (continued)

Interim Consolidated Balance Sheet as at 30 June 2019

	30 June 2019	31 December 2018 (restated)
Assets	**€000**	€000
Cash and balances with central banks	**5,261,896**	4,610,491
Loans and advances to banks	**403,041**	472,532
Derivative financial assets	**13,651**	24,754
Investments	**1,588,582**	777,104
Investments pledged as collateral	**292,317**	737,587
Loans and advances to customers	**10,949,002**	10,921,786
Life insurance business assets attributable to policyholders	**438,560**	402,565
Prepayments, accrued income and other assets	**323,253**	256,002
Stock of property	**1,430,441**	1,426,857
Deferred tax assets	**379,126**	301,778
Investment properties	**141,864**	128,006
Property and equipment	**292,133**	260,723
Intangible assets	**173,608**	170,411
Investments in associates and joint venture	**2,191**	114,637
Non-current assets and disposal groups held for sale	**197,521**	1,470,038
Total assets	**21,887,186**	22,075,271
Liabilities		
Deposits by banks	**532,023**	431,942
Funding from central banks	**830,000**	830,000
Repurchase agreements	**247,813**	248,945
Derivative financial liabilities	**56,702**	38,983
Customer deposits	**16,376,686**	16,843,558
Insurance liabilities	**626,512**	591,057
Accruals, deferred income, other liabilities and other provisions	**331,408**	285,483
Pending litigation, claims, regulatory and other matters	**102,375**	116,951
Subordinated loan stock	**261,417**	270,930
Deferred tax liabilities	**44,818**	44,282
Non-current liabilities and disposal group held for sale	**6,760**	5,812
Total liabilities	**19,416,514**	19,707,943
Equity		
Share capital	**44,620**	44,620
Share premium	**1,294,358**	1,294,358
Revaluation and other reserves	**213,532**	190,411
Retained earnings	**670,143**	591,941
Equity attributable to the owners of the Company	**2,222,653**	2,121,330
Other equity instruments	**220,000**	220,000
Total equity excluding non-controlling interests	**2,442,653**	2,341,330
Non-controlling interests	**28,019**	25,998
Total equity	**2,470,672**	2,367,328
Total liabilities and equity	**21,887,186**	22,075,271

B. Group Financial Results – Underlying Basis

Interim Condensed Consolidated Income Statement

€ mn	1H2019[1]	1H2018[1,2,3]	2Q2019[1]	1Q2019[1]	qoq +%	yoy +%
Net interest income	170	166	85	85	1%	3%
Net fee and commission income	75	80	38	37	5%	-7%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	26	42	16	10	58%	-37%
Insurance income net of claims and commissions	30	25	18	12	42%	20%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	16	21	12	4	210%	-23%
Other income	16	11	8	8	-6%	39%
Total income	**333**	**345**	**177**	**156**	14%	-4%
Staff costs	(112)	(102)	(56)	(56)	0%	9%
Other operating expenses	(84)	(80)	(43)	(41)	3%	6%
Special levy and contribution to Single Resolution Fund	(12)	(12)	(6)	(6)	-3%	3%
Total expenses	**(208)**	**(194)**	**(105)**	**(103)**	1%	7%
Operating profit	**125**	**151**	**72**	**53**	39%	-17%
Loan credit losses	(87)	(85)	(40)	(47)	-14%	3%
Impairments of other financial and non-financial assets	(10)	(13)	(9)	(1)	-	-20%
Reversal of provisions for litigation, regulatory and other matters	3	6	3	(0)	-	-54%
Total loan credit losses, impairments and provisions	**(94)**	**(92)**	**(46)**	**(48)**	2%	3%
Profit before tax and non-recurring items	**31**	**59**	**26**	**5**	-	-49%
Tax	0	(4)	2	(2)	-	-98%
(Profit)/loss attributable to non-controlling interests	(2)	2	(2)	(0)	-	-
Profit after tax and before non-recurring items	**29**	**57**	**26**	**3**	-	-51%
Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)	(12)	(15)	(5)	(7)	-29%	-22%
Profit/(loss) after tax – Organic	**17**	**42**	**21**	**(4)**	-	-61%
Profit from discontinued operations (UK)	-	4	-	-	-	-
Profit/(loss) relating to NPE sale (Helix)	0	(105)	4	(4)	-	-
Loss on remeasurement of investment in associate classified as held for sale (CNP) net of share of profit from associates	(21)	5	(23)	2	-	-
Reversal of impairment of DTA and impairment of other tax receivables	101	-	-	101	-	-
Profit/(loss) after tax - attributable to the owners of the Company	**97**	**(54)**	**2**	**95**	-97%	-

Key Performance Ratios[3]	**1H2019[1]**	**1H2018[1,2,3]**	**2Q2019[1]**	**1Q2019[1]**	qoq +%	yoy +%
Net Interest Margin (annualised)	1.88%	1.86%	1.89%	1.88%	+1 bps	+2bps
Cost to income ratio	63%	56%	59%	66%	-7 p.p.	+7 p.p.
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	59%	53%	56%	62%	-6 p.p.	+6 p.p.
Operating profit return on average assets (annualised)	1.1%	1.4%	1.3%	1.0%	+30 bps	-30 bps
Basic earnings/(losses) per share attributable to the owners of the Company (€ cent) - Organic	3.72	9.43	4.78	(1.06)	5.84	-5.71
Basic earnings/(losses per share attributable to the owners of the Company (€ cent)	21.84	(12.12)	0.61	21.23	-20.62	33.96

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Profit/(loss) relating to NPE sale (Helix)' in the underlying basis. 2. Represented for the disposal of the UK subsidiary 3. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

B. Group Financial Results – Underlying Basis (continued)

Interim Condensed Consolidated Balance Sheet

€ mn	30.06.2019	31.12.2018 (restated)	+%
Cash and balances with central banks	5,262	4,610	14%
Loans and advances to banks	403	473	-15%
Debt securities, treasury bills and equity investments	1,881	1,515	24%
Net loans and advances to customers	10,949	10,922	0%
Stock of property	1,430	1,427	0%
Investment properties	142	127	11%
Other assets	1,622	1,531	6%
Non-current assets and disposal groups held for sale	198	1,470	-87%
Total assets	**21,887**	**22,075**	**-1%**
Deposits by banks	532	432	23%
Funding from central banks	830	830	-
Repurchase agreements	248	249	0%
Customer deposits	16,377	16,844	-3%
Subordinated loan stock	261	271	-4%
Other liabilities	1,169	1,082	8%
Total liabilities	**19,417**	**19,708**	**-1%**

Shareholders' equity	**2,222**	**2,121**	**5%**
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	**2,442**	**2,341**	**4%**
Non-controlling interests	28	26	8%
Total equity	**2,470**	**2,367**	**4%**
Total liabilities and equity	**21,887**	**22,075**	**-1%**

Key Balance Sheet figures and ratios		**30.06.2019**	**31.12.2018**	**+**
Gross loans (€ mn)		**13,072**	13,148	-1%
Allowance for expected loan credit losses (€ mn)		**2,145**	2,254	-5%
Customer deposits (€ mn)		**16,377**	16,844	-3%
Loans to deposits ratio (net)		**67%**	65%	+2 p.p.
NPE ratio		**33%**	36%	-3 p.p.
NPE coverage ratio		**50%**	47%	+3 p.p.
Leverage ratio		**10.5%**	10.0%	0.5 p.p.
Capital ratios and risk weighted assets	**30.06.2019 Pro forma for CNP**	**30.06.2019**	**31.12.2018**	**+**
Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)[1]	**15.2%**	**14.9%**	11.9%[2]	+300 bps
Total capital ratio	**18.1%**	**17.8%**	14.9%	+290 bps
Risk weighted assets (€ mn)	**13,724**	**13,962**	15,373	-9%

1. The CET1 FL ratio as at 30 June 2019 (including the full impact of IFRS 9) amounts to 13.3% and 13.5% pro forma for the sale of the investment in CNP (compared to 11.9% and 13.3% pro forma for Helix for 31 March 2019 and to 10.1% and 13.5% respectively for 31 December 2018). 2. The CET1 ratio transitional also for DTA as at 31 December 2018 stood at 12.1%. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

B. Group Financial Results – Underlying Basis (continued)

Comparative Information

Comparative information was restated following the change in the classification of properties which are leased out under operating leases as investment properties, as disclosed in Note 3.3.1 of the Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2019.

Reclassifications to comparative information were also made to conform to current period presentation as follows:

- Unrecognised interest on previously credit impaired loans which have cured during the period amounting to c.€15 mn was reclassified from 'Net interest income' to 'Credit losses to cover credit risk on loans and advances to customers' in line with an IFRIC discussion, which took place in November 2018 (Presentation of unrecognised interest following the curing of a credit impaired financial asset (IFRS 9)).

- The results of the discontinued operations in the UK (Bank of Cyprus UK Ltd and its subsidiary, Bank of Cyprus Financial Services Ltd) were represented as discontinued operations (profit after tax for 1H2018: €4 mn) (Note 7 of the Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2019).

The changes in presentation did not have a material impact on the profit / (loss) after tax of the Group for the period. However, the net interest margin, the cost to income ratio and the cost of risk ratio were recalculated to account for these representations.

B. Group Financial Results – Underlying Basis (continued)

B.1 Reconciliation of Income Statement for the six months ended 30 June 2019 between statutory basis and underlying basis

€ mn	Underlying Basis	Helix portfolio	Investment in associate classified as HFS	Tax related items	Other	Statutory Basis
Net interest income	170	34	-	-	-	204
Net fee and commission income	75	6	-	(6)	-	75
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	26	-	-	-	-	26
Insurance income net of claims and commissions	30	-	-	-	-	30
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	16	-	-	-	-	16
Other income	16	-	-	-	-	16
Total income	**333**	**40**	**-**	**(6)**	**-**	**367**
Total expenses	**(208)**	**(23)**	**-**	**-**	**(9)**	**(240)**
Operating profit	**125**	**17**	**-**	**(6)**	**(9)**	**127**
Loan credit losses	(87)	(17)	-	-	-	(104)
Impairments of other financial and non-financial instruments	(10)	-	-	(8)	-	(18)
Reversal of provisions for litigation, regulatory and other matters	3	-	-	-	(3)	-
Remeasurement of investment in associate classified as held for sale	-	-	(26)	-	-	(26)
Share of profit from associate	-	-	5	-	-	5
Profit/(loss) before tax and non-recurring items	**31**	**-**	**(21)**	**(14)**	**(12)**	**(16)**
Tax	0	-	-	115	-	115
(Profit) attributable to non-controlling interests	(2)	-	-	-	-	(2)
Profit after tax and before non-recurring items	**29**	**-**	**(21)**	**101**	**(12)**	**97**
Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)	(12)	-	-	-	12	-
Profit after tax – Organic*	**17**	**-**	**(21)**	**101**	**-**	**97**
Profit/(loss) relating to NPE sale (Helix)	0	(0)	-	-	-	-
Loss on remeasurement of investment in associate classified as held for sale (CNP) net of share of profit from associates	(21)	-	21	-	-	-
Reversal of impairment of DTA and impairment of other tax receivables	101	-	-	(101)	-	-
Profit after tax (attributable to the owners of the Company)	**97**	**-**	**-**	**-**	**-**	**97**

* This is the profit after tax, before the loss on remeasurement of investment in associate classified as held for sale (CNP) net of share of profit from associates and the reversal of impairment of deferred tax assets (DTA) and impairment of other tax receivables.

B. Group Financial Results – Underlying Basis (continued)

B.1 Reconciliation of Income Statement for the six months ended 30 June 2019 between statutory basis and underlying basis (continued)

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

Helix portfolio

- Net interest income of €34 mn and fee and commission income of €6 mn, relating to the NPE sale (Helix) is disclosed under non-recurring items within ‘Profit/(loss) relating to NPE sale (Helix)’ under the underlying basis.

- Total expenses include staff costs of €3 mn, operating expenses of €12 mn and restructuring costs of €8 mn relating to the NPE sale (Helix) and are presented within ‘Profit/(loss) relating to NPE sale (Helix)’ under the underlying basis.

Investment in associate classified as HFS

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

Tax related items

- Reversal of impairment of the deferred tax asset and impairment of other tax receivables amounting to €101 mn included within 'Tax' under the statutory basis is classified as a non-recurring item and disclosed within 'Reversal of impairment of DTA and impairment of other tax receivables' under the underlying basis. Fee and commission expense relating to the revised income tax legislation of €6 mn, which has been disclosed within 'Reversal of impairment of deferred tax asset and impairment of other tax receivables' under the underlying basis, is disclosed within the 'Net fee and commission income' under the statutory basis.

- Impairment of other financial assets of €8 mn, which are included in “Credit losses of other financial instruments” under the statutory basis, relate to the impairment of Greek tax receivables and are classified as a non-recurring item and disclosed within 'Reversal of impairment of DTA and impairment of other tax receivables' under the underlying basis.

Other reclassifications

- Advisory and other restructuring costs of c.€12 mn included in “Other operating expenses” under the statutory basis, are separately presented under the underlying basis.

- Reversal of provisions for litigation, regulatory and other matters amounting to €3 mn included in “Other operating expenses” under the statutory basis, are separately presented under the underlying basis.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity (excluding non-controlling interests) totalled €2,442 mn at 30 June 2019, compared to €2,443 mn at 31 March 2019 and €2,341 mn at 31 December 2018. Shareholders' equity totalled €2,222 mn at 30 June 2019, compared to €2,223 mn at 31 March 2019 and €2,121 mn at 31 December 2018.

The **Common Equity Tier 1 capital (CET1) ratio on an IFRS 9 transitional basis** stood at 14.9% at 30 June 2019 (and 15.2% pro forma for the sale of investment in CNP Cyprus Insurance Holdings Ltd ("CNP") ("pro forma for CNP"), compared to 13.4% at 31 March 2019 (and 14.9% pro forma for Helix), and to 11.9% at 31 December 2018 (adjusted to take into account the deferred tax assets (DTAs) which were fully phased in as of 1 January 2019). During 2Q2019 the Project Helix was completed, positively impacting CET1 ratio by c.140 bps. During 1Q2019 the CET1 ratio was positively affected by the tax legislation amendments relating to the conversion of deferred tax assets into deferred tax credits (DTC). The CET1 ratio as at 30 June 2019 includes reviewed profits for the six months ended 30 June 2019.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. The impact on the capital ratios for the year 2018 was 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019. **The CET1 ratio on a fully-loaded basis** amounts to 13.3% at 30 June 2019 and 13.5% pro forma for the sale of investment in CNP, compared to 11.9% at 31 March 2019 (and 13.3% pro forma for Helix), and to 10.1% at 31 December 2018 (and 13.5% pro forma for DTC and Helix). On a transitional basis and on a fully phased-in basis, after the five year period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

As at 30 June 2019, the Total Capital ratio stood at 17.8% (and 18.1% pro forma for CNP), compared to 16.2% at 31 March 2019 (and 17.9% pro forma for Helix), and to 14.9% at 31 December 2018.

The Group's capital ratios are above the minimum CET1 regulatory capital ratio of 10.5% (comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%) and the overall Total Capital requirement of 14.0%, comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a 3.0% Pillar II requirement (in the form of CET1), the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer.

Pillar II add-on capital requirements derive from the context of the Supervisory Review and Evaluation Process (SREP) process, which is a point in time assessment, and are therefore subject to change over time.

In accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, the Central Bank of Cyprus (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 O-SII buffer currently set by the CBC for the Group is 2%. This buffer is being phased-in gradually, having started from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%) on 1 January 2022.

Based on the SREP decisions of prior years, the Company and the Bank were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during years 2018 and 2017. Following the 2018 SREP decision, the Company and the Bank are still under equity dividend distribution prohibition. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders which are eligible as CET1 capital. No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company or the Bank.

The EBA final guidelines on SREP and supervisory stress testing in July 2018 and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that CET1 held for the purposes of Pillar II add-on capital requirements cannot be used to meet any other capital requirements (Pillar 1, P2R or the combined buffer requirements), and therefore cannot be used twice. Such restrictions are, however, only expected to apply with effect from the 2019 SREP cycle.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Project Helix

In June 2019, the Company completed the sale of a portfolio of loans with a gross book value of €2.8 bn (of which €2.7 bn related to non-performing loans) (the "Portfolio") secured by real estate collateral to certain funds affiliated with Apollo Global Management LLC, the agreement for which was announced on 28 August 2018 (Project Helix). Cash consideration of c.€1.2 bn was received on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Portfolio since the reference date of 31 March 2018.

Overall, the transaction is capital accretive, with a net positive impact on the Group capital ratios of c.60 bps. The impact from the completion of Project Helix on the CET1 ratio and Total Capital ratio at 30 June 2019 is an increase of c.140 bps**.**

The participation of the Bank of Cyprus Public Company Limited (the "Bank") in the senior debt in relation to financing the Transaction has been syndicated down from the initial level of €450 mn to c.€45 mn, representing c.4% of the total acquisition funding.

Agreement for the sale of investment in CNP Cyprus Insurance Holdings Ltd

In June 2019, the Group signed an agreement to sell its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited ("CNP") that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013 for a cash consideration of €97.5 mn. The sale is expected to be completed in the second half of 2019, subject to regulatory approvals. On completion, the sale is expected to have a positive impact of c.30 bps on both the Group's CET1 ratio and Total Capital ratio (based on the financial results as at 30 June 2019) resulting mainly from the release of risk weighted assets.

Additional Tier 1

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

Legislative amendments for the conversion of DTA to DTC

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

Pro forma capital ratios

With the completion of the sale of the investment in CNP, expected in 2H2019, the CET1 ratio (IFRS 9 transitional basis) of 14.9% as at 30 June 2019 improves to 15.2% pro forma for CNP. The Total Capital ratio of 17.8% as at 30 June 2019 improves to 18.1% pro forma for CNP.

Share premium reduction of the Bank

The Bank will proceed (subject to approvals mainly by the Court of Cyprus and the ECB) with a capital reduction process which will result in the reclassification of c.€551 mn of the Bank's share premium account balance as distributable reserves which shall be available for distribution to the shareholders of the Bank, resulting in total net distributable reserves of c.€1 bn on a pro forma basis (31 December 2018). The reduction of capital will not have any impact on regulatory capital or the total equity position of the Bank or the Group.

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

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.2 Funding and Liquidity

Funding

Funding from Central Banks

At 30 June 2019, the Bank's funding from central banks amounted to €830 mn, which relates to ECB funding, (at the same level as at 31 March 2019 and 31 December 2018), comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO II).

Deposits

Customer deposits totalled €16,377 at 30 June 2019, compared to €16,298 mn at 31 March 2019 and €16,844 mn at 31 December 2018, broadly flat qoq and down by 3% yoy.

The Bank's deposit market share in Cyprus reached 34.7% as at 30 June 2019, compared to 35.2% at 31 March 2019. Customer deposits accounted for 75% of total assets at 30 June 2019.

Upon completion of Project Helix the Loan to Deposit ratio (L/D) was reduced by 7 p.p. to 67%, compared to 74% at 31 March 2019 when ignoring the classification of the Helix portfolio as a disposal group held for sale (and to 72% at 31 December 2018 on the same basis) and compared to a peak of 151% at 31 March 2014.

Subordinated Loan Stock

At 30 June 2019 the Bank's subordinated loan stock (including accrued interest) amounted to €261 mn (compared to €254 mn at 31 March 2019 and €271 mn as at 31 December 2018) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 mn, issued by the Bank in January 2017.

Liquidity

At 30 June 2019 the Group Liquidity Coverage Ratio (LCR) stood at 253% (compared to 216% at 31 March 2019 and 231% at 31 December 2018) and was in compliance with the minimum regulatory requirement of 100%. The liquidity surplus at 30 June 2019 increased to €3.8 bn, from €2.7 bn at 31 March 2019, reflecting a €1.2 bn increase of liquidity on Helix completion.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will become a regulatory indicator when CRR2 is enforced, currently expected in 2021, with the limit set at 100%. At 30 June 2019, the Group's NSFR, on the basis of Basel III standards, stood at 128% (compared to 117% at 31 March 2019 and 119% at 31 December 2018).

B.2.3 Loans

Group gross loans totalled €13,072 mn at 30 June 2019 compared to €15,882 mn at 31 March 2019 and €15,900 mn at 31 December 2018. Gross loans in Cyprus totalled €12,945 mn at 30 June 2019. The reduction in gross loans by 17% is attributed mainly to the completion of Project Helix (sale of €2.8 bn of gross loans of which €2.7 bn related to non-performing loans) and to a lesser extent to the completion of Project Velocity (sale of €30 mn gross loans as at the date of disposal, relating wholly to non-performing loans) in 2Q2019.

New loans granted in Cyprus reached €1,111 mn for 1H2019, exceeding new lending in 1H2018.

At 30 June 2019, the Group net loans and advances to customers totalled €10,949 mn (compared to €10,955 mn at 31 March 2019 pro forma for Helix (and Velocity) and €10,922 mn at 31 December 2018 on the same basis).

The Bank is the single largest credit provider in Cyprus with a market share of 41.3% at 30 June 2019 compared to 46.7% at 31 March 2019, with the reduction reflecting the derecognition of the Helix portfolio on completion.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 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.

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €2,961 mn or 41% during 2Q2019, driven mainly by the completion of Project Helix**,** to €4,312 mn at 30 June 2019, accounting for 33% of gross loans compared to 46% at 31 March 2019 and 47% at 31 December 2018 (including the Helix and Velocity portfolios).

The organic reduction of NPEs in 2Q2019 on the residual portfolio was €300 mn, in line with an organic target of c.€800 mn for 2019.

The NPE coverage ratio improved to 50% at 30 June 2019 compared to 48% at 31 March 2019 pro forma for Helix and 47% at 31 December 2018 on the same basis. Ignoring the classification of the Helix (and Velocity) portfolios as disposal groups held for sale, the NPE coverage ratio as at 31 March 2019 stood at 53% and at 31 December 2018 stood at 52%.

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

	30.06.2019		31.03.2019 pro forma for Helix		31.03.2019[1]	
	€ mn	**% gross loans**	€ mn	% gross loans	€ mn	% gross loans
NPEs as per EBA definition	**4,312**	**33.0%**	4,611	35.1%	7,273	45.8%
Of which, in pipeline to exit: -NPEs with forbearance measures, no arrears[2]	**657**	**5.0%**	871	6.6%	1,084	6.8%

1. Ignoring the classification of the Helix portfolio of €1,103 mn (NBV) and of the Velocity portfolio of €5 mn (NBV) as disposal groups held for sale as at 31 March 2019.
2. The analysis is performed on a customer basis.

Overall, the Group has recorded organic NPE reductions for seventeen consecutive quarters and expects the organic reduction of NPEs to continue during the coming quarters.

Project Helix

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

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

Cash consideration of c.€1.2 bn was received on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Portfolio since the reference date of 31 March 2018.

The participation of the Bank in the senior debt in relation to financing the Transaction has been syndicated down from the initial level of €450 mn to c.€45 mn, representing c.4% of the total acquisition funding.

The Group remains focused on continuing to improve its asset quality position and to seek solutions, both organic and inorganic, to make the Bank a stronger and safer institution, capable of supporting the local economy.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loan portfolio quality (continued)

ESTIA

In July 2018, the **Government announced a scheme aimed at addressing NPEs backed by primary residence**, known as ESTIA (the 'Scheme'). This Scheme is expected to positively impact c.€0.84 bn of retail core NPEs, subject to eligibility criteria and participation rate. The ESTIA eligible portfolio refers to the potentially eligible portfolio following on-going detailed assessment based on the Bank's available data on Open Market Value (OMV) and NPE status. Eligibility criteria relate primarily to the OMV of the residence, total income and net wealth of the household. These will act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of the contractual balance and the OMV. The Government will subsidise one third of the instalment, of the restructured loan. In July 2019 the Memorandum of Understanding was signed by the banks and the Government for participation in the Scheme, which is underway for official launch in September 2019. According to the timeline provided by the Government, the application submissions will occur from September to mid-November 2019, with evaluation by the banks running concurrently until the end of November 2019. During 4Q2019, the participating banks will offer restructuring solutions to the applicants and simultaneously the applications will be reviewed and approved by the Government, with the process expected to finish by March 2020. The 1st payment of the state subsidy installment is expected to occur between December 2019 and April 2020 (please refer to slide 8 of the Results Presentation for the six months ended 30 June 2019).

Project Velocity

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

The Group continues to assess the potential to accelerate the decrease in NPEs on its balance sheet through an additional sale of NPEs. To that extent the Group has, during the second half of 2019, embarked on a preparation phase to review the feasibility of NPE reduction structures with the aim of identifying the option that best meets the Group's strategic objectives. The preparation phase involves defining the relevant NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and in order to conclude on the best possible structure, the Group has engaged international advisors, and is proceeding to engage in high level discussions via the signing of confidentiality agreements with various third parties, including financial investors and investment banks, that may be interested in pursuing a possible collaboration with the Group. A range of potential outcomes of this preparation phase is possible, including an outright sale (including the Bank retaining a portion of the related financing). Any potential transaction is expected to involve a portfolio of NPEs in excess of €2 bn by gross book value. The Group is not committed to any outcome arising from this preparation phase, which is currently expected to be finalised in the first half of 2020.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5. Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** on-boarded €126 mn of assets in 1H2019 (down by 42% yoy), via the execution of debt for asset swaps and repossessed properties. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed organic disposals of €92 mn in 1H2019 (compared to €126 mn in 1H2018), resulting in a profit on disposal of €17 mn for 1H2019. During the six months ended 30 June 2019, the Group executed sale-purchase agreements (SPAs) with contract value of €110 mn (258 properties), excluding the sale of the Cyreit. In addition, the Group signed SPAs for disposals of assets with contract value of €89 mn.

Completion of sale of Cyreit

In November 2018, the Bank signed an agreement for the disposal of its entire holding in the investment shares of the Cyreit Variable Capital Investment Company PLC (Cyreit). During 2Q2019, the Group completed the sale of the Cyreit (21 properties), recognising a loss on disposal of c.€1 mn. The total proceeds from the disposal of Cyreit were €160 mn.

Completion of Project Helix

With the completion of Project Helix, properties with carrying value of €109 mn, which were included in the portfolio for the NPE sale (Helix), were derecognised as of 30 June 2019. As at 31 March 2019, properties with carrying value of €98 mn were included in the portfolio for the NPE sale (Helix), compared to €74 mn as at 31 December 2018.

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

The Group has decided to classify the leased properties acquired in exchange of debt and leased out under operating leases as 'Investment Properties' instead of 'Inventories'. This change has been applied retrospectively, resulting in the restatement of comparatives.

As a result of the above change in classification, properties with carrying value of €118 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) as at 30 June 2019 (compared to €103 mn as at 31 December 2018). These properties continue to be managed by REMU.

This change in classification had no material impact on the Group's comparative retained earnings and a cumulative impact of €1 mn gain has been recognised under 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' in 2Q2019.

Assets held by REMU

As at 30 June 2019, assets held by REMU had a carrying value of €1,548 mn (comprising properties of €1,430 mn classified as 'Inventories' and €118 mn as 'Investment Properties'), compared to €1,530 mn as at 31 December 2018 (comprising properties of €1,427 mn classified as 'Inventories' and €103 mn as 'Investment Properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €24 mn as at 30 June 2019 and as at 31 December 2018 relate to legacy properties held by the Bank before the set-up of REMU in January 2016.

Assets held by REMU (Group) **€ mn**	**1H2019**	**1H2018**	**2Q2019**	**1Q2019**	qoq ±%	yoy ±%
Opening balance	**1,530**	1,641	**1,542**	1,530	1%	-7%
On-boarded assets (including construction cost)	**126**	220	**81**	45	78%	-43%
Sales	**(92)**	(126)	**(62)**	(30)	101%	-27%
Transfer to investment properties (Cyreit)	**-**	(166)	**-**	-	-	-100%
Impairment loss	**(10)**	(9)	**(8)**	(2)	3%	-
Transfer to non-current assets and disposal groups held for sale	**(6)**	(39)	**(5)**	(1)	-	-84%
Foreign exchange and other movements	**-**	3	**-**	-	-	-
Closing balance	**1,548**	1,524	**1,548**	1,542	0%	2%

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5. Real Estate Management Unit (REMU) (continued)

Analysis by type and country **30 June 2019 (€ mn)**	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	**167**	**27**	**0**	**194**
Offices and other commercial properties	**233**	**40**	**10**	**283**
Manufacturing and industrial properties	**79**	**37**	**0**	**116**
Hotels	**26**	**0**	**-**	**26**
Land (fields and plots)	**917**	**7**	**3**	**927**
Properties under construction	**2**	**-**	**-**	**2**
Total	**1,424**	**111**	**13**	**1,548**

31 December 2018 (€ mn)	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	164	25	0	189
Offices and other commercial properties	228	44	7	279
Manufacturing and industrial properties	80	38	0	118
Hotels	35	0	-	35
Land (fields and plots)	896	8	4	908
Properties under construction	1	-	-	1
Total	1,404	115	11	1,530

B.2.6 Non-core overseas exposures

The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 30 June 2019 are as follows:

€ mn	**30 June 2019**	**31 December 2018**
Greece	**152**	164
Romania	**34**	35
Serbia	**8**	7
Russia	**19**	23
UK	**1**	11
Total	**214**	240

The Group continues its efforts for further deleveraging and disposal of non-essential assets and operations.

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

During 2Q2019 the Group signed a binding agreement for the disposal of the overseas exposure in Serbia, comprising loans and properties, amounting to €8 mn. As at 30 June 2019, this exposure was classified as held for sale.

In addition to the above, at 30 June 2019 there were overseas exposures of €311 mn in Greece, relating to both loans and properties, (compared to exposures of €157 mn at 31 March 2019 and €144 mn at 31 December 2018), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business. The qoq increase is mainly driven by new lending to Greek entities investing in Cyprus, granted by the Bank in the normal course of business.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	1H2019[1]	1H2018[1,2,3]	2Q2019[1]	1Q2019[1]	qoq ±%	yoy ±%
Net interest income	**170**	**166**	**85**	**85**	**1%**	**3%**
Net fee and commission income	75	80	38	37	5%	-7%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries	26	42	16	10	58%	-37%
Insurance income net of claims and commissions	30	25	18	12	42%	20%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	16	21	12	4	210%	-23%
Other income	16	11	8	8	-6%	39%
Non-interest income	**163**	**179**	**92**	**71**	29%	-9%
Total income	**333**	**345**	**177**	**156**	14%	-4%
Net Interest Margin (annualised)	1.88%	1.86%	1.89%	1.88%	+1 bps	+2 bps
Average interest earning assets[1] (€ mn)	18,271	18,005	18,149	18,243	-1%	1%

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Profit/(loss) relating to NPE sale (Helix)' in the underlying basis. 2. Represented for the disposal of the UK subsidiary. 3. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Net interest income (NII) and net interest margin (NIM) for 1H2019 amounted to €170 mn and 1.88% respectively. NII for 2Q2019 amounted to €85 mn and remained at the same levels as 1Q2019 and was up by 3% compared to €166 mn a year earlier. The NIM for 2Q2019 stood at 1.89% broadly flat qoq and yoy, negatively affected by the continued pressure on lending rates and positively affected by the reduction of cost of deposits.

Average interest earning assets for 1H2019 amounted to €18,271 mn, up by 1% yoy. Quarterly average interest earning assets for 2Q2019 amounted to €18,149 mn compared to €18,243 mn for 1Q2019, down by 1%, primarily driven by the completion of NPE sales.

Non-interest income for 1H2019 amounted to €163 mn, comprising net fee and commission income of €75 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries of €26 mn, net insurance income of €30 mn, net gains from revaluation and disposal of investment properties and on disposal of stock of properties of €16 mn and other income of €16 mn.

Net fee and commission income for 2Q2019 amounted to €38 mn, at similar levels compared to 1Q2019, following the classification of net commission income generated by project Helix to Profit/ (loss) relating to NPE sale.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries of €26 mn for 1H2019, comprising mainly net foreign exchange gains of €14 mn and net gains on revaluation of financial instruments of €12 mn, decreased by 37% yoy, mainly due to one-off gain on disposal of bonds during 1Q2018 amounting to €19 mn. Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries totalled €16 mn for 2Q2019, compared to €10 mn for 1Q2019, up by 58% qoq. The increase qoq is driven mainly by one-off revaluation gains on financial instruments.

Net insurance income amounted to €30 mn for 1H2019, compared to €25 mn for 1H2018, up by 20% yoy, reflecting increased income and positive investment returns. **Net insurance income** amounted to €16 mn for 2Q2019, compared to €10 mn for 1Q2019, up by 58% qoq, driven mainly by a one-off amount of c.€2.5 mn arising from the reduction of the discount rate, following an improvement in the yield of assets, other revaluation gains and lower insurance claims during the quarter.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 1H2019 amounted to €16 mn, comprising net profit from the disposal of stock properties of €17 mn (REMU gains) and a valuation loss of €1 mn, compared to net gains of €21 mn for 1H2018 (mainly net profit from the disposal of stock of properties (REMU gains)). Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 2Q2019 increased to €12 mn from €4 mn in the previous quarter, reflecting the disposal of high value REMU properties in this quarter. REMU profit remains volatile.

Total income for 1H2019 amounted to €333 mn, compared to €345 mn for 1H2018 (down by 4% yoy). Total income for 2Q2019 amounted to €177 mn, compared to €156 mn in 1Q2019, up by 14% qoq.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	**1H2019**[1]	**1H2018**[1,2,3]	**2Q2019**[1]	**1Q2019**[1]	qoq +%	yoy +%
Staff costs	(112)	(102)	(56)	(56)	0%	9%
Other operating expenses	(84)	(80)	(43)	(41)	3%	6%
Total operating expenses	**(196)**	**(182)**	**(99)**	**(97)**	2%	8%
Special levy and contribution to Single Resolution Fund (SRF)	(12)	(12)	(6)	(6)	-3%	3%
Total expenses	**(208)**	**(194)**	**(105)**	**(103)**	1%	7%
Cost to income ratio	63%	56%	59%	66%	-7 p.p.	+7 p.p.
Cost to income ratio excluding special levy and contribution to SRF	59%	53%	56%	62%	-6 p.p.	+6 p.p.

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Profit/(loss) relating to NPE sale (Helix)' in the underlying basis. 2. Represented for the disposal of the UK subsidiary 3. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Total expenses for 1H2019 were €208 mn (compared to €194 mn for 1H2018), 54% of which related to staff costs (€112 mn), 40% to other operating expenses (€84 mn) and 6% (€12 mn) to special levy and contribution to Single Resolution Fund (SRF).

Total operating expenses for 1H2019 were €196 mn, increased by 8% yoy, compared to €182 mn for 1H2018. Total operating expenses for 2Q2019 were €99 mn, increased by 2% qoq, compared to €97 mn in 1Q2019.

Staff costs of €112 mn for 1H2019 increased by 9% yoy (compared to €102 mn in 1H2018) mainly driven by the increase in employer's social insurance contributions from the beginning of the year and the additional contributions to the new general healthcare system which commenced in March 2019. Staff costs for 2Q2019 amounted to €56 mn, at the same level as the previous quarter.

The Group employed 4,155 persons as at 30 June 2019 (compared to 4,156 persons as at 31 March 2019 and 4,146 persons as at 31 December 2018), including 108 persons relating to the Helix transaction, whilst full migration and transfer to the buyer is expected to conclude by the end of the year. The staff costs related to these persons are included under 'Profit/(loss) relating to NPE sale (Helix)' in the underlying basis.

Other operating expenses for 1H2019 were €84 mn, increased by 6% yoy, mainly due to higher property related costs and higher depreciation / amortization, resulting from increased capital expenditure, following the Digital Transformation Programme. Other operating expenses for 2Q2019 were €43 mn, increased by 3% qoq.

The **cost to income ratio excluding special levy and contribution to Single Resolution Fund** for 2Q2019 was 56%, (compared to 62% for 1Q2019), principally reflecting the increase in non-interest income. Cost management, including containment of staff costs, remains a key focus for this this year and going forward.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 Profit before tax and non-recurring items

€ mn	1H2019[1]	1H2018[1,2,3]	2Q2019[1]	1Q2019[1]	qoq ±%	yoy ±%
Operating profit	**125**	**151**	**72**	**53**	39%	-17%
Loan credit losses	(87)	(85)	(40)	(47)	-14%	3%
Impairments of other financial and non-financial assets	(10)	(13)	(9)	(1)	-	-20%
Reversal of provisions for litigation, regulatory and other matters	3	6	3	(0)	-	-54%
Total loan credit losses, impairments and provisions	**(94)**	**(92)**	**(46)**	**(48)**	2%	3%
Profit before tax and non-recurring items	**31**	**59**	**26**	**5**	-	-49%

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Profit/(loss) relating to NPE sale (Helix)' in the underlying basis. 2. Represented for the disposal of the UK subsidiary. 3. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability.

Operating profit for 1H2019 was €125 mn, compared to €151 mn for 1H2018, down by 17% yoy, mainly due to the lower volume on loans and pressure on lending rates.

The **loan credit losses** for 1H2019 totalled €87 mn (compared to €85 mn for 1H2018 up by 3% yoy), reflecting further balance sheet de-risking. The loan credit losses for 2Q2019 amounted to €40 mn, compared to €47 mn for 1Q2019, down by 14% qoq.

The annualised loan credit losses charge (cost of risk) for 1H2019, following the completion of NPE sales which led to the reduction of gross loans by €2.8 bn, accounted for 1.34% of gross loans, compared to an annualised loan credit losses charge of 1.22% for 1H2018, on the same basis, reflecting further de-risking and IFRS 9 model volatility.

At 30 June 2019, the allowance for expected loan credit losses, including fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €2,145 mn (compared to €2,227 mn at 31 March 2019 pro forma for Helix and €2,254 mn at 31 December 2018 on the same basis) and accounted for 16.4% of gross loans (at similar levels with 31 March 2019 and 31 December 2018 on the same basis).

Impairments of other financial and non-financial assets for 2Q2019 were €9 mn, compared to €1 mn for 1Q2019, mainly driven by the de-risking of the legacy REMU properties.

Reversal of provisions for litigation, regulatory and other matters for 2Q2019 totalled €3 mn, relating to the reversal of provisions of previously provided cases with a favourable outcome.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.4 Profit/(loss) after tax

€ mn	**1H2019[1]**	**1H2018[1,2,3]**	**2Q2019[1]**	**1Q2019[1]**	qoq ±%	yoy ±%
Profit before tax and non-recurring items	**31**	**59**	**26**	**5**	-	-49%
Tax	0	(4)	2	(2)	-	-98%
(Profit)/loss attributable to non-controlling interests	(2)	2	(2)	(0)	-	-
Profit after tax and before non-recurring items	**29**	**57**	**26**	**3**	-	-51%
Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)	(12)	(15)	(5)	(7)	-29%	-22%
Profit after tax – Organic	**17**	**42**	**21**	**(4)**	-	-61%
Profit/(loss) from discontinued operations (UK)	-	4	-	-	-	-
Profit/ (loss) relating to NPE sale (Helix)	0	(105)	4	(4)	-	-
Loss on remeasurement of investment in associate classified as held for sale (CNP) net of share of profit from associates	(21)	5	(23)	2	-	
Reversal of impairment of DTA and impairment of other tax receivables	101	-	-	101	-	-
Profit/(loss) after tax – attributable to the owners of the Company	**97**	**(54)**	**2**	**95**	**-97%**	-

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Profit/(loss) relating to NPE sale (Helix)' in the underlying basis. 2. Represented for the disposal of the UK subsidiary. 3. Including the impact from IFRIC Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). This resulted in a reclassification between net interest income and loan credit losses, with no impact on the overall profitability.

The **tax credit** for 1H2019 is minimal, positively affected by overprovisions relating to prior years, compared to a tax charge of €4 mn a year earlier. The tax credit for 2Q2019 amounted to €2 mn compared to a tax charge of €2 mn in 1Q2019.

Profit after tax and before non-recurring items for 1H2019 was €29 mn, compared to a profit of €57 mn for 1H2018, down by 51% yoy. Profit after tax and before non-recurring items for 2Q2019 was €26 mn, compared to €3 mn in 1Q2019.

Advisory and other restructuring costs - excluding discontinued operations and NPE sale (Helix) for 1H2019 amounted to €12 mn, compared to €15 mn for 1H2018, down by 22% yoy.

Profit after tax arising from the organic operations of the Group for 1H2019 amounted to €17 mn, compared to €42 mn for 1H2018, down by 61% yoy. Profit after tax arising from the organic operations of the Group for 2Q2019 amounted to €21 mn, compared to a loss of €4 mn.

The net result of the sale of the Helix portfolio, comprising the interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix, for 2Q2019 was a profit of €4 mn, compared to a loss of €4 mn for the previous quarter, bringing the net result from the Project for 1H2019 to Nil, compared to a net loss for 1H2018 of €105 mn.

Loss on remeasurement of investment in associate classified as held for sale (CNP) net of share of profit from associates totalled €21 mn for 1H2019, comprising a loss on remeasurement of investment in associate classified as held for sale of €26 mn and a share of profit from associates of €5 mn (compared to a share of profit from associates of €5 mn in 1H2018). During 2Q2019 the Group announced a binding agreement to sell its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited (CNP) that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013, for a cash consideration of €97.5 mn.

Reversal of impairment of DTA and impairment of other tax receivables totalled €101 mn for 1H2019, comprising the positive impact of €109 mn following amendments to the Income Tax legislation in Cyprus adopted in March 2019, and an impairment of €8 mn relating to Greek tax receivables adversely impacted from legislative changes. The carrying value of the remaining receivable at the quarter end was c.€5 mn.

Profit after tax attributable to the owners of the Company for 1H2019 was €97 mn, compared to a loss of €54 mn for 1H2018. Profit after tax attributable to the owners of the Company for 2Q2019 was €2 mn, compared to a profit of €95 mn in 1Q2019.

C. Operating Environment

Economic expansion continued into 2019 with real Gross Domestic Product (GDP) increasing by 3.4% in the first quarter and by 3.2% in the second quarter seasonally adjusted, after rising by 3.9% in 2018 and by 4.5% and 4.8% respectively in 2017 and 2016 (Cyprus Statistical Service). The deceleration was driven by slowing activity in the traditional sectors including tourism and construction. From the demand side the slowdown was driven by a deteriorating external balance. Excluding ships registrations, net exports have been contributing negatively to real GDP growth in 2018 and in the first quarter of 2019. Exports and imports of goods and services excluding ships, declined in the first quarter. Regarding exports, both the goods and services components declined, the latter reflecting a poorer tourism performance at the start of the year. Government consumption surged in the quarter. Other than transport equipment which fluctuates with ship registrations, fixed investment was driven by construction related activities.

Total employment increased by 6% in the first quarter (Cyprus Statistical Service) driven by full-time hirings, and the unemployment rate dropped to 7.3% when seasonally adjusted (Eurostat). Consumer inflation remained tamed in the first seven months of the year rising by 0.8% compared with 1.4% for 2018, due in part to low energy prices in world markets, but also limited pricing power in most categories of goods and services with the exception of housing. Tourist arrivals dropped marginally by 0.9% in the first half of the year with the drop of Russian tourists more pronounced at 4.4%, whilst arrivals from the UK were up marginally by 0.4%. In the construction sector, building permits remained strong in the first quarter, particularly for dwellings, with some deceleration in terms of volume. Building permits increased sharply in April in terms of volume, driven by the hotel sector. On the demand side, the volume of retail sales decelerated sharply in the first quarter of the year, rising by 1.9%, compared to a 5.4% overall yearly increase in 2018.

Looking into the medium term, the economy is expected to continue to grow but at a slowing pace, according to forecasts by the IMF and the European Commission. Employment conditions are expected to continue to improve and the unemployment rate is expected to drop further. Price inflation is expected to rise in later years as capacity utilisation will be tightening. The economy will continue to wrestle with legacy problems to some degree, but the real challenge will be the transformation of the economy towards higher value added activities that will support higher productivity growth and improved competitiveness.

The primary challenges therefore will be, to further de-risk the economy by reducing public debt and the remaining stock of non-performing loans; to safeguard fiscal space so as to be able to respond to unforeseen circumstances; and to pursue additional structural reforms especially in the judiciary and public administration domains that will improve the investment environment and in the process induce productivity boosting investments.

Fiscal performance has been strengthening driven by rising public revenues and constrained expenditures. The general government budget surplus rose to 3.5% of GDP in 2018 and remained sizable in the first half of 2019. Public debt remains high and rose further in 2018 to €21.3 bn or 102.5% of GDP, as a result of the fiscal burden associated with the resolution of the Cyprus Cooperative Bank (Eurostat). However, a combination of budget surplus, rising expected inflation and low debt service costs, will be supporting an accelerated decline in the public debt to GDP ratio in the medium term.

In the banking sector, funding conditions remained favourable and the stock of NPEs continued to decline. Specifically, the stock of NPEs declined from €20.9 bn at the end of December 2017 to €10.4 bn at the end of December 2018 after Bank of Cyprus' loans sale and the resolution of the Cyprus Cooperative Bank. The stock of NPEs was €10.3 bn at the end of March 2019 and the ratio to gross loans was 30.9%, marginally higher than 30.5% at the end of December 2018, reflecting a further drop in loans outstanding.

Going forward, downside risks derive from the external environment and the structure of the domestic economy which is characterised by a large foreign balance relative to the GDP. The slowing of global trade, uncertainties over Brexit and fragilities in the EU are having an impact. Brexit presents downside risks to the Cyprus economy given close trade and investment links. Economic growth is expected to remain positive, but to soften. Growth in 2019 and 2020 according to the European Commission is expected to be at 2.9% and 2.6%, respectively. Employment is expected to continue to rise, but at a slower pace than in recent years, and the unemployment rate is expected to continue to drop. Investment is expected to be strengthening, but high imports are expected to limit the contribution to growth from the external sector. Exports growth is expected to decelerate relative to 2014 - 2018 against a less favourable international environment.

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

D. Business Overview

As the Cypriot operations account for 99% of gross loans and 100% of customer deposits (after the disposal of the UK operations in 2018), the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and is expected to consequently benefit from the country's recovery. Most recently, at the end of July 2019, Standard and Poor's affirmed their long-term issuer credit rating on the Bank of 'B+' (stable outlook). In March 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In January 2019, Moody's Investors Service upgraded the Bank's long-term deposit rating to B3 from Caa1, with a positive outlook. The positive outlook reflects expectations of further improvements in the Bank's financial fundamentals, mainly asset quality over the next 12-18 months, in the context of an improved operating environment in Cyprus. The key drivers for the rating actions 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. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio, and expects the organic reduction of residual NPEs to continue, with a target of c. €800 mn for 2019, as portfolio size and business line mix has changed radically upon completion of the Project Helix. In parallel, the Group continues to actively explore strategies to further accelerate de-risking, including further portfolio sales.

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

The strategic focus of the Group is to reshape its business model to grow in the core Cypriot market through prudent new lending. As at 30 June 2019, the Bank's capital position remains good and is strengthened pro forma for the disposal of investment in CNP. 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, real estate, professional services, information/communication technologies, energy, education and green projects.

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 optimising fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Group's income streams. The insurance income net of insurance claims for 1H2019 amounted to €30 mn, up by 20% yoy, contributing to 18% of non-interest income.

In order to **further optimise its funding structure**, the Bank continues to **focus on the shape and cost of deposit franchise,** taking advantage of the increased customer confidence towards the Bank, as well as improving macroeconomic conditions. The cost of deposits has been reduced by 52 bps to 24 bps over the last 18 months.

In common with other European banks, the changed interest rate environment presents a challenge to the Group's profitability. A key focus for management this year and going forward is the active management of funding costs and on-going running expenses, including the containment of staff costs. The Digital Transformation Programme that started in 2017 is beginning to deliver an improved customer experience (see section below) and the branch network is half the size it was in 2013.

Digital Transformation

As part of its vision to be the leading financial hub in Cyprus, the Bank continues its Digital Transformation Programme in collaboration with IBM, the Bank's Strategic Digital Transformation Partner, which focuses on three strategic pillars: developing digital services and products that enhance the customer experience, streamlining internal processes and introducing new ways of working to improve the workplace environment. In the last few months, various new features were introduced on the new mobile app, such as the ability to apply for e-products, transfer amounts over €150 through QuickPay, log-in through biometrics, and view own accounts with UK banks. Also, financial management tools have been introduced that allow our clients to use the 1Bank service to better manage their finances. In addition, Apple Pay was launched that allows Bank of Cyprus Visa cardholders to make secure and fast payments through iOS mobile devices. This has had very positive feedback from customers and rapid adoption. Payments via Android devices are made through the BoC Wallet app. Moreover, the introduction of the 1Bank B2B (business to business) APIs (Application Programming Interfaces) is gaining traction.

D. Business Overview (continued)

Digital Transformation (continued)

These are interfaces that enable businesses to enjoy access to 1Bank functionality directly through their own systems without the need to access the 1Bank website. In addition, the IBU Gateway was introduced that provides 24/7 access to Professional Associates and IBU/Wealth customers to apply for products or services and get a ready-to-sign application form.

The Bank has led the way in Cyprus in establishing an open banking ecosystem, by being the first bank in Cyprus to launch its PSD2 APIs (Payment Service Directive2, Application Programming Interfaces) and also by integrating with nine UK banks allowing customers to view their account balances and transactions from the integrated banks together with their Bank of Cyprus accounts through 1Bank. Building on the success of the integration of the UK banks we are now working on integrating Cypriot banks. Furthermore, several other initiatives are in progress, including enhancing digital channels to improve customer experience, providing online services using digital signatures, automating internal end to end processes using a BPM (Business Process Management) platform and introducing collaboration and knowledge sharing tools across the organisation.

The adoption of digital products and services continues to grow and gain momentum, compared to two years ago, when the digital transformation program began. Today, 75% of transactions involving deposits, cash withdrawals and internal / external transfers, are performed through digital channels (with the corresponding rate two years before reaching 65%). Regarding the use of mobile banking, the number of active users increased by 54% from June-2017, while the average monthly number of log-ins per customer also increased by 44% during the same period. The Bank also monitors the Digital Adoption Rate, which is a composite indicator that demonstrates the digital engagement of customers with the Bank and the overall digital economy. This indicator is currently 66% and moving steadily upwards (compared to 59% two years ago).

E. 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 optimise the funding structure**
- **Maintain an appropriate capital position** by internally generating capital
- Focus on the **core Cyprus market**
- Achieve a **lean operating model**
- **Deliver value** to shareholders and other stakeholders

KEY PILLARS	PLAN OF ACTION
1. Materially reduce the level of delinquent loans	• Sustain momentum in restructuring and continue reduction of NPEs • Focus on terminated portfolios (in Recovery Unit) – "accelerated consensual foreclosures" • Real estate management via REMU • Continue to explore alternative measures for accelerating NPE reduction, such as NPE sales, securitisations etc.
2. Further optimise the funding structure	• Focus on shape and cost of deposit franchise
3. Maintain an appropriate capital position	• Internally generating capital
4. Focus on core Cyprus market	• Targeted lending in Cyprus into growing sectors to fund recovery • New loan origination, while maintaining lending yields • Revenue diversification via fee income from international banking, wealth, and insurance
5. Achieve a lean operating model	• Implementation of digital transformation program underway, aimed at enhancing productivity through alternative distribution channels and reducing operating costs over time, including containment of staff costs • Post the execution of further NPE reduction, the Bank is focusing on the need to manage costs
6. Deliver value	• Deliver appropriate medium term risk-adjusted returns

F. 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, the DTA was phasing-in by 60% for 2017, 80% for 2018 and 100% for 2019 (fully phased-in).
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprise (i) allowance for expected credit losses (ECL) on loans and advances to customers, (ii) the fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (contingent liabilities and commitments) disclosed on the balance sheet within other liabilities, and (iv) accumulated fair value adjustments on loans and advances to customers classified at FVPL.
Advisory and other restructuring costs	Comprise mainly: fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities
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 Capital Requirements Regulation (EU) No 575/2013.
CET1 fully loaded (FL)	The CET1 fully loaded (FL) ratio 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	The latest data from the Statistical Service of the Republic of Cyprus, Cyprus Statistical Service, was published on 14 August 2019.
ECB	European Central Bank
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) amounting to €290 mn at 30 June 2019 (compared to €445 mn at 31 March 2019, €462 mn at 31 December 2018, €480 mn at 30 September 2018, €514 mn at 30 June 2018 and to €566 mn at 31 March 2018). Additionally, gross loans (i) include loans and advances to customers measured at fair value through profit and loss of €454 mn at 30 June 2019 (compared to €454 mn as at 31 March 2019 and €456 mn as at 31 December 2018), and (ii) are reported after the reclassification between gross loans and expected credit losses on loans and advances to customers classified as a disposal group held for sale of Nil as at 30 June 2019 (compared to €104 mn at 31 March 2019 and to €99 mn at 31 December 2018).
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.
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan credit losses (PL) (previously 'Provision charge')	Loan credit losses comprises: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL.
Loan credit losses charge (previously 'Provisioning charge') (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the 'loan credit losses' (as defined) divided by average gross loans (the average balance calculated as the average of the opening balance and the closing balance).

F. Definitions & Explanations (continued)

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 41.3% at 30 June 2019, compared to 46.7% at 31 March 2019, 45.4% at 31 December 2018 and as at 30 September 2018, 38.6% at 30 June 2018 and 37.4% at 31 March 2018. The market share on loans was affected as at 30 June 2019 following the derecognition of the Helix portfolio upon the completion of Project Helix announced on 28 June 2019. The market share on loans was affected during the quarter ended 31 March 2019 following a decrease in total loans in the banking sector of €1 bn, mainly attributed to reclassification, revaluation, exchange rate and other adjustments (CBC). The market share on loans was affected as at 30 September 2018 following a decrease in total loans in the banking sector, mainly attributed to €6 bn non-performing loans of Cyprus Cooperative Bank (CyCB) which remained to SEDIPES as a result of the agreement between CyCB and Hellenic Bank. The market share on loans was affected as at 30 June 2018 following a decrease in total loans in the banking sector of €2.1 bn, due to loan reclassifications, revaluations, exchange rate or other adjustments (CBC).
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the quarterly average interest earning assets. Average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable. 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).
Net loans and advances	Loans and advances net of allowance for expected loan credit losses (as defined, but excluding credit losses on off-balance sheet exposures).
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 net loans and deposits held for sale, where applicable.
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. The European Banking Authority (EBA) is working on finalising the NSFR and enforcing it as a regulatory ratio under CRR2, currently expected in 2021.
New lending	New lending includes the average YTD change (if positive) for overdraft facilities
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains and net gains on other financial instruments and loss on disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), Insurance income net of claims and commissions, Net gains/(losses) from revaluation and disposal of investment properties 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, ECB's Guidance to Banks on Non-Performing Loans published in March 2017 and EBA Guidelines on management of non-performing and forborne exposures published in October 2018 and applicable from June 2019, 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, 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 allowance for expected loan credit losses (as defined).

F. Definitions & Explanations (continued)

Non-recurring items	Non-recurring items as presented in the 'Interim Condensed Consolidated Income Statement – Underlying basis' relate to: (i) advisory and other restructuring costs, (ii) discontinued operations (UK sale), (iii) profit/(loss) relating to NPE sale (Helix), (iv) loss on remeasurement of investment in associate classified as held for sale (CNP) net of share of profit from associates, and (v) reversal of impairment of DTA and impairment of other tax receivables.
NPE coverage ratio (previously 'NPE Provisioning coverage ratio')	The NPE coverage ratio is calculated as allowance for expected loan credit losses (as defined) over NPEs (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 loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
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).
Pro forma for CNP	Includes the impact from the completion of the sale of the investment in CNP, expected in 2H2019, subject to regulatory approvals.
Pro forma for Helix	In addition to the impact from Project Helix, this pro forma also included the impact from the agreement for the sale of a portfolio of retail unsecured NPEs, with gross book value €33 mn as at 31 March 2019, known as Project Velocity.
Profit/(loss) after tax and before non-recurring items	Excludes non-recurring items (as defined)
Profit/(loss) after tax - Organic	Profit/(loss) after tax and before 'non-recurring items' as defined, except for the "Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)".
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).
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.

F. Definitions & Explanations (continued)

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 'advisory and other restructuring costs-excluding discontinued operations and NPE sale (Helix)' or any restructuring costs relating to NPE sale (Helix). 'Advisory and other restructuring costs-excluding discontinued operations and NPE sale (Helix)' amount to €5 mn for 2Q2019, €7 mn for 1Q2019, €42 mn for FY2018 (€16 mn for 4Q2018, €11 mn for 3Q2018, €7 mn for 2Q2018 and €8 mn for 1Q2018) and €29 mn for the year ended 31 December 2017. Restructuring costs relating to NPE sale (Helix) amount to €7 mn for 2Q2019, €1 mn for 1Q2019, €18 mn for FY2018 (€1 mn for 4Q2018, €5 mn for 3Q2018, €6 mn for 2Q2018 and €6 mn for 1Q2018) and €Nil for the year ended 31 December 2017.
Total income	Total income comprises net interest income and non-interest income (as defined).
Total loan credit losses, impairments and provisions	Total loan credit losses, impairments and provisions comprise loan credit losses (as defined), plus (provisions)/reversal of provisions for litigation, regulatory and other matters plus (impairments)/reversal of 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 loan credit losses 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” or “BOC PCL”, and together with the Bank’s subsidiaries, the “Group”, for the six months ended 30 June 2019.

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 the Group financial results for the six months ended 30 June 2019. 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 2018, upon which the auditors have given an unqualified report, were published on 28 March 2019 and are expected to be delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2019. The Board of Directors approved the Group statutory financial statements for the six months ended 30 June 2019 on 26 August 2019.

Statutory basis: Statutory information is set out on pages 4-5. 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 pages 9-10) to allow a comparison of the Group’s underlying performance, as set out on pages 6-8.

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

The Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2019 have not been audited by the Group’s external auditors. The Group’s external auditors have conducted a review of the Interim Condensed Consolidated Financial Statements in accordance with the International Standard on Review Engagements 2410 ‘Review of Interim Financial Information performed by the Independent Auditor of the Entity (UK & Ireland)’.

The **Interim Financial Report** for the six months ended 30 June 2019 is available on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

This announcement and the presentation for the Group Financial Results for the six months ended 30 June 2019 have been posted on the Group’s website 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 F.

The Group Financial Results for the six months ended 30 June 2019 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 or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Group's near term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group's future results of operations, financial condition, expected impairment charges, the level of the Group's assets, liquidity, performance, prospects, anticipated growth, provisions, impairments, business strategies and opportunities. By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend upon circumstances, that will or may occur in the future. Factors that could cause actual business, strategy and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group include, but are not limited to: general economic and political conditions in Cyprus and other European Union (EU) Member States, interest rate and foreign exchange fluctuations, legislative, fiscal and regulatory developments and information technology, litigation and other operational risks. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward looking statements. The forward-looking statements made in this document are only applicable as from the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained in this document to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which any statement is based.

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 108 branches in Cyprus. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,155 staff worldwide. At 30 June 2019, the Group's Total Assets amounted to €21.9 bn and Total Equity was €2.5 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.