Bank of Cyprus Holdings

Announcement

Preliminary Group Financial Results for the year ended 31 December 2016

Nicosia, 1 March 2017

Key Highlights

- Significant milestones achieved in January 2017: ELA full repayment, successful issuance of €250 mn Tier 2 Notes, and listing of our shares on the London Stock Exchange
- 7 consecutive quarters of problem loan improvement
- 90+ DPD down by €459 mn or 5% qoq; down by €3,0 bn or 27% in FY2016
- NPEs down by €867 mn or 7% qoq; down by €2,9 bn or 21% in FY2016
- Full repayment of €11,4 bn ELA; repayment of €3,8 bn ELA during 2016 and early 2017
- Deposits up by €867 mn or 6% qoq; up by €2,3 bn or 16% in FY2016
- Improved L/D ratio to 95%
- Total Capital ratio c.16% (pro forma). CET1 ratio at 14,7%; 70 bps added during FY2016
- Strong pre provision operating profitability directed to de-risk balance sheet at €148 mn for 4Q2016 and €566 mn for FY2016
- Modest profit after tax of €64 mn for FY2016; profit after tax of €2 mn for 4Q2016

Statement by Bank of Cyprus Group CEO:

“Our results this quarter were satisfactory and reflect our strategy of continued de-risking. We are pleased to have delivered a modest profit in 2016 and to have started 2017 with the full repayment of ELA, a successful return to the debt capital markets and the successful listing of our shares on the London Stock Exchange.

During the fourth quarter of 2016 we saw continued positive momentum in risk reduction. Our reduction in NPEs in the fourth quarter of €867 mn was nearly double the in-quarter reduction of €459 mn for loans where delinquency of greater than 90 days (90+ DPD) is recorded. In the full year 2016 the Bank achieved a €3,0 billion reduction (27%) in 90+ DPD and €2,9 billion reduction (21%) in NPEs. These are very pleasing reductions and we expect continued progress.

Deposit growth in the fourth quarter was extremely strong. Deposits in the fourth quarter grew by €867 mn and, at the end of December our loan to deposit ratio stands at a healthy 95%, well inside the European averages. This strong growth helped contribute to our ability to fully repay ELA so rapidly.

Underlying pre provision operating profitability in the fourth quarter was strong at €148 mn or €566 mn for the full year. In line with our on-going strategy, we continued to direct the majority of our operating profit to de-risk our balance sheet and drive asset quality improvement. We expect this theme to continue in coming quarters. The Bank posted a profit of €2 mn in the fourth quarter and a full year profit of €64 mn.

At the end of 2016 the Group’s capital position was again improved. The Capital Ratio (CET1) was 14,7% and, when adjusted for the issue of the €250 mn subordinated bond in January 2017, the Group’s pro forma Total Capital ratio was c. 16%.

Underpinning the Group’s momentum is a recovering Cypriot economy. It was pleasing to note a 2,8% growth rate in the underlying economy for 2016. This allowed us grant new lending of more than €1 bn to the Cyprus economy in 2016.”

John Patrick Hourican

Group Profile

Founded in 1899, Bank of Cyprus Group is the leading banking and financial services group in Cyprus. The Group provides 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 Group operates through a total of 127 branches, of which 122 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 4.284 staff worldwide. At 31 December 2016, the Group’s Total Assets amounted to €22,2 bn and Total Equity was €3,1 bn.

EUROMONEY AWARDS FOR EXCELLENCE 2016

Bank of Cyprus
The Best Bank in Cyprus 2016

A. Analysis of Preliminary Group[1] Financial Results for the year ended 31 December 2016

A.1 Balance Sheet Analysis

A.1.1 Capital Base

Shareholders' equity totalled €3.071 mn at 31 December 2016. The **CET1 ratio[2]** improved to 14,7% at 31 December 2016, compared to 14,6% as at 30 September 2016 and increased by 70 basis points during the year compared to 14,0% at 31 December 2015. Adjusting for Deferred Tax Assets[3], the **CET1 ratio on a fully-loaded basis** totalled 13,9% at 31 December 2016. As at 31 December 2016 the Total Capital ratio stood at 14,8%, well above the minimum required, and adjusted to c.16% (pro forma)[4] when including Tier 2 issuance in January 2017.

Following the enactment of the amendments in the Cypriot Banking Law on 3 February 2017 regarding the gradual phase-in of the Capital Conservation Buffer (CCB) and based on the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2016, the Group's minimum phased-in CET1 capital ratio for 2017 is reduced to 9,50% from 10,75%, comprising of a 4,5% Pillar I requirement, a 3,75% Pillar II requirement and a phased-in CCB of 1,25%[5]. As previously disclosed, the ECB has also provided non-public guidance for an additional Pillar II CET1 buffer.

Accordingly, the overall Total Capital Ratio requirement for 2017 has been reduced to 13,00% from 14,25%, 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%[6].

On 12 January 2017, the Bank successfully launched and priced an issue of €250 million unsecured and subordinated Tier 2 Capital Notes. The Notes were priced at par with a coupon of 9,25%. The Notes mature on 19 January 2027. The Bank will have the option to redeem the Notes early on 19 January 2022, subject to applicable regulatory consents. The issuance of the Notes is part of the Bank's strategy to optimise the level and composition of its capital and liabilities, enhancing the Total Capital ratio to c.16% (pro forma).

A.1.2 Customer Deposits and Loans

Group customer deposits totalled €16.510 mn at 31 December 2016 (compared to €15.643 mn at 30 September 2016 and €14.181 mn at 31 December 2015), and recorded an increase of 6% qoq and 16% yoy. Customer deposits in Cyprus increased by €833 mn during the quarter, of which €494 mn relates to local deposits. Cyprus deposits stood at €15.043 mn at 31 December 2016, accounting for 91% of Group customer deposits. The Bank's deposit market share[7] in Cyprus reached 31,1% at 31 December 2016, compared to 30,3% at 30 September 2016.

Customer deposits are the primary source of funding, with their contribution towards the Group's overall funding gradually increasing. Customer deposits accounted for 74% of total assets at 31 December 2016, compared to 70% of total assets at 30 September 2016. Overall, customer deposits over total assets recorded an increase of 26 percentage points, since the low of 48% at 31 March 2014. The Loans to Deposits ratio (L/D) was further improved to 95% at 31 December 2016, compared to 102% at 30 September 2016 and a high of 151% at 31 March 2014.

[1] The Preliminary Group Financial Results referred to in this Press Release relate to the Bank of Cyprus Public Company Limited, the "Bank", and together with its subsidiaries, the "Group", which was listed on the Cyprus Stock Exchange (CSE) and the Athens Exchange as at 31 December 2016. On 18 January 2017, Bank of Cyprus Holdings Public Limited Company (BOC Holdings) was introduced in the Group structure as the new parent company of the Bank. On 19 January 2017, BOC Holdings was admitted to listing and trading on the London Stock Exchange and the CSE.
[2] Transitional basis; Includes profits for the year ended 31 December 2016 that have been neither audited nor reviewed, by the Group's external auditors.
[3] The DTA adjustments relate to Deferred Tax Assets totalling €450 mn and recognised on tax losses totalling €3,6 bn and can be set off against future profits of the Bank until 2028 at a tax rate of 12,5%. Furthermore, there are tax losses of c. €8,5 bn for which no deferred tax asset has been recognised. The recognition of deferred tax assets is supported by the Bank's business forecasts and takes into account the recoverability of the deferred tax assets within their expiry period.
[4] Based on the preliminary group financial results as at and for the year ended 31 December 2016.
[5] 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 1,875% for 2018 and 2,5% for 2019 (fully phased-in).
[6] See note 5.
[7] Based on data from the Central Bank of Cyprus.

Group gross loans[8] totalled €20.130 mn at 31 December 2016, compared to €20.596 mn at 30 September 2016 and €22.592 mn at 31 December 2015. The reduction in gross loans is, to a large extent, driven by the restructuring activity, including debt for property swaps, debt for equity swaps and write offs. Gross loans in Cyprus totalled €18.269 mn at 31 December 2016 and accounted for 91% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a 39,4% loan market share[9] at 31 December 2016, compared to 41,1% at 30 September 2016. Gross loans in the UK amounted to €1.296 mn, compared to €1.232 mn at 30 September 2016 and accounted for 6% of Group total loans. New loan originations for the Group reached €1,5 bn for the year, of which €1,0 bn were granted in Cyprus and €451 mn by the UK subsidiary.

A.1.3 Eurosystem Funding

At 31 December 2016, the Bank's Eurosystem funding totalled €850 mn, comprising ELA of €200 mn and European Central Bank (ECB) funding of €650 mn. Post 31 December 2016, the Bank has fully repaid ELA.

A.1.4 Loan portfolio quality

The main priority of the Group remains the delivery of asset quality improvement. The Bank's Restructuring and Recoveries Division (RRD) is actively seeking to find innovative solutions that bring bank loan servicing obligations more in line with the changing economic and financial circumstances of cooperating bank borrowers. The foreclosure legislation and insolvency framework, the effective interaction with borrowers and the improving fundamentals of the Cypriot economy, are playing a significant role in reducing the level of problem loans.

Loans in arrears for more than 90 days (90+ DPD)[10] were reduced by €459 mn (5% reduction qoq) in 4Q2016. The decrease was primarily due to the restructuring activity, including debt for property swaps, debt for equity swaps and write offs. 90+ DPD stood at €8.309 mn at 31 December 2016, accounting for 41% of gross loans (90+ DPD ratio), compared to 43% a quarter earlier. 90+ DPD were reduced by €3,0 bn or by 27% in 2016. The provisioning coverage ratio of 90+ DPD[11] improved to 54,4% at 31 December 2016 (53,6% at 30 September 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 67%[12] at 31 December 2016, compared to 66% at 30 September 2016.

	31.12.2016		**30.09.2016**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
90+ DPD	**8.309**	**41,3%**	**8.768**	**42,6%**
Of which:				
- impaired with no arrears	472	2,3%	514	2,5%
- impaired with arrears less than 90 days	91	0,5%	74	0,4%

[8] Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €928 mn at 31 December 2016 (compared to €989 mn at 30 September 2016).
[9] See note 7.
[10] Loans in arrears for more than 90 days (90+ DPD) are defined as loans past-due for more than 90 days and loans that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses existed at their initial recognition or customers in Debt Recovery).
[11] Provisioning coverage ratio for 90+ DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, over 90+ DPD.
[12] This ratio is calculated by adjusting both the provisions stock and the customer balances to include any unrecognised interest income due on contractual balances.

Non-performing exposures (NPEs)[13] **as defined by the European Banking Authority (EBA) were reduced by €867 mn or 7%** during 4Q2016 to €11.034 mn at 31 December 2016, accounting for 55% of gross loans, compared to 62% a year ago. This is the second 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. Further curing of restructured performing NPEs is expected in the following quarters. The provisioning coverage ratio of NPEs stood at 41% at 31 December 2016, up from 40% at 30 September 2016 and 39% at 31 December 2015. The provisioning coverage ratio of NPEs, calculated with reference to the contractual balances of customers, stood at 54%[14] at 31 December 2016, compared to 52% at 30 September 2016 and 49% at 31 December 2015.

	31.12.2016		30.09.2016	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**11.034**	**54,8%**	**11.901**	**57,8%**
Of which: - NPEs with forbearance measures, no impairments and no arrears	2.037	10,1%	2.349	11,4%

A.1.5 Real Estate Management Unit

The **Real Estate Management Unit (REMU)** was set up at the beginning of 2016 to on-board assets through debt for property swaps, to manage these assets (including selective investment and development) and to execute exit strategies in order to monetise these assets, thus achieving an accelerated and cheaper foreclosure process. In 2016, REMU on-boarded €1,1 bn of assets via the execution of debt for property swaps. With the focus shifting from the on-boarding of assets resulting from the restructuring and settlement efforts of the largest borrowers of the Bank, towards the disposal of these assets, the Bank completed disposals of €166 mn in 2016, of which disposals of €155 mn (79 assets) were completed in Cyprus. As at 31 December 2016, total assets held by REMU had a total carrying value of €1,4 bn (1.124 assets).

A.1.6 Non-core overseas exposures

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

The remaining non-core overseas exposures at 31 December 2016 are as follows:

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €17 mn (compared to €12 mn at 30 September 2016), (b) 634 foreclosed properties with a book value of €153 mn (compared to 636 foreclosed properties with a book value of €161 mn at 30 September 2016), (c) off-balance sheet exposures totalling €113 mn (compared to €115 mn at 30 September 2016) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €82 mn (compared to €80 mn at 30 September 2016) and lending exposures in Cyprus with collaterals in Greece totalling €107 mn (compared to €145 mn at 30 September 2016).
- Romania: The overall net exposure is €206 mn (compared to €221 mn at 30 September 2016).
- Serbia: The overall net exposure is €42 mn, in line with the net exposure as at 30 September 2016.
- Russia: The remaining net exposure (on and off balance sheet) is €44 mn (compared to €45 mn at 30 September 2016).

A.2 Income Statement Analysis

Net interest income (NII) and net interest margin (NIM) for FY2016 amounted to €686 mn and 3,47% respectively. NII for 4Q2016 was €162 mn, down 1%, compared to €164 mn for 3Q2016, reflecting the reduction in customer loan balance primarily as a result of the elevated loan restructuring activity, including debt for property swaps. The NIM for 4Q2016 was at 3,37% compared to 3,35% for 3Q2016.

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

[14] See Note 12.

Non-interest income for FY2016 was €277 mn, comprising primarily net fee and commission income of €167 mn and net insurance income of €44 mn. Non-interest income for 4Q2016 was €84 mn (positively affected by the increased net fee and commission income), compared to €71 mn for 3Q2016. Net fee and commission income totalled €55 mn, compared to €38 mn in 3Q2016. The net fee and commission income in 4Q2016 includes the effect of the new commissions pricing catalogue introduced in October 2016. As a result, the 4Q2016 net fee and commission income has been favourably affected by both new and increased charges, as well as with non-recurring fees of approximately €7 mn. Net insurance claims totalled €9 mn for 4Q2016, down by 3% qoq. The remaining component of non-interest income[15] for 4Q2016 was a profit of €20 mn (compared to €23 mn the previous quarter), which includes a net gain of €1,4 mn on the disposal of assets by REMU.

Total income[16] for FY2016 amounted to €963 mn, compared to €1.040 mn for FY2015, down 7% yoy, with the reduction primarily reflecting the reduction in NII. Total income for 4Q2016 recorded an increase of 5% qoq and amounted to €246 mn (€235 mn for 3Q2016).

Total expenses for FY2016 were €397 mn, 56% of which related to staff costs (€224 mn) and 44% to other operating expenses (€173 mn). The cost to income ratio for FY2016 stood at 41%. Total expenses for 4Q2016 were €98 mn, compared to €97 mn a quarter earlier. The cost to income ratio for 4Q2016 was 40%, compared to 41% for 3Q2016.

Profit before provisions and impairments[17], advisory, voluntary exit plans (VEP), other restructuring costs and discontinued operations for FY2016 was €566 mn, compared to €632 mn a year earlier, primarily reflecting the lower level of NII. Profit before provisions and impairments[18], advisory, VEP, other restructuring costs and discontinued operations for 4Q2016 was €148 mn, compared to €138 mn for 3Q2016, up by 8% qoq, a net result of the higher net fee and commission income and the lower net gains on other financial instruments.

Provisions for impairment of customer loans net of gains/(losses) on derecognition of loans and changes in expected cash flows for FY2016 totalled €370 mn compared to €959 mn for FY2015. The elevated provisioning levels for FY2015 reflects the assumption changes in the Bank's provisioning methodology taking into account the on-going dialogue with the regulators. Provisions for impairment of customer loans net of gains/(losses) on derecognition of loans and changes in expected cash flows for 4Q2016 amounted to €103 mn, compared to €109 mn for 3Q2016. The provisioning charge for FY2016 accounted for 1,7%[19] of gross loans, compared to an annualised provisioning charge of 1,6% for 9M2016. At 31 December 2016, accumulated provisions, including fair value adjustment on initial recognition[20], totalled €4.519 mn (compared to €4.703 mn at 30 September 2016) and accounted for 22,4% of gross loans (compared to 22,8% at 30 September 2016). The decrease in 4Q2016 accumulated provisions of €184 mn primarily relates to increased restructuring activity, including write offs[21]. The reduction in the previous quarter amounted to €172 mn.

Impairments of other financial and non-financial assets for FY2016 totalled €47 mn. Impairments of other financial and non-financial assets for 4Q2016 totalled €13 mn, compared to €12 mn for 3Q2016, including impairment losses of stock of properties in Cyprus, Greece and Romania.

Provisions for litigation and regulatory matters for FY2016 and 4Q2016 totalled €18 mn. The increase in 4Q2016 is primarily driven by the increase in provisions for litigation and regulatory matters relating mainly to redress charges for the UK operations.

Profit after tax excluding advisory, VEP, other restructuring costs, discontinued operations and net profit on disposal of non-core assets for FY2016 totalled €119 mn. Profit after tax excluding advisory, VEP and other restructuring costs, discontinued operations and net profit on disposal of non-core assets for 4Q2016 totalled €18 mn compared to €16 mn in 3Q2016.

---

[15] The remaining component of non-interest income comprises of net foreign exchange gains/(losses), net gains/(losses) on other financial instruments, gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and other income.
[16] Total income includes Net Interest Income and Non-Interest Income.
[17] Comprising provisions for impairments of customer loans and impairments of other financial and non-financial assets, net of gains/(losses) on derecognition and changes in expected cash flows.
[18] See Note 17.
[19] That is Provisions for impairment of customer loans and gains/(losses) on derecognition of loans and changes in expected cash flows on acquired loans over average gross loans (as defined in Note 8).
[20] Including the fair value adjustment on initial recognition (difference between the outstanding contractual amount and the fair value of loans acquired from Laiki Bank) and provisions for off-balance sheet exposures.
[21] 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.

Advisory, VEP and other restructuring costs[22] for FY2016 totalled €114 mn compared to €43 mn for FY2015. Adjusting for the one-off cost of the VEP in FY2016, the advisory, VEP and other restructuring costs totalled €51 mn for FY2016, up by 20% yoy, due to increased expenses relating mainly to the London listing project. Advisory, VEP and other restructuring costs for 4Q2016 totalled €16 mn, compared to €11 mn in 3Q2016. **Net gains on disposals of non-core assets** for FY2016 of €59 mn primarily relate to the gain on disposal of the investment in Visa Europe during 2Q2016.

Profit after tax attributable to the owners of the Bank for FY2016 was €64 mn. Profit after tax attributable to the owners of the Bank for 4Q2016 totalled €2 mn, compared to a profit of €5 mn for 3Q2016.

B. 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

With the Cypriot operations accounting for 91% of both gross loans and 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. According to the Statistical Service of the Republic of Cyprus, real GDP increased by 2,8% yoy in the fourth quarter of 2016 (when seasonally adjusted), bringing the yearly growth to 2,8% (compared with 1,7% the year before), thereby achieving the highest growth rate since 2008. Growth drivers for 4Q2016 remained tourism and international business services on the supply side, and by gradually recovering private consumption, fixed investments and net exports on the expenditure side. This was supported by the depreciation of the Euro against US Dollar and the drop in oil prices. Tourist activity was strong with arrivals up by 19,8% in the year to October and revenue from tourism up by 12,3% in the year to November. Fiscal developments in the crisis years have been better than expected due to both changes in the revenue and expenditure sides of the fiscal equation.

The outlook for the Cyprus economy over the medium term remains positive. The recovery is broadly based, funding conditions in the banking system have improved markedly, the stock of non-performing loans is decreasing and the unemployment rate has been declining at a significant pace. Official forecasts by the European Commission in its Winter 2017 Economic Forecast are for real GDP growth to remain robust but to decelerate to 2,5% in 2017 and 2,3% in 2018.

Upside risks to the outlook relate to a longer period of low oil prices, further improvement of economic fundamentals in the euro area and implementation of projects in tourism, energy and public projects.

Downside risks to the growth projections are associated with high levels of non-performing exposures and a potential deterioration of the external environment. This would involve a continuation of the recession in Russia in conditions of protracted declines in oil prices; weaker than expected growth in the euro area as a result of worsening global economic conditions; and slower growth in the UK with a weakening of the pound as a result of uncertainty resulting from Brexit. Consequently, the direct consequences on Cyprus of 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.

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 strong momentum in the loan

[22] 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.

restructuring activity continues. The Group has been successful in engineering sustainable restructuring solutions at an average of c. €1 bn a quarter since January 2015 across the spectrum of its loan portfolio. There is a shift of focus to the Recoveries and Retail portfolios, 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. During 2016 the recoveries portfolio was deleveraged by €0,8 bn. Overall, the Bank is responsible for approximately two-thirds of the reduction of NPEs in Cyprus during the period from 1 January 2015 to 31 October 2016, demonstrating the effectiveness of its strategy to tackle non-performing loans via a dedicated RRD division. Further reduction of the Group's 90+ DPD and NPEs is expected in the forthcoming quarters, on the back of slower creation of problem loans, restructuring momentum, implementation of regulatory reforms particularly the insolvency framework, foreclosure law and sale of loans bill, tax incentives to support debt restructuring and the improving economic and operating conditions in Cyprus. The set-up of REMU at the beginning of the year to professionalise the on-boarding, management and sale of foreclosed property is expected to support the acceleration of the recovery process.

In order to further improve its funding structure, the Bank is **stepping up its efforts to maintain and increase deposits at a lower cost**, leveraging increasing customer confidence towards the Bank and improving macroeconomic conditions. During the year the Bank introduced new deposit products aimed at attracting local and international depositors. The Bank's strong capital position and overall improvement in its financial position **enhance its funding options**. Post 31 December 2016, the Bank fully repaid ELA. During 2016 and early 2017 the Bank repaid €3,8 bn of ELA. This is another significant milestone in the Bank's journey back to strength since 2013 and was achieved through a number of actions including the extensive deleveraging of non-core assets and operations, the equity raise in 2014, the significant increase in customer deposits over the past two years, the repayment and maturity of Cyprus Government bonds and the conversion of assets into ECB eligible collateral. With the issuance of Tier 2 Capital Notes on 12 January 2017, the Bank has successfully returned to the debt capital markets. Aiming at supporting investments by SMEs and MidCaps to boost the Cypriot economy and create new jobs for young people, the Bank has signed two new loans with the European Investment Bank (EIB) for a total amount of €135 mn. In addition, in December 2016 the Bank signed a new Cyprus Entrepreneurship Fund (CYPEF) contract with the European Investment Fund (EIF) increasing the total fund amount by €60 mn and continues to provide joint financed schemes aimed at supporting local businesses.

Strategic focus and reshaping of business model to grow in core Cypriot market through prudent new lending and developing the UK franchise. Growth in new lending is focused on selected industries that are more in line with the Bank's target risk profile, such as tourism, trade, professional services, information/ communication technologies, energy, education and green projects. The Group is also aiming to pursue a focused growth strategy in the UK, targeting entrepreneurs and owner-managed businesses. 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.

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 and General Insurance of Cyprus 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 Bank's income streams. The insurance income net of insurance claims for the FY2016 amounted to €44 mn compared to €48 mn for FY2015.

The Bank continues **to have a leading position in the Cypriot banking system, with market shares of 31,1% of deposits and 39,4% of loans**. The Group's strengthened capital position and its improving liquidity, support its efforts to **provide credit to promising sectors of the domestic economy through its core operations, to support entrepreneurs in the UK through its UK subsidiary company, and to deliver value to shareholders and other stakeholders.** Since the beginning of the year, the Group has provided c. €1,5 bn of new loans mainly to promising sectors of the domestic economy through its core operations and to entrepreneurs in the UK through its UK subsidiary, and is actively seeking to provide more credit to viable businesses and consumers.

On 19 January 2017, Bank of Cyprus Holdings Public Limited Company, the Bank's new holding company as of 18 January 2017, the effective date of the Scheme of Arrangement, announced that its total issued share capital of 446.199.933 ordinary shares of nominal value €0,10 each was admitted to the standard listing segment of the Official List of the United Kingdom's Financial Conduct Authority, to trading on the Main Market for listed securities of the London Stock Exchange ("LSE"), to listing on the Cyprus Stock Exchange ("CSE") and to trading on the Main Market of the CSE.

The listing on the LSE 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.

This is another significant milestone in the execution of the Group's strategy to become a stronger, safer and more focused institution capable of delivering appropriate shareholder returns over the medium term. It follows the Group's successful return to the debt capital markets and the full repayment of ELA funding since the start of 2017.

The Bank 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. Work is on-going and the standard listing is an intermediate step.

C. Key Performance Indicators

The table below shows the Group's performance against the Medium Term Targets set in February 2016 and a new set of Medium Term Targets.

Group Key Performance Indicators		**Actual Dec-2015**	**Actual Dec-2016**	**Medium-Term Targets Feb 2016**	**New Medium-Term Targets**
Asset Quality	90+ Days Past Due ratio	50%	41%	**<30%**	**<20%**
	NPEs ratio	62%	55%	**-**	**<30%**
	NPEs coverage ratio	39%	41%	**-**	**>50%**
	Provisioning charge[23] (Cost of Risk)	4,3%	1,7%[24]	**<1,0%**	**<1,0%**
	Net Loans % Deposits	121%	95%	**100-120%**	**90-110%**
Capital	Total Capital Ratio[25]	14,1%	14,8%	**-**	**>15%**
Efficiency	Net interest margin	3,8%	3,47%	**~3,00%**	**~3,00%**
	Fee and commission income / total income	15%	17%[26]	**>20%**	**>20%**
	Cost to Income ratio	39%	41%	**40-45%**	**40-45%**
Balance Sheet	Total assets	€23,3 bn	€22,2 bn	**>€25 bn**	**>€25 bn**

[23] Post IFRS 9 impact.
[24] See Note 19.
[25] See Note 5.
[26] Excluding non-recurring fees of approximately €7 mn.

D. Appendix

Condensed Consolidated Income Statement								
€ mn	FY2016	FY2015	yoy ±%	4Q2016	3Q2016	qoq ±%	2Q2016	1Q2016
Net interest income	686	842	-19%	162	164	-1%	175	185
Net fee and commission income	167	154	9%	55	38	43%	38	36
Net foreign exchange gains and net gains on other financial instruments	48	31	55%	13	20	-33%	9	6
Insurance income net of insurance claims	44	48	-7%	9	10	-3%	11	14
Gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	6	(53)	-	3	1	-	1	1
Other income	12	18	-34%	4	2	24%	4	2
Total income	**963**	**1.040**	-7%	**246**	**235**	5%	**238**	**244**
Staff costs	(224)	(234)	-4%	(53)	(54)	-2%	(59)	(58)
Other operating expenses	(173)	(174)	-1%	(45)	(43)	4%	(42)	(43)
Total expenses	**(397)**	**(408)**	-3%	**(98)**	**(97)**	1%	**(101)**	**(101)**
Profit before provisions and impairments, gains/(losses) on derecognition of loans and changes in expected cash flows, restructuring costs and discontinued operations	**566**	**632**	-10%	**148**	**138**	8%	**137**	**143**
Provisions for impairment of customer loans net of gains/(losses) on derecognition of loans and changes in expected cash flows	**(370)**	**(959)**	-61%	**(103)**	**(109)**	-5%	**(96)**	**(62)**
Impairments of other financial and non-financial assets	(47)	(62)	-23%	(13)	(12)	12%	(14)	(8)
Provisions for litigation and regulatory matters	(18)	(8)	135%	(18)	-	-	(2)	2
Share of profit from associates and joint ventures	8	6	38%	5	1	216%	1	1
Profit/(loss) before tax, restructuring costs and discontinued operations	**139**	**(391)**	-	**19**	**18**	3%	**26**	**76**
Tax	(16)	(9)	84%	(1)	(4)	-87%	(4)	(8)
(Profit)/loss attributable to non-controlling interests	(4)	6	-	-	2	-	(5)	(1)
Profit/(loss) after tax and before restructuring costs, discontinued operations and net gain on disposal of non-core assets	**119**	**(394)**	-	**18**	**16**	11%	**17**	**67**
Advisory, VEP and other restructurings costs[27]	(114)	(43)	165%	(16)	(11)	47%	(70)	(17)
Loss from disposal groups held for sale/discontinued operations	-	(38)	-	-	-	-	-	-
Net gain on disposal of non-core assets	59	37	62%	-	0	-	59	-
Profit/(loss) after tax	**64**	**(438)**	-	**2**	**5**	-61%	**6**	**50**

Key Performance Ratios	FY2016	FY2015	yoy ±%	4Q2016	3Q2016	qoq ±%	2Q2016	1Q2016
Net Interest Margin (annualised)	3,47%	3,79%	-32 bps*	3,37%	3,35%	+2 bps*	3,55%	3,63%
Cost to income ratio	41%	39%	+2 p.p.*	40%	41%	-1 p.p.*	43%	41%
Return on average assets (annualised)	0,3%	-1,7%	+2 p.p.*	0,0%	0,1%	-0,1 p.p.*	0,1%	0,9%
Return on average equity (annualised)	2,1%	-12,9%	+15 p.p.*	0,3%	0,7%	-0,4 p.p.*	0,8%	6,5%
Basic earnings/(losses) per share (€ cent)	0,71	(4,92)	5,63	0,02	0,06	(0,04)	0,07	0,56

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

[27] See Note 22.

Condensed Consolidated Balance Sheet

€ mn	31.12.2016	31.12.2015	±%
Cash and balances with central banks	1.506	1.423	6%
Loans and advances to banks	1.088	1.314	-17%
Debt securities, treasury bills and equity investments	674	1.009	-33%
Net loans and advances to customers	15.649	17.192	-9%
Other assets	3.244	2.284	42%
Non-current assets and disposal group classified as held for sale	11	49	-76%
Total assets	**22.172**	**23.271**	**-5%**
Deposits by banks	435	242	80%
Funding from central banks	850	4.453	-81%
Repurchase agreements	257	368	-30%
Customer deposits	16.510	14.181	16%
Debt securities in issue	-	1	-
Other liabilities	1.014	944	7%
Non-current liabilities and disposal group held for sale	-	4	-
Total liabilities	**19.066**	**20.193**	**-6%**
Share capital	892	892	0%
Capital reduction reserve and share premium	2.505	2.505	0%
Revaluation and other reserves	244	259	-6%
Accumulated losses	(570)	(601)	-5%
Shareholders' equity	**3.071**	**3.055**	**1%**
Non-controlling interests	35	23	56%
Total equity	**3.106**	**3.078**	**1%**
Total liabilities and equity	**22.172**	**23.271**	**-5%**

Key Balance Sheet figures and ratios	31.12.2016	31.12.2015	±%
Gross loans (€ mn)	20.130	22.592	-11%
Customer deposits (€ mn)	16.510	14.181	16%
Loans to deposits ratio (net)	95%	121%	-26 p.p.*
90+ DPD ratio	41%	50%	-9 p.p.*
90+ DPD provisioning coverage ratio[28]	54%	48%	+6 p.p.*

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

Capital	31.12.2016	31.12.2015	±%
Common Equity Tier 1 capital ratio (CET1) (transitional)[29]	14,7%	14,0%	+0,7 p.p. *
Total capital ratio	14,8%	14,1%	+0,7 p.p.*
Risk weighted assets (€ mn)	18.863	19.666	-4%

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

Notes to the Preliminary Financial Results of the Group for the year ended 31 December 2016:
The Preliminary Financial Results of the Group for the year ended 31 December 2016 have not been audited by the Group's external auditors.

The audited Consolidated Financial Statements will be available at the Bank of Cyprus Public Company Limited 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) on the date of the announcement of the final financial results for the year.

The announcement and the presentation of the Preliminary Financial Results of the Group for the year ended 31 December 2016 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

[28] See Note 11.
[29] See Note 2.