Bank of Cyprus Holdings

Announcement

Group Financial Results for the six months ended 30 June 2017

Nicosia, 29 August 2017

EUROMONEY AWARDS FOR EXCELLENCE 2017

Bank of Cyprus
The best Bank in Cyprus 2017

Key Highlights for the six months ended 30 June 2017

Good Progress on NPEs

- Nine consecutive quarters of NPE reduction
- NPEs down by €620 mn qoq (down by 35% since December 2014)
- Coverage at 48%; to exceed 50% by year end; Bank no longer an outlier; coverage now above EU average
- Additional provisions of c.€500 mn concluding the dialogue with the ECB on coverage
- Since 2014, provisions coverage increased by 14 p.p. (€2.6 bn) without need for new equity

Capital is sufficient

- CET1 at 12.3% and 11.8% fully loaded
- Total Capital ratio at 13.8%
- 2017 SREP dialogue with ECB advanced
- Additional provisions taken without need for further equity capital

Strong funding position

- Loan to deposit ratio of 90%
- Deposit balances stable
- Compliance with LCR & NSFR liquidity requirements

Robust operating performance

- Consistent quarterly operating profit of €130 mn
- New lending of €1.1 bn in 1H2017, more than double new lending of 1H2016
- NIM of 3.37%; Cost to income ratio of 42% (adjusted for special levy and SRF contribution)

Projecting a more normal 2018

- EPS of c.€0.40
- More normal credit cost (~100 bps in 2018)
- CET 1 >13.0% and Total capital ratio >15.0%
- No equity dividend for 2018
- Potential AT1 issuance

Group Chief Executive Statement

"The Bank is continuing to make steady progress in its journey back to full strength. The Bank's first half results reflect the Bank's previous policy of absorbing all its operating profitability in further de-risking the balance sheet. The Board also made a deliberate decision to allocate a further c.€500 mn of the Bank's capital, through increased provisioning, to further accelerate risk reduction. NPEs now have provisions at 48%, above the EU average, and we expect to exceed the medium term target of 50% by the year end. This substantially concludes our discussions with the ECB on this matter.

The above resulted in a loss of €554 mn for the first six months of the year. We expect to continue to utilise the operating profit of the Bank in the remainder of 2017 for further balance sheet de-risking and, post the introduction of IFRS 9 on 1 January 2018, to be in a position to present a more normal credit cycle charge.

Capital levels remain adequate, despite the incremental provisions. As at 30 June 2017 the Bank's CET1 ratio (transitional) was at 12.3% and the total capital ratio was 13.8%, in excess of regulatory requirements.

Momentum in risk reduction continued in the second quarter. We have recorded material NPE reductions for nine consecutive quarters and we expect the organic reduction of NPEs to continue in the coming quarters. Overall NPEs reduced by 12% or €1.3 bn during the first half of 2017.

Deposits remained broadly stable in the first half of the year and now fully fund the loan book. The focus has now shifted from deposit gathering to ensuring the deposit base has an appropriate shape to meet both LCR and NSFR liquidity requirements.

We are pleased to see that the Cypriot economy continues to grow, recording a 3.5% growth rate for the second quarter of 2017, currently the second fastest growing economy in Europe. New lending of the Group in the six months was €1.1 bn, more than double the new lending in the corresponding period in the previous year."

John Patrick Hourican

Financial Results

Interim Condensed Consolidated Income Statement

€ mn	**1H2017**	**1H2016**	**2Q2017**	**1Q2017**	qoq ±%	(1H) yoy ±%
Net interest income	316	360	160	156	2%	-12%
Net fee and commission income	88	74	45	43	4%	19%
Net foreign exchange gains and net gains on other financial instruments	23	15	12	11	5%	48%
Insurance income net of claims and commissions	25	25	15	10	34%	-1%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	10	2	1	9	-80%	354%
Other income	8	6	4	4	32%	50%
Total income	**470**	**482**	**237**	**233**	2%	-2%
Staff costs	(111)	(117)	(57)	(54)	6%	-5%
Other operating expenses	(85)	(75)	(44)	(41)	7%	13%
Special levy and contribution to Single Resolution Fund	(18)	(10)	(6)	(12)	-53%	85%
Total expenses	**(214)**	**(202)**	**(107)**	**(107)**	0%	6%
Operating profit	**256**	**280**	**130**	**126**	3%	-9%
Provision charge	(656)	(158)	(592)	(64)	829%	316%
Impairments of other financial and non-financial assets	(36)	(22)	(4)	(32)	-86%	67%
Provisions for litigation and regulatory matters	(35)	0	(18)	(17)	11%	-
Total provisions and impairments	**(727)**	**(180)**	**(614)**	**(113)**	450%	306%
Share of profit from associates and joint ventures	4	2	2	2	5%	146%
(Loss)/profit before tax and restructuring costs	**(467)**	**102**	**(482)**	**15**	-	-
Tax	(72)	(12)	(66)	(6)	939%	490%
Profit attributable to non-controlling interests	(1)	(6)	(1)	(0)	45%	-90%
(Loss)/profit after tax and before restructuring costs	**(540)**	**84**	**(549)**	**9**	-	-
Advisory, VEP and other restructuring costs	(14)	(87)	(7)	(7)	-10%	-84%
Net gain on disposal of non-core assets	-	59	-	-	-	-100%
(Loss)/profit after tax	**(554)**	**56**	**(556)**	**2**	-	-

Key Performance Ratios	**1H2017**	**1H2016**	**2Q2017**	**1Q2017**	qoq	(1H) yoy
Net Interest Margin (annualised)	3.37%	3.59%	3.38%	3.33%	+5 bps*	-22 bps*
Cost to income ratio	46%	42%	45%	46%	-1 p.p.*	+4 p.p.*
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	42%	40%	43%	41%	+2 p.p.*	+2 p.p.*
Operating profit return on average assets (annualised)	2.3%	2.5%	2.3%	2.3%	-	-20 bps*
Basic earnings per share (€ cent)	(124.19)	0.63	(124.63)	0.48	(125.11)	(124.82)

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

Interim Condensed Consolidated Balance Sheet

€ mn	30.06.2017	31.12.2016	±%
Cash and balances with central banks	2,317	1,506	54%
Loans and advances to banks	708	1,088	-35%
Debt securities, treasury bills and equity investments	918	674	36%
Net loans and advances to customers	14,913	15,649	-5%
Stock of property	1,502	1,427	5%
Other assets	1,729	1,828	-5%
Total assets	**22,087**	**22,172**	**0%**
Deposits by banks	415	435	-5%
Funding from central banks	900	850	6%
Repurchase agreements	256	257	0%
Customer deposits	16,584	16,510	0%
Subordinated loan stock	257	-	-
Other liabilities	1,097	1,014	8%
Total liabilities	**19,509**	**19,066**	**2%**

Shareholders' equity	**2,543**	**3,071**	**-17%**
Non-controlling interests	35	35	2%
Total equity	**2,578**	**3,106**	**-17%**
Total liabilities and equity	**22,087**	**22,172**	**0%**

Key Balance Sheet figures and ratios	30.06.2017	31.12.2016	±%
Gross loans (€ mn)	19,505	20,130	-3%
Accumulated provisions (€ mn)	4,638	4,519	+3%
Customer deposits (€ mn)	16,584	16,510	0%
Loan to deposit ratio (net)	90%	95%	-5 p.p.*
90+ DPD ratio	39%	41%	-2 p.p.*
90+ DPD provisioning coverage ratio	61%	54%	+7 p.p.*
NPE ratio	50%	55%	-5 p.p.*
NPE provisioning coverage ratio	48%	41%	+7 p.p.*
Quarterly average interest earning assets (€ mn)	18,996	19,060	0%
Leverage ratio	11.0%	13.2%	-2.2 p.p.*

Capital ratios and risk weighted assets	30.06.2017	31.12.2016	±%
Common Equity Tier 1 capital ratio (CET1) (transitional)	12.3%	14.5%	-2.2 p.p.*
CET1 (fully loaded)	11.8%	13.9%	-2.1 p.p.*
Total capital ratio	13.8%	14.6%	-8 bps*
Risk weighted assets (€ mn)	17,368	18,865	-8%

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

A. Analysis of Group Financial Results for the six months ended 30 June 2017

A.1 Balance Sheet Analysis

A.1.1 Capital Base

Shareholders' equity totalled €2,543 mn at 30 June 2017, compared to €3,079 mn at 31 March 2017 and to €3,071 mn at 31 December 2016. The **Common Equity Tier 1 capital (CET1) ratio (transitional basis)** stood at 12.3% at 30 June 2017, compared to 14.4% at 31 March 2017 and 14.5% at 31 December 2016. During 2Q2017 the CET1 ratio was negatively affected by the additional provisions and the deferred tax asset phasing-in, despite the reduction in risk weighted assets (RWA). Adjusting for Deferred Tax Assets, the **CET1 ratio on a fully-loaded basis** totalled 11.8% at 30 June 2017, decreased by 2.2 percentage points when compared to 14.0% at 31 March 2017. As at 30 June 2017, the Total Capital ratio stood at 13.8%, decreased by 1.8 percentage points when compared to 15.6% at 31 March 2017.

The Group's capital ratios are above the minimum CET1 regulatory capital ratio of 9.50% (comprising of a 4.5% Pillar I requirement, a 3.75% Pillar II requirement and a phased-in Capital Conservation Buffer (CCB) of 1.25%) and the overall Total Capital Ratio requirement of 13.00%, comprising of a Pillar I requirement of 8% (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a Pillar II requirement of 3.75% (in the form of CET1), as well as a phased-in CCB of 1.25%. The European Central Bank (ECB) has also provided non-public guidance for an additional Pillar II CET1 buffer.

The Bank, as a result of reconsideration of its strategy, to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking and take into consideration the on-going discussion with its supervisor, the ECB, in context of the 2017 Supervisory Review & Evaluation Process (SREP), decided to make certain modifications to its provisioning assumptions and estimates, within the parameters of International Financial Reporting Standards (IFRS). One of the key modifications is the introduction of further discounts in addition to those on the recoverable value of collateral, as well as the prolongation of the assumed time taken to recover this collateral. This resulted in incremental provisions of c.€500 mn charged in 2Q2017, with the half-year charge totalling €656 mn. The Bank considers that the assumption amendments conclude the Group's active and on-going dialogue with the ECB on this matter. It also increases the Bank's non-performing exposure (NPE) provisioning coverage to 48% at 30 June 2017, and it is expected that this will exceed the medium term target of 50% by the year end.

The Group continues to develop its processes to enable **IFRS 9** to be implemented on 1 January 2018. The Group expects to be in a position to provide a robust estimate on the effect on its CET1 ratio later in the year, when the implementation programme, validation and testing is further advanced. The capital impact of any opening IFRS 9 adjustment to the provision stock is expected to be largely phased-in over a five year period in line with the **proposal of the Council of the European Union.** As a result, the effect of introducing IFRS 9 on CET1 in 2018 is expected to be small on a phased-in basis.

In January 2017, the Group raised €250 mn of Tier 2 capital. The Group will continue, subject to market conditions, to examine opportunities to raise additional Tier 2 and/or **AT1** bonds in the next 12 months. This will further strengthen the Group's capital base well ahead of the Minimum Required Eligible Liabilities ("MREL") and create greater versatility into the future.

A.1.2 Funding and Liquidity

Funding

Funding from Central Banks

At 30 June 2017, the Bank's funding from central banks totalled €900 mn, which relates wholly to ECB funding, compared to funding from ECB at 31 March 2017 of €870 mn and at funding from central banks at 31 December 2016 of €850 mn, which comprised ELA of €200 mn and ECB funding of €650 mn. The ECB funding of €900 mn at the quarter end comprises €830 mn through Targeted Longer-Term Refinancing Operations (TLTRO II), €40 mn through Longer-Term Refinancing Operations (LTRO) and €30 mn through Main Refinancing Operations (MRO).

The Bank fully repaid ELA in January 2017.

A. Analysis of Group Financial Results for the six months ended 30 June 2017 (continued)

A.1 Balance Sheet Analysis (continued)

A.1.2 Funding and Liquidity (continued)

Funding (continued)

Deposits

Group customer deposits totalled €16,584 mn at 30 June 2017, compared to €16,537 mn at 31 March 2017 and €16,510 mn at 31 December 2016. During the quarter, deposits remained broadly stable, with the focus shifting towards the deposit mix and now more than fully fund the loan book. Cyprus deposits stood at €15,010 mn at 30 June 2017, accounting for 91% of Group customer deposits. Customer deposits in Cyprus decreased by €66 mn during 2Q2017. In constant exchange rates, Group customer deposits increased by €234 mn and customer deposits in Cyprus increased by €82 mn in 2Q2017. The Bank's deposit market share in Cyprus reached 31.3% at 30 June 2017. Customer deposits accounted for 75% of total assets at 30 June 2017. The Loan to Deposit ratio (L/D) stood at 90% at 30 June 2017, down from 95% at 31 March 2017 and 31 December 2016, compared to a high of 151% at 31 March 2014.

Subordinated Loan Stock

In January 2017 the Bank tapped the debt capital markets and issued €250 mn unsecured and subordinated Tier 2 Capital Notes.

Liquidity

As at 30 June 2017 the Group Liquidity Coverage Ratio (LCR) stood at 108% (compared to 84% at 31 March 2017 and 49% at 31 December 2016) and is in compliance with the minimum regulatory requirement of 80% (which will increase to 100% by 1 January 2018). As at 30 June 2017, the Bank was not in compliance with the local regulatory liquidity requirements with respect to its operations in Cyprus. The Net Stable Funding Ratio (NSFR ratio) is currently expected to be introduced on 1 January 2018, with a minimum requirement of 100%. As at 30 June 2017 the Group's NSFR, on the basis of Basel III standards, was 102% (compared to 98% at 31 March 2017 and 95% at 31 December 2016). After repayment of ELA in January 2017, the Group has been focusing on measures to improve its liquidity position so as to be in compliance with both LCR and NSFR.

A.1.3 Loans

Group gross loans totalled €19,505 mn at 30 June 2017, compared to €20,011 mn at 31 March 2017 and €20,130 mn at 31 December 2016. Gross loans in Cyprus totalled €17,687 mn at 30 June 2017 and accounted for 91% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a market share of 38.7% at 30 June 2017. Gross loans in the UK amounted to €1,434 mn at 30 June 2017 and accounted for 7% of Group total gross loans. New loan originations for the Group reached €1,143 mn for the 1H2017 (of which €845 mn were granted in Cyprus and €298 mn by the UK subsidiary), more than double the new lending in the corresponding period in the previous year.

At 30 June 2017, Group net loans and advances to customers totalled €14,913 mn (31 December 2016: €15,649 mn), including net loans and advances to customers with carrying value of €20 mn which were classified as held for sale as at 30 June 2017 in line with IFRS 5.

A.1.4 Loan portfolio quality

Tackling the Group's loan portfolio quality remains the top priority for management. The Group continues to make steady progress across all asset quality metrics and the loan restructuring activity continues. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. There is a shift of focus on the Retail and SME portfolios, as well as the terminated NPEs (in the Recoveries department), with recoveries via foreclosures to unlock solutions with problematic cases and non-cooperative borrowers, and collections via the specialised unit Retail Arrears Management and other available tools to ensure early and continuous engagement with clients.

A. Analysis of Group Financial Results for the six months ended 30 June 2017 (continued)

A.1 Balance Sheet Analysis (continued)

A.1.4 Loan portfolio quality (continued)

Loans in arrears for more than 90 days (90+ DPD) were reduced by €450 mn (6% reduction qoq) in 2Q2017 and by €748 mn in 1H2017. The decrease was the result of restructuring activity, debt for asset swaps and write offs. 90+ DPD stood at €7,561 mn at 30 June 2017, accounting for 39% of gross loans (90+ DPD ratio), compared to 40% at 31 March 2017 and 41% at 31 December 2016. The provisioning coverage ratio of 90+ DPD improved to 61% at 30 June 2017, compared to 54% at 31 March 2017 and 31 December 2016. When taking into account tangible collateral at fair value, 90+ DPD loans are fully covered. The provisioning coverage ratio of 90+ DPD, calculated with reference to the contractual balances of customers, totalled 73% at 30 June 2017, compared to 67% at 31 March 2017 and 31 December 2016.

	30.06.2017		31.03.2017	
	€ mn	**% of gross loans**	€ mn	% of gross loans
90+ DPD	**7,561**	**38.8%**	8,011	40.0%
Comprising:				
- Loans with arrears for over 90 days but not impaired	**1,420**	**7.3%**	1,409	7.0%
- Impaired loans	**6,141**	**31.5%**	6,602	33.0%
Of which:				
- impaired with no arrears	**409**	**2.1%**	379	1.9%
- impaired with arrears less than 90 days	**29**	**0.1%**	68	0.3%

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €620 mn or 6% during 2Q2017 and by €1.3 bn or 12% during 1H2017 to €9,752 mn at 30 June 2017, accounting for 50% of gross loans, compared to 52% at 31 March 2017 and 55% at 31 December 2016. This is the fourth consecutive quarter during which the quarterly reduction of NPEs exceeded the reduction of 90+ DPD mainly due to the curing of restructured performing NPEs that met the exit criteria following satisfactory performance post their restructuring. The Group expects the reduction in non-performing loans to continue and is in parallel actively exploring alternative avenues to accelerate this reduction. The provisioning coverage ratio of NPEs improved to 48% at 30 June 2017, up from 42% at 31 March 2017 and 41% at 31 December 2016. When taking into account tangible collateral at fair value, NPEs are fully covered. The provisioning coverage ratio of NPEs, calculated with reference to the contractual balances of customers, stood at 60% at 30 June 2017, compared to 55% at 31 March 2017 and 54% at 31 December 2016.

	30.06.2017		31.03.2017	
	€ mn	**% of gross loans**	€ mn	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**9,752**	**50.0%**	10,372	51.8%
Of which:				
- NPEs with forbearance measures, no impairments and no arrears	**1,558**	**8.0%**	1,572	7.9%

A. Analysis of Group Financial Results for the six months ended 30 June 2017 (continued)

A.1 Balance Sheet Analysis (continued)

A.1.5 Real Estate Management Unit

The **Real Estate Management Unit (REMU)** on-boarded €101 mn of assets, via the execution of debt for asset swaps, in 2Q2017 (down by 21% qoq) and €229 mn of assets in 1H2017. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed disposals of €30 mn in 2Q2017, compared to €110 mn in 1Q2017 and disposals of €140 mn in 1H2017. In addition, in 2Q2017 the Group disposed of a property with carrying value €10 mn, previously classified as investment property. Post 30 June 2017, the Group completed additional disposals of €35 mn.

Since the beginning of the year, the Group signed sale-purchase agreements (SPAs) for disposals of assets in Cyprus with contract value of €30 mn, in addition to the executed SPAs with contract value of €218 mn.

As at 30 June 2017, assets held by REMU had a carrying value of €1.5 bn.

Assets held by REMU (Group) (€ mn)	1H2017	2Q2017	FY2016
Opening balance	**1,427**	**1,436**	542
On-boarded assets	**229**	**101**	1,086
Sales	**(140)**	**(30)**	(166)
Closing balance	**1,502**	**1,502**	1,427

Analysis by type and country 30 June 2017 (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	**115**	**32**	**9**	**156**
Offices and other commercial properties	**279**	**54**	**10**	**343**
Manufacturing and industrial properties	**87**	**52**	**1**	**140**
Hotels	**64**	**1**	**-**	**65**
Land (fields and plots)	**785**	**5**	**7**	**797**
Properties under construction	**1**	**-**	**-**	**1**
Total	**1,331**	**144**	**27**	**1,502**

31 December 2016 (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	90	37	9	136
Offices and other commercial properties	256	56	12	324
Manufacturing and industrial properties	82	53	1	136
Hotels	74	1	-	75
Land (fields and plots)	739	6	10	755
Properties under construction	1	-	-	1
Total	1,242	153	32	1,427

A. Analysis of Group Financial Results for the six months ended 30 June 2017 (continued)

A.1 Balance Sheet Analysis (continued)

A.1.6 Non-core overseas exposures

The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 30 June 2017 are as follows:

€ mn	30 June 2017	31 December 2016
Greece	**240**	283
Romania	**108**	149
Serbia	**9**	42
Russia	**38**	44

In accordance with Group's strategy to exit from overseas non-core operations, the operations of the Bank of Cyprus branch in Romania are expected to be terminated during 2017, subject to regulatory approvals. The remaining assets and liabilities of the branch will be transferred to other entities of the Group.

In addition to the above, at 30 June 2017 there were overseas exposures of €173 mn in Greece (compared to exposures of €195 mn in Greece and €54 mn in Romania as at 31 March 2017), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business. There were no overseas exposures not identified as non-core exposures in Romania as at 30 June 2017.

A.2 Income Statement Analysis

A.2.1 Total income

€ mn	1H2017	1H2016	2Q2017	1Q2017	qoq ±%	(1H) yoy ±%
Net interest income	316	360	160	156	2%	-12%
Net fee and commission income	88	74	45	43	4%	19%
Net foreign exchange gains and net gains on other financial instruments	23	15	12	11	5%	48%
Insurance income net of claims and commissions	25	25	15	10	34%	-1%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	10	2	1	9	-80%	354%
Other income	8	6	4	4	32%	50%
Non-interest income	**154**	**122**	**77**	**77**	0%	27%
Total income	**470**	**482**	**237**	**233**	2%	-2%
Net interest margin (annualised)	3.37%	3.59%	3.38%	3.33%	+5 bps*	-22 bps*
Average interest earning assets (€ mn)	18,952	20,213	18,996	19,027	0%	-6%

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

Net interest income (NII) and net interest margin (NIM) for 1H2017 amounted to €316 mn and 3.37% respectively. NII was down by 12% compared to €360 mn a year earlier, reflecting the low interest rate environment and the lower volume of loans primarily as a result of the debt for asset swaps. The NII and NIM for 2Q2017 amounted to €160 mn and 3.38% respectively, at similar levels to 1Q2017.

Average interest earning assets for 1H2017 amounted to €18,952 mn, down by 6% yoy, largely due to debt for asset swaps. Average interest earning assets for 2Q2017 amounted to €18,996 mn, at similar levels to the previous quarter.

Non-interest income for 1H2017 amounted to €154 mn, with recurring income comprising net fee and commission income of €88 mn and net insurance income of €25 mn. Non-interest income for 2Q2017 was €77 mn (at similar levels to the previous quarter), comprising primarily net fee and commission income of €45 mn, net foreign exchange income and net gains on financial instruments of €12 mn and net insurance income of €15 mn. Non-interest income for 1H2017 increased by 27% yoy, largely driven by the new and increased commission charges introduced in 4Q2016. Insurance income net of claims and commissions totalled €15 mn for 2Q2017, up by 34% qoq, due to better performance of insurance subsidiaries, driven primarily from higher new business, better investment performance and lower level of insurance claims. The remaining component of non-interest income for 2Q2017 was a profit of €17 mn (compared to €24 mn for the previous quarter), which includes a net gain of €1 mn on the disposal of assets by REMU (compared to €11 mn for the previous quarter).

Total income for 1H2017 amounted to €470 mn, compared to €482 mn for 1H2016 (2% decrease yoy), with the reduction primarily reflecting the yoy reduction in NII. Total income for 2Q2017 amounted to €237 mn, compared to €233 mn for 1Q2017.

A.2.2 Total expenses

€ mn	1H2017	1H2016	2Q2017	1Q2017	qoq ±%	(1H) yoy ±%
Staff costs	(111)	(117)	(57)	(54)	6%	-5%
Other operating expenses	(85)	(75)	(44)	(41)	7%	13%
Total operating expenses	(196)	(192)	(101)	(95)	6%	2%
Special levy and contribution to Single Resolution Fund	(18)	(10)	(6)	(12)	-53%	85%
Total expenses	**(214)**	**(202)**	**(107)**	**(107)**	0%	6%

Total expenses for 1H2017 were €214 mn, 52% of which related to staff costs (€111 mn), 40% to other operating expenses (€85 mn) and 8% to special levy and contribution to Single Resolution Fund (SRF) (€18 mn). Total expenses for 2Q2017 were €107 mn, at similar levels to the previous quarter. Total operating expenses for 2Q2017 amounted to €101 mn, compared to €95 mn the previous quarter (up by 6% qoq).

A.2 Income Statement Analysis (continued)

A.2.2 Total expenses (continued)

Staff costs for 2Q2017 were €57 mn, up by 6% qoq, mainly due to the accrual of employees' increments following the renewal of collective agreement with the trade union. Other operating expenses for 2Q2017 were €44 mn, up by 7% qoq, primarily due to the increase in advertising and marketing, advisory and other professional fees during 2Q2017. The special levy and contribution to the SRF for 2Q2017 totalled €6 mn, compared to €12 mn a quarter earlier. The reduction relates to the 2017 annual contribution to the SRF, which was fully booked during 1Q2017 in line with IFRSs.

The cost to income ratio for 1H2017 was 46%. Excluding the special levy and contribution to the SRF, the cost to income ratio for 1H2017 was 42%. The cost to income ratio for 2Q2017 was 45%, compared to 46% for 1Q2017. Excluding the special levy and contribution to the SRF, the cost to income ratio for 2Q2017 was 43%, compared to 41% for 1Q2017, mainly due to the increase in staff costs relating to the preliminary impact of the renewal of the collective agreement with the trade union.

A.2.3 (Loss)/profit before tax and restructuring costs

€ mn	**1H2017**	**1H2016**	**2Q2017**	**1Q2017**	qoq ±%	(1H) yoy ±%
Operating profit	**256**	**280**	**130**	**126**	3%	-9%
Provisions	(656)	(158)	(592)	(64)	829%	316%
Impairments of other financial and non-financial assets	(36)	(22)	(4)	(32)	-86%	67%
Provisions for litigation and regulatory matters	(35)	0	(18)	(17)	11%	-
Total provisions and impairments	**(727)**	**(180)**	**(614)**	**(113)**	450%	306%
Share of profit from associates and joint ventures	4	2	2	2	5%	146%
(Loss)/profit before tax and restructuring costs	**(467)**	**102**	**(482)**	**15**	-	-

Operating profit for 1H2017 was €256 mn, compared to €280 mn for 1H2016 (down by 9% yoy). The decrease mainly reflects the lower net interest income and higher non-staff costs, including contribution to the SRF. Operating profit for 2Q2017 was €130 mn, compared to €126 mn the previous quarter.

Provisions for 1H2017 totalled €656 mn, compared to €158 mn for 1H2016. Provisions for 2Q2017 totalled €592 mn (compared to €64 mn for 1Q2017), following additional provisions of c.€500 mn, increasing the provision coverage to 48%, close to the medium term target of 50%. The elevated provisioning levels reflect changes in the Bank's provisioning assumptions as a result of the Group's reconsideration of its strategy to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking. It also concludes the active and on-going regulatory dialogue with the ECB on this matter.

Following this, the annualised provisioning charge for 1H2017 accounted for 4.2% of gross loans, compared to an annualised provisioning charge of 1.3% for 1Q2017. The annualised provisioning charge for 1H2017 including impairments of other financial assets accounted for 4.3% of gross loans, compared to a provisioning charge of 1.7% for 1Q2017 and for FY2016. An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk, but is not annualised.

At 30 June 2017, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures, totalled €4,638 mn (compared to €4,334 mn at 31 March 2017 and to €4,519 mn at 31 December 2016) and accounted for 23.8% of gross loans (compared to 21.7% at 31 March 2017 and to 22.4% at 31 December 2016). The increase of accumulated provisions in 2Q2017 of €304 mn is largely driven by the incremental provisions of c.€500 mn. The reduction of accumulated provisions in the previous quarter amounted to €185 mn.

Impairments of other financial and non-financial assets for 1H2017 totalled €36 mn, compared to €22 mn for 1H2016 (up by 67% yoy), primarily affected by impairment charges relating to legacy exposures and impairment losses of stock of properties in Greece and Romania. Impairments of other financial and non-financial assets for 2Q2017 were €4 mn (compared to €32 mn for 1Q2017), mainly relating to impairment losses of legacy properties in Greece.

Provisions for litigation and regulatory matters for 2Q2017 amounted to €18 mn, compared to €17 mn for the previous quarter. The elevated levels in 2Q2017 include €13 mn relating to litigations for securities issued by the Bank between 2007 and 2011 and €5 mn relating to redress provisions for the UK operations. The charge in 1Q2017 related mainly to a fine imposed by the Cyprus Commission for the Protection of Competition. The fine related to complaints filed in 2010 relating to the Bank's alleged abuse of its dominant market position in its cards business.

A.2 Income Statement Analysis (continued)

A.2.4 (Loss)/profit after tax

€ mn	**1H2017**	**1H2016**	**2Q2017**	**1Q2017**	qoq ±%	(1H) yoy ±%
(Loss)/profit before tax and restructuring costs	**(467)**	**102**	**(482)**	**15**	-	-
Tax	(72)	(12)	(66)	(6)	939%	490%
Profit attributable to non-controlling interests	(1)	(6)	(1)	(0)	45%	-90%
(Loss)/profit after tax and before restructuring costs	**(540)**	**84**	**(549)**	**9**	-	-
Advisory, VEP and other restructuring costs	(14)	(87)	(7)	(7)	-10%	-84%
Net gain on disposal of non-core assets	-	59	-	-	-	-100%
(Loss)/profit after tax	**(554)**	**56**	**(556)**	**2**	-	-

The **tax charge** for 1H2017 totalled €72 mn compared to €12 mn in 1H2016. The tax charge for 2Q2017 totalled €66 mn compared to €6 mn in 1Q2017. The increase is due to the reduction of the level of Deferred Tax Assets (DTA) by €62 mn, following the increase in provisions for impairment of loans and advances to customers and evaluation of the recoverability assessment of the DTA balance.

Loss after tax and before restructuring costs for 1H2017 totalled €540 mn, compared to a profit after tax and before restructuring costs of €84 mn for 1H2016. Loss after tax and before restructuring costs for 2Q2017 was €549 mn, compared to a profit after tax and before restructuring costs of €9 mn for 1Q2017.

Advisory, VEP and other restructuring costs for 1H2017 totalled €14 mn, compared to €87 mn for 1H2016 (down by 84% yoy). The elevated levels in the previous year relate mainly to the Voluntary Exit Plan (VEP). Advisory and other restructuring costs for 2Q2017 were €7 mn, at similar levels to the previous quarter.

Net gain on disposal of non-core assets for 1H2016 of €59 mn related mainly to the gain on disposal of the investment in Visa Europe.

Loss after tax attributable to the owners of the Company for 1H2017 was €554 mn, compared to a profit after tax of €56 mn for 1H2016. Loss after tax attributable to the owners of the Company for 2Q2017 was €556 mn, compared to a profit after tax of €2 mn for 1Q2017.

B. Operating Environment

After a protracted recession Cyprus returned to growth in 2015 and continued to expand in the subsequent period. Real GDP increased by 2.8% in 2016, and by 3.7% and 3.5% respectively on a seasonally adjusted basis, in the first and second quarters of 2017. The growth momentum is expected to be maintained over the medium term supported by private consumption, gradually increasing investment, declining unemployment and favourable developments in tourism and business services.

Tourism remains robust aided by geopolitical tensions in competing destinations. Arrivals had reached record levels of 3.2 mn people in 2016 according to the Cyprus Statistical Service and continued to expand in the first seven months of 2017, rising by about 15% from the same period the year before. In the labour market the unemployment rate declined significantly to 11% in the second quarter on a seasonally adjusted basis, according to Eurostat, compared with a peak of 16.6% in the first quarter of 2015. Consumer inflation turned modestly positive in the first seven months of the year rising by 1% after falling for four consecutive years according to data from the Cyprus Statistical Service. In property markets demand has been rising as evidenced by an increasing number of sales contracts. The Central Bank's Residential Property Price Index increased by 0.2% year-on-year in the first quarter of 2017 and increased by 0.3% on a quarter-on-quarter basis, from the fourth quarter 2016.

In the area of public finance, the general government budget has been near balance since 2014 excluding recapitalisation costs of the cooperative credit sector, and public debt relative to GDP had risen to 107.8% at the end of 2016, according to Eurostat. Cyprus has consistently outperformed its fiscal targets during and after the economic adjustment programme. According to Eurostat, the primary surplus in 2016 was 3% of GDP and the general government budget was also a surplus of 0.4% of GDP.

Overall, the outlook for the medium term remains favourable and an average of real GDP growth of 2.8% is expected in the period 2017-2019 according to the Ministry of Finance. Upside factors relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and stronger investment spending as property prices are stabilising and as projects in tourism, energy and public works are being implemented.

Downside risks to the outlook are associated with the still high levels of non-performing loans, and public debt ratio, and with a possible deterioration of the external environment for Cyprus. This may involve slower growth in the UK with a weakening of the pound as a result of uncertainty resulting from Brexit. The direct consequences on Cyprus from Brexit, will mostly emanate from tourist activity. The possible loss of UK tourist arrivals may be mitigated at least in part, by increases in arrivals of tourists from other destinations as airline connectivity improves. Political uncertainty in Europe triggered by a British exit or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

In this context of a strengthening economy and narrowing imbalances, the Cyprus government benefited from a series of rating upgrades. Most recently in July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 previously and maintained its outlook to positive. In March 2017, S&P Global Ratings upgraded the Cyprus sovereign to BB+ which is one notch below investment grade. The key drivers for rating upgrades have been stronger economic performance than expected, progress in the banking sector and consistent fiscal outperformance.

C. Business Overview

With the Cypriot operations accounting for 91% of gross loans and 91% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's recovery.

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

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

Management is also placing emphasis on diversifying income streams by boosting fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, constitute a leading player 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 1H2017 amounted to €25 mn (at the same levels as for 1H2016), contributing to 16% of non-interest income.

In order to further improve its funding structure, the Bank is **stepping up its efforts to grow lower cost deposits,** and take advantage of the increased customer confidence towards the Bank, as well as improving macroeconomic conditions.

On 19 January 2017, BOC Holdings was admitted to listing and trading on the London Stock Exchange ("LSE") and the Cyprus Stock Exchange ("CSE"). The listing on the LSE is another significant milestone in the execution of the Group's strategy. It is expected to improve the liquidity of the Group's stock, which will enhance the Group's visibility and lead to a broader base of investors capable of supporting the Group in the long-term. This will further enhance the confidence of all stakeholders in the Group. BOC Holdings continues to work towards a premium listing on the LSE, and intends to apply for a step up to the premium segment of the LSE at a future date, with the intention of becoming eligible for inclusion in the FTSE UK Index series.

D. Outlook

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

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

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

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

D. Outlook (continued)

The table below shows the Group's performance against the Medium Term Targets.

Group Key Performance Indicators		Actual Dec-2016	Actual June 2017	Medium-Term Targets	Preliminary 2018 Guidance
Asset Quality	90+ Days Past Due ratio	41%	39%	**<20%**	**<30%**
	NPEs ratio	55%	50%	**<30%**	**<40%**
	NPEs coverage ratio	41%	48%	**>50%**	**Substantially delivered. Expected to increase to mid-50% by Jan 2018**
	Provisioning charge (Cost of Risk) (annualised)*	1.7%	4.2%*	**<1.0%**	**~1.0%**
	Net Loans % Deposits	95%	90%	**90-110%**	**<100%**
Capital	CET 1 Ratio	14.5%	12.3%	**>13%**	**>13%****
	Total Capital Ratio	14.6%	13.8%	**>15%**	**>15%****
Efficiency	Net interest margin (annualised)	3.47%	3.37%	**~3.00%**	**Downward pressure due to low interest rate environment and L/D dynamics**
	Net fee and commission income / total income	17%***	19%	**>20%**	**Delivered but efforts for further improvement continuing**
	Cost to Income ratio	41%	46%****	**40-45%**	**Falling revenue puts pressure on C/I**
Balance Sheet	Total assets	€22.2 bn	€22.1 bn	**>€25 bn**	**Total assets to reach c.€24 bn by Dec 2018**
Earnings per share	EPS*****	0.71	(124.19)		**~€0.40**

* The annualised provisioning charge for 1H2017 including impairments of other financial assets accounted for 4.3% of gross loans, compared to an annualised provisioning charge of 1.7% for 1Q2017 and for FY2016. An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions is included in the cost of risk, but is not annualised.

** On an IFRS 9 phased-in basis (per the **proposal of the Council of the European Union**).

*** The net fee and commission income over total income for December 2016 excludes non-recurring fees of approximately €7 mn.

**** The cost to income ratio for 1H2017 excluding the special levy and contribution to the SRF was 42%, compared to 39% for FY2016.

***** The preliminary 2018 guidance for the earnings per share (EPS) does not include the impact of any unplanned or unforeseen risk reduction trades, or macro events.

E. Definitions & Explanations

Accelerated phase-in period	Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the DTA phase-in period was reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016. The applicable rate of the DTA phase-in is 60% for 2017, 80% for 2018 and 100% for 2019 (fully phased-in).
Accumulated provisions	Comprise (i) provisions for impairment of customer loans and advances, (ii) the fair value adjustment on initial recognition of loans acquired from Laiki Bank, and (iii) provisions for off-balance sheet exposures disclosed on the balance sheet within other liabilities.
Advisory, VEP and other restructuring costs	Comprise mainly: 1) fees of external advisors in relation to: (i) disposal of operations and non-core assets (ii) customer loan restructuring activities which are not part of the effective interest rate and (iii) the listing on the London Stock Exchange and 2) voluntary exit plan cost.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013.
CET 1 capital ratio (transitional basis)	CET 1 capital ratio (transitional basis) is defined in accordance with the Basel II requirements.
CET 1 fully loaded	CET 1 fully loaded is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio is the staff costs and other operating expenses excluding restructuring costs divided by total income, excluding gains/(losses) on disposals of non-core assets. Restructuring costs amount to €13.8 mn, €7.3 mn, €114.3 mn and €87.4 mn for the six months ended 30 June 2017, for the three months ended 31 March 2017, for the year ended 31 December 2016 and for the six months ended 30 June 2016, respectively. Gains on disposal of non-core assets pre-tax was €0 mn, €0 mn, €59.2 mn and €59.2 mn for the six months ended 30 June 2017, for the three months 31 March 2017, for the year ended 31 December 2016 and for the six months ended 30 June 2016, respectively.
Data from the Statistical Service of the Republic of Cyprus	The latest data was published on 14 August 2017.
Deferred Tax Asset adjustments	The DTA adjustments relate to Deferred Tax Assets totalling €384 mn and recognised on tax losses totalling €3.1 bn and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%. There are tax losses of c. €8.5 bn for which no deferred tax asset has been recognised. The recognition of deferred tax assets is supported by the Bank's business forecasts and takes into account the recoverability of the deferred tax assets within their expiry period.
Earnings per Share (EPS)	The preliminary 2018 guidance for the earnings per share (EPS) does not include the impact of any unplanned or unforeseen risk reduction trades, or macro events.
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 €812 mn at 30 June 2017 (compared to €869 mn at 31 March 2017).
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings", 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 to total assets for the relevant period.
Loans in arrears for more than 90 days (90+ DPD)	Loans in arrears for more than 90 days (90+ DPD) are defined as loans past-due for more than 90 days and loans that are impaired (impaired loans are those (i) for which a provision for impairment has been recognised on an individual basis or (ii) for which incurred losses existed at their initial recognition or (iii) customers in Debt Recovery).

E. Definitions & Explanations (continued)

Loans in arrears for more than 90 days (90+ DPD) ratio	90+ DPD ratio means loans in arrears for more than 90 days (90+ DPD) (as defined) divided by gross loans (as defined).
(Loss)/profit after tax and before restructuring costs	(Loss)/profit after tax excludes advisory, VEP and other restructuring costs, as well as net gains on disposal of non-core assets.
Market Shares	Both deposit and loan market shares are based on data from the Central Bank of Cyprus.
Net fee and commission income over total income	Net fee and commission income over total income is the fee and commission income divided by total income, excluding gains/(losses) on disposals of non-core assets. Gains on disposal of non-core assets pre-tax was €0 mn, €0 mn, €59.2 mn and €59.2 mn for the six months ended 30 June 2017, for the three months ended 31 March 2017, for the year ended 31 December 2016 and for the six months ended 30 June 2016, respectively. The ratio of 17% for 2016 excludes non-recurring fees of approximately €7 mn.
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net customer loans and advances, plus investments (excluding equities and mutual funds) and derivatives.
Net loans and advances	Loans and advances net of accumulated provisions
Net loan to deposit ratio	Net loan to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits, including loans and deposits held for sale.
Non-performing exposures (NPEs)	In 2014 the European Banking Authority (EBA) published its reporting standards on forbearance and non-performing exposures (NPEs). According to the EBA standards, a loan is considered an NPE if: (i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due, or (ii) the exposures are impaired i.e. in cases where there is a specific provision, or (iii) there are material exposures which are more than 90 days past due, or (iv) there are performing forborne exposures under probation for which additional forbearance measures are extended, or (v) there are performing forborne exposures under probation that present more than 30 days past due within the probation period.
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (defined above) divided by gross loans (as defined).
Operating profit	Comprises profit before total provisions and impairments (as defined), share of profit from associates and joint ventures, tax, profit attributable to non-controlling interests, advisory, VEP and other restructuring costs, and net gains on disposal of non-core assets (where applicable).
Operating profit return on average assets	Operating profit return on average assets is calculated as the operating profit divided by the average of total assets for the relevant period.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions through the requirements of the Capital Requirement Directive (CRR)/CRD IV, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Proposal of the Council of the European Union	Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9 and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States http://data.consilium.europa.eu/doc/document/ST-9480-2017-INIT/en/pdf
Provision charge	The provision charge comprises provisions for impairments of customer loans, net of gain/(loss) on derecognition of loans and advances to customers and changes in expected cash flows.

E. Definitions & Explanations (continued)

Provisioning charge (cost of risk)	Provisioning charge (cost of risk) (year to date) is calculated as the provisions for impairment of customer loans and provisions for off-balance sheet exposures, net of gain on derecognition of loans and advances to customers and changes in expected cash flows divided by average gross loans (the average balance calculated as the average of the opening balance and the closing balance). The ratios for the six months ended 30 June 2017 and quarter ended 31 March 2017 are annualised, noting that the additional provisions of c.€500 mn are included in the calculation of Cost of Risk but are not annualised.
Provisioning coverage ratio for 90+ DPD	Provisioning coverage ratio for 90+ DPD is calculated as the accumulated provisions (as defined) over 90+ DPD.
Provisioning coverage ratio for NPEs	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs.
Provisioning coverage ratio for 90+ DPD calculated with reference to the contractual balances of customers	This ratio is calculated by adjusting both the accumulated provisions (as defined) and the customer balances to include any unrecognised interest income due on contractual balances.
Quarterly average interest earning assets	Average of interest earning assets as at the beginning and end of the relevant quarter.
Special levy	Relates to the special levy on deposits of credit institutions in Cyprus.
The remaining component of non-interest income	Comprises net foreign exchange gains, net gains on financial instrument transactions, gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and other income.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
Total income	Total income comprises net interest income and non-interest income.
Total provisions and impairments	Total provisions and impairments comprise provision charge (as defined), plus provisions for litigation and regulatory matters plus impairments of other financial and non-financial assets.
Write offs	Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, “BOC Holdings” or “the Company”, its subsidiary Bank of Cyprus Public Company Limited, the “Bank” and together with the Bank’s subsidiaries, the “Group”, for the six months ended 30 June 2017.

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. As a result of this corporate change, the comparatives (other than for the quarter ended 31 March 2017) are presented for the Bank together with its subsidiaries.

Financial information presented in this announcement is not the statutory financial statements of BOC Holdings. BOC Holdings’ most recent statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the period 11 July 2016 to 31 December 2016, upon which the auditors have given an unqualified audit report (with emphasis of matter on material uncertainty related to going concern), were published on 27 April 2017 and are expected to be delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2017.

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 2017 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’.

The **Mid-year Financial Report** for the six months ended 30 June 2017 is available at the Bank of Cyprus Holdings Public Limited Company Registered Office (at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

This announcement and the presentation of the Financial Results of the Group for the six months ended 30 June 2017 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 E.

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

Forward Looking Statements

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

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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 126 branches, of which 121 operate in Cyprus, 1 in Romania and 4 in the United Kingdom. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,311 staff worldwide. At 30 June 2017, the Group’s Total Assets amounted to €22.1 bn and Total Equity was €2.6 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.