



Announcement

Group Financial Results for the nine months ended 30 September 2017

Nicosia, 21 November 2017

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

Important Notice Regarding Additional Information Contained in the Investor Presentation

The presentation for the Group Financial Results for the nine months ended 30 September 2017 (the "Presentation"), available on <http://www.bankofcyprus.com/>, includes additional financial information not presented within this Announcement, primarily relating to (i) NPE analysis (movements by segments geography and customer type), (ii) 90+ DPD analysis and 90+ DPD ratios (by Geography, business line and economic activity), (iii) reconciliations between 90+ DPD and NPEs for the Cyprus operations, (iv) rescheduled loans analysis, (v) details of historic restructuring activity including REMU activity, (vi) analysis of new lending, (vii) Income statement by business line, (viii) UK operations analysis and (ix) NIM and interest income analysis. Except in relation to any non-IFRS measure, the financial information contained in the Presentation has been prepared in accordance with the Group's significant accounting policies as described in the Group's Annual Financial Report 2016 and updated in the Mid-Year Financial Report 2017. The Presentation should be read in conjunction with the information contained in this Announcement and neither the financial information in this Announcement nor the Presentation constitute financial statements prepared in accordance with International Financial Reporting Standards.



Bank of Cyprus
The best Bank in Cyprus 2017

Key Highlights for the nine months ended 30 September 2017

Continued Progress on 'organic' Balance Sheet repair

- Ten consecutive quarters of NPE reduction
- NPEs down by €588 mn qoq to €9.2 bn (down by 17% during 9M2017 and by 39% since December 2014)
- Coverage at 49%; medium term target substantially achieved; coverage now above EU average

Acceleration initiatives

- Launching of listed Real Estate fund in Cyprus of a size of c.€190 mn
- Continue to explore other structured solutions to accelerate de-risking potentially in the near term, in one or more transactions

Capital is sufficient

- CET1 at 12.4% and 11.9% fully loaded; Total Capital ratio at 13.8%
- SREP 2018 CET1 ratio reduced to 9.375% from 9.50%; SREP 2018 total capital ratio reduced to 12.875% from 13.00%
- IFRS 9 estimated impact based on 30 September 2017 Balance Sheet is a decrease in shareholders' equity ranging between €250 mn - €300 mn. On a transitional basis and on a fully phased-in basis after the period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans

Improved funding and liquidity position

- Deposits up by €731 mn (4%) qoq; up by €805 mn in 9M2017 facilitating liquidity ratio compliance
- Loan to deposit ratio at 85%
- Compliance with LCR and NSFR liquidity requirements

Resilient operating performance

- Quarterly operating profit of €124 mn (€130 mn 2Q2017)
- New lending of €1.7 bn in 9M2017, exceeding new lending in FY2016
- NIM of 3.18% for 9M2017 but 2.86% in 3Q2017 reflecting accelerated de-risking and cost of liquidity compliance
- Cost to income ratio of 45% for 9M2017

Preliminary 2018 EPS guidance maintained

- EPS of c.€0.40 maintained
- More normal credit cost (<1% in 2018) but pressure on NIM
- Accelerated de-risking puts pressure on NIM but expected to be offset by reduced provisioning
- CET1 >13.0% and Total capital ratio >15.0%

Group Chief Executive Statement

“The Bank continues to make steady and positive progress in its journey back to strength. Our results this quarter reflect our previously communicated strategy. In the third quarter, we continued to direct all operating profitability to further increase coverage levels on delinquent exposures to best position the Bank to present a more normal credit cycle charge in 2018. This strategy will continue into the fourth quarter.

Momentum in NPE reduction was maintained. This is the tenth consecutive quarter of material NPE reduction. We have reduced the stock of NPEs by c.€2 bn since the beginning of the year and by c.40% since December 2014. Coverage levels against non-performing exposures are now above the EU average and still increasing.

We expect the organic reduction of our NPE stock to continue its downward trajectory in the coming quarters. At the same time, we are actively exploring structured solutions to further accelerate reduction and further normalise the Bank.

Today we are pleased to announce the first of these accelerative non-organic balance sheet repair initiatives. Following approval by CySeC to register a real estate fund as an Alternative Investment Fund (AIF), the Bank is launching a Real Estate Fund to be listed on the Cyprus Stock Exchange, subject to meeting certain conditions. This c.€190 mn Fund is the first of its kind in Cyprus and adds further pace to our efforts to accelerate balance sheet de-risking.

Deposits increased by €731 mn or 4% in the quarter. The increase in our deposit base facilitates compliance with liquidity requirements. The re-shaping of deposit tenures to drive EU and local liquidity ratio compliance and the continued de-risking of higher margin delinquent exposures adds negative pressure on the Bank's Net Interest Margin. The profit-pressure created by this dynamic in the future should be more than offset by reduced provisioning and the positive contribution of new lending. In the near-term we expect to see continued headline margin pressure. However we are maintaining our 2018 EPS guidance of 40 cents and a return to profitability in 2018.

Capital levels are adequate. As at 30 September 2017 the Bank's CET1 ratio (transitional) was at 12.4% and the Total Capital Ratio was at 13.8%, both in excess of regulatory requirements. Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2017, based on the pre-notifications received, we expect an improvement to the SREP requirements of 75 bps in Pillar II which will be broadly offset by a 62.5 bps further phasing-in of the Capital Conservation Buffer effective from 1 January 2018.

We have now substantially completed our work in anticipation of the introduction of IFRS 9. The expected impact on the Bank's starting shareholders' equity for 2018, based on the Balance Sheet as at 30 September 2017 is estimated to be in the range of €250 mn - €300 mn. This is conservatively inside the range we previously expected.

We are proud to maintain a leading position in a fast growing Cyprus economy. The economy expanded by 3.9% in the third quarter. We continue to support the Cyprus economy through the provision of new lending. New lending in the nine months to 30 September 2017 was €1.7 bn and this exceeded lending in the entirety of 2016.

John Patrick Hourican

Financial Results

Interim Condensed Consolidated Income Statement

€ mn	9M2017	9M2016	3Q2017	2Q2017	qoq ±%	(9M) yoy ±%
Net interest income	454	524	138	160	-14%	-13%
Net fee and commission income	133	112	45	45	0%	19%
Net foreign exchange gains and net gains on other financial instruments	32	35	9	12	-19%	-8%
Insurance income net of claims and commissions	39	35	14	15	5%	13%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	22	3	12	1	571%	733%
Other income	13	8	5	4	3%	54%
Total income	693	717	223	237	-6%	-3%
Staff costs	(168)	(171)	(57)	(57)	-1%	-2%
Other operating expenses	(128)	(113)	(43)	(44)	-2%	13%
Special levy and contribution to Single Resolution Fund	(17)	(15)	1	(6)	-	17%
Total expenses	(313)	(299)	(99)	(107)	-7%	5%
Operating profit	380	418	124	130	-4%	-9%
Provision charge	(729)	(267)	(73)	(592)	-88%	173%
Impairments of other financial and non-financial assets	(38)	(34)	(2)	(4)	-61%	11%
Provisions for litigation and regulatory matters	(73)	0	(38)	(18)	109%	-
Total provisions and impairments	(840)	(301)	(113)	(614)	-82%	180%
Share of profit from associates and joint ventures	5	3	1	2	-36%	64%
(Loss)/profit before tax and restructuring costs	(455)	120	12	(482)	-102%	-
Tax	(76)	(16)	(4)	(66)	-95%	361%
Profit attributable to non-controlling interests	(1)	(3)	0	(1)	3%	-75%
(Loss)/profit after tax and before restructuring costs	(532)	101	8	(549)	-101%	-
Advisory, VEP and other restructuring costs	(21)	(98)	(7)	(7)	7%	-79%
Net gain on disposal of non-core assets	-	59	-	-	-	-
(Loss)/profit after tax	(553)	62	1	(556)	-	-

Key Performance Ratios	9M2017	9M2016	3Q2017	2Q2017	qoq	(9M) Yoy ±%
Net Interest Margin (annualised)	3.18%	3.51%	2.86%	3.38%	-52 bps	-33 bps
Cost to income ratio	45%	42%	44%	45%	-1 p.p.	+3 p.p.
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	43%	40%	45%	43%	+2 p.p.	+3 p.p.
Operating profit return on average assets (annualised)	2.3%	2.5%	2.2%	2.3%	-1 p.p.	-2 p.p.
Basic earnings per share (€ cent)	(123.92)	0.69	0.27	(124.63)	124.90	(124.61)

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

Interim Condensed Consolidated Balance Sheet

€ mn	30.09.2017	31.12.2016	±%
Cash and balances with central banks	2,739	1,506	82%
Loans and advances to banks	972	1,088	-11%
Debt securities, treasury bills and equity investments	1,025	674	52%
Net loans and advances to customers	14,833	15,649	-5%
Stock of property	1,548	1,427	8%
Other assets	1,736	1,828	-5%
Total assets	22,853	22,172	3%
Deposits by banks	479	435	10%
Funding from central banks	830	850	-2%
Repurchase agreements	259	257	1%
Customer deposits	17,315	16,510	5%
Subordinated loan stock	263	-	-
Other liabilities	1,109	1,014	9%
Total liabilities	20,255	19,066	6%
Shareholders' equity	2,562	3,071	-17%
Non-controlling interests	36	35	3%
Total equity	2,598	3,106	-16%
Total liabilities and equity	22,853	22,172	3%

Key Balance Sheet figures and ratios	30.09.2017	31.12.2016	±%
Gross loans (€ mn)	19,253	20,130	-4%
Accumulated provisions (€ mn)	4,470	4,519	-1%
Customer deposits (€ mn)	17,315	16,510	5%
Loan to deposit ratio (net)	85%	95%	-10 p.p.
90+ DPD ratio	37%	41%	-4 p.p.
90+ DPD provisioning coverage ratio	62%	54%	+8 p.p.
NPE ratio	48%	55%	+7 p.p.
NPE provisioning coverage ratio	49%	41%	+8 p.p.
Quarterly average interest earning assets (€ mn)	19,150	19,060	1 %
Leverage ratio	10.7%	13.2%	-2.5 p.p.

Capital ratios and risk weighted assets	30.09.2017	31.12.2016	±%
Common Equity Tier 1 capital ratio (CET1) (transitional)	12.4%	14.5%	-2.1 p.p.
CET1 (fully loaded)	11.9%	13.9%	-2.0 p.p.
Total capital ratio	13.8%	14.6%	-8 bps
Risk weighted assets (€ mn)	17,273	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 nine months ended 30 September 2017

A.1 Balance Sheet Analysis

A.1.1 Capital Base

Shareholders' equity totalled €2,562 mn at 30 September 2017, compared to €2,543 mn at 30 June 2017 and to €3,071 mn at 31 December 2016. The **Common Equity Tier 1 capital (CET1) ratio (transitional basis)** improved to 12.4% at 30 September 2017, compared to 12.3% at 30 June 2017 and 14.5% at 31 December 2016. During 9M2017 the CET1 ratio was negatively affected by the additional provision charge in 2Q2017 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 11.9% at 30 September 2017, compared to 11.8% at 30 June 2017 and 13.9% at 31 December 2016. As at 30 September 2017, the Total Capital ratio stood at 13.8%.

The Group's minimum phased-in CET1 capital ratio stands at 9.50%, comprising of 4.50% Pillar I requirement, a 3.75% Pillar II requirement and the capital conservation buffer (CCB) of 1.25% applicable for 2017. Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2017, based on the pre-notification received in September 2017, the Pillar II requirement which will be applicable as from 1 January 2018, is expected to be 3.00% compared to current level of 3.75%. As a result, the Group's minimum phased-in CET1 capital ratio is expected to be reduced to 9.375% from 9.50%, comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer. The group CET1 ratio remains comfortably above this combined Pillar II requirement and guidance.

The overall Total Capital Requirement currently stands at 13.00%, comprising of a Pillar I requirement of 8.00% (of which up to 1.50% can be in the form of Additional Tier 1 capital and up to 2.00% in the form of Tier 2 capital), a Pillar II requirement of 3.75% (in the form of CET1), and the CCB of 1.25% applicable for 2017. Following the 2017 SREP pre-notification decision received, the overall Total Capital Requirement is expected to be reduced to 12.875% from 13.00%, comprising of 8.00% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018.

The new SREP requirements will be effective as from 1 January 2018, and as at the date of publication of this announcement these requirements remain subject to ECB final confirmation, which is expected by the end of 2017.

The Group may explore opportunities, subject to market conditions, to raise up to 1.5% of Additional Tier 1 (AT1) and/or Tier 2 capital in the near term to further strengthen the Group's capital base. In preparation for a potential issuance of AT1 capital instruments, the Bank will proceed (subject to the approval of the Cypriot courts) with the full reduction of its capital reduction reserve (which, at 30 September 2017, amounted to €1.3 bn) in order to eliminate the Bank's accumulated losses of €0.6 bn at 30 September 2017 (the accumulated losses as at 30 September 2017 reflect the elimination of accumulated losses of €0.6 bn at 31 December 2016 through the reduction of the capital reduction reserve as approved by the Cypriot courts in July 2017), thus creating retained earnings of €0.8 bn on a 30 September 2017 pro-forma basis. The reduction of capital will not have any impact on regulatory capital or the total equity position of the Bank or the Group.

The retained earnings will provide the basis for the calculation of distributable items under the Capital Requirements Regulation (EU) No. 575/2013 ('CRR'). The CRR provides that coupons on AT1 capital instruments may only be paid out of distributable items. Distributable items for the purposes of the CRR are determined, in part, by reference to retained earnings. Assuming the capital reduction referred to above is effected, the Bank would have €0.8 bn in distributable items on a 30 September 2017 pro-forma basis. The Bank is currently under a dividend distribution prohibition which is expected to continue in 2018 following the 2017 SREP pre-notification received in September 2017 (subject to final confirmation upon issue of the final 2017 SREP decision by the ECB which is expected before the end of 2017). However, based on the pre-notification, such prohibition will not apply to the payment of coupons on any AT1 capital instruments issued by the Bank. Both the retained earnings and distributable items of the Bank will partly decrease as a result of the IFRS 9 implementation on 1 January 2018.

The Group continues to develop its processes to enable the implementation of IFRS 9 on 1 January 2018. The new accounting standard requires these changes on the implementation date, 1 January 2018, to be recognised through equity rather than the income statement. As a result, the impact on initial implementation of IFRS 9, as at 1 January 2018, will impact the equity of the Group and will not affect the income statement.

The Group's current estimated IFRS 9 impact based on the 30 September 2017 balance sheet is a decrease of shareholders' equity ranging between €250 mn and €300 mn and is primarily driven by credit impairment provisions. This estimated reduction in shareholders' equity equates to a decrease in the tangible net asset value at 30 September 2017 of €0.56 to €0.67 per share.

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

A.1 Balance Sheet Analysis (continued)

A.1.1 Capital Base (continued)

The Group expects to implement transitional arrangements for regulatory capital purposes currently being finalised by European regulators (<http://data.consilium.europa.eu/doc/document/ST-13725-2017-INIT/en/pdf>) which would result in only c.5% of the estimated IFRS 9 impact affecting the capital ratios during 2018. On a transitional basis and on a fully phased-in basis after the period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

A.1.2 Funding and Liquidity

Funding

Funding from Central Banks

At 30 September 2017, the Bank's funding from central banks totalled €830 mn, which relates wholly to ECB funding, compared to funding from the ECB at 30 June 2017 of €900 mn and 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 €830 mn at the quarter-end comprises wholly of funding through Targeted Longer-Term Refinancing Operations (TLTRO II).

The Bank fully repaid ELA in January 2017.

Deposits

Group customer deposits totalled €17,315 mn at 30 September 2017, compared to €16,584 mn at 30 June 2017 and €16,510 mn at 31 December 2016. Group customer deposits increased by €731 mn or 4%, during the quarter with customer deposits in Cyprus increasing by €579 mn or 4%. Cyprus deposits stood at €15,589 mn at 30 September 2017, accounting for 90% of Group customer deposits. The Bank's deposit market share in Cyprus reached 32.3% at 30 September 2017. Customer deposits accounted for 76% of total assets at 30 September 2017. The Loan to Deposit ratio (L/D) stood at 85% at 30 September 2017, down from 90% at 30 June 2017, compared to a high of 151% at 31 March 2014. The 5 p.p. reduction in L/D ratio mainly relates to the significant increase in deposits during the quarter.

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 September 2017 the Group Liquidity Coverage Ratio (LCR) stood at 141% (compared to 108% at 30 June 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). The Net Stable Funding Ratio (NSFR ratio) is expected to be introduced on 1 January 2018, with a minimum requirement of 100%. As at 30 September 2017 the Group's NSFR, on the basis of Basel III standards, was 107% (compared to 102% at 30 June 2017 and 95% at 31 December 2016).

As at 30 September 2017, the Bank was not in compliance with all the local regulatory liquidity requirements set by the Central Bank of Cyprus (CBC) with respect to its operations in Cyprus. In September 2017, the CBC proceeded with a partial relaxation of the regulatory liquidity requirements. According to the Capital Requirements Regulation (CRR), the local liquidity requirements are expected to be abolished by the end of 2017. For the purposes of bridging the requirements gap between national prudential liquidity requirements currently in place and the LCR under the CRR framework, it is expected that the CBC will move in the direction of a measure in the form of a liquidity add-on that will be imposed on top of the LCR.

A.1.3 Loans

Group gross loans totalled €19,253 mn at 30 September 2017, compared to €19,505 mn at 30 June 2017 and €20,130 mn at 31 December 2016. Gross loans in Cyprus totalled €17,406 mn at 30 September 2017 and accounted for 90% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a market share of 39.5% at 30 September 2017. Gross loans in the UK amounted to €1,510 mn at 30 September 2017 and accounted for 8% of Group total gross loans. New loan originations for the Group reached €1,725 mn for the 9M2017 (of which €1,301 mn were granted in Cyprus and €424 mn by the UK subsidiary), exceeding new lending in FY2016.

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

A.1 Balance Sheet Analysis (continued)

A.1.3 Loans (continued)

At 30 September 2017, Group net loans and advances to customers totalled €14,833 mn (30 June 2017: €14,913 mn; 31 December 2016: €15,649 mn), including net loans and advances to customers with carrying value of €374 mn which were classified as held for sale as at 30 September 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.

Loans in arrears for more than 90 days (90+ DPD) were reduced by €379 mn or 5% qoq in 3Q2017 and by €1.1 bn or 14% in 9M2017. The decrease was the result of restructuring activity, debt for asset swaps and write offs. 90+ DPD stood at €7,182 mn at 30 September 2017, accounting for 37% of gross loans (90+ DPD ratio), compared to 39% at 30 June 2017 and 41% at 31 December 2016. The provisioning coverage ratio of 90+ DPD increased to 62% at 30 September 2017, compared to 61% at 30 June 2017 and 54% at 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 74% at 30 September 2017, compared to 73% at 30 June 2017 and 67% at 31 December 2016.

	30.09.2017		30.06.2017	
	€ mn	% of gross Loans	€ mn	% of gross loans
90+ DPD	7,182	37.3%	7,561	38.8%
Comprising:				
- Loans with arrears for over 90 days but not impaired	1,397	7.3%	1,420	7.3%
- Impaired loans	5,785	30.0%	6,141	31.5%
Of which:				
- impaired with no arrears	342	1.8%	409	2.1%
- impaired with arrears less than 90 days	43	0.2%	29	0.1%

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €588 mn or 6% during 3Q2017 and by €1.9 bn or 17% during 9M2017 to €9,164 mn at 30 September 2017, accounting for 48% of gross loans, compared to 50% at 30 June 2017 and 55% at 31 December 2016. This is the fifth 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 provisioning coverage ratio of NPEs improved to 49% at 30 September 2017, up from 48% at 30 June 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 62% at 30 September 2017, compared to 60% at 30 June 2017 and 54% at 31 December 2016.

	30.09.2017		30.06.2017	
	€ mn	% of gross loans	€ mn	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	9,164	47.6%	9,752	50.0%
Of which:				
- NPEs with forbearance measures, no impairments and no arrears	1,406	7.3%	1,558	8.0%

The Group has recorded significant NPE reductions for ten consecutive quarters and expects the organic reduction of NPEs to continue in the coming quarters. In parallel the Group is actively exploring alternative avenues to accelerate this reduction. The gross value of c.€450 mn of the loan portfolio classified as held for sale as at 30 September 2017, in line with IFRS 5, includes NPEs of c.€370 mn, mainly corporate and SMEs. The Bank is continuing to explore other structured solutions to accelerate de-risking potentially in the near term, in one or more transactions.

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

A.1 Balance Sheet Analysis (continued)

A.1.5 Real Estate Management Unit

The **Real Estate Management Unit (REMU)** on-boarded €127 mn of assets, via the execution of debt for asset swaps, in 3Q2017 (up by 26% qoq) and €356 mn of assets in 9M2017. 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 €64 mn in 3Q2017, compared to €30 mn in 2Q2017 and disposals of €204 mn in 9M2017. In addition, in 2Q2017 the Group disposed of a property with carrying value €10 mn, previously classified as investment property. Post 30 September 2017, the Group completed additional disposals of €9 mn. Since the beginning of the year, the Group executed sale-purchase agreements (SPAs) with contract value of €270 mn and in addition signed SPAs for disposals of assets with contract value of €27 mn.

The Bank has received approval by the Cyprus Securities and Exchange Commission ('CySEC') to register a Real Estate Fund in Cyprus, CYREIT Variable Capital Investment Company PLC (the 'Fund'), subject to meeting certain conditions. The Fund is structured as an Alternative Investment Fund (AIF) with an anticipated size of c.€190 mn. The Fund will follow a core and core+ strategy by acquiring a diversified portfolio of high-quality income yielding commercial real estate assets in Cyprus with stable lease roll. These properties are located throughout Cyprus and are currently rented to various tenants offering gross average rental yield returns of over 6% per annum on a 5 to 10 year horizon. The Fund will be distributing, in the form of cash dividends, at least 80% of all distributable net proceeds on an annual basis. Upon satisfaction of CySEC's conditions and the Fund receiving final authorisation from CySEC for commencing its operations, the Bank shall proceed with the offering of all or part of its shares in the Fund to qualifying local and international institutional and well-informed investors. The shares of the Fund will be listed on the Non-Tradable Investment Schemes Market of the Cyprus Stock Exchange (CSE).

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

Assets held by REMU (Group) (€ mn)	9M2017	3Q2017	FY2016
Opening balance	1,427	1,502	542
On-boarded assets	356	127	1,086
Sales	(204)	(64)	(166)
Closing balance	1,548	1,548	1,427

Analysis by type and country 30 September 2017 (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	134	27	8	169
Offices and other commercial properties	284	52	10	346
Manufacturing and industrial properties	89	41	1	131
Hotels	65	1	-	66
Land (fields and plots)	772	4	7	783
Properties under construction	53	-	-	53
Total	1,397	125	26	1,548

	Cyprus	Greece	Romania	Total
31 December 2016 (€ mn)				
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 nine months ended 30 September 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 September 2017 are as follows:

€ mn	30 September 2017	31 December 2016
Greece	214	283
Romania	76	149
Serbia	9	42
Russia	37	44

The Group continues its efforts for further deleveraging and disposal of non-essential assets and operations in Greece, Romania and Russia. In accordance with the Group's strategy to exit from overseas non-core operations, the operations of the Bank's branch in Romania are expected to be terminated by the end of 2017.

In addition to the above, at 30 September 2017 there were overseas exposures of €169 mn in Greece (compared to exposures of €173 mn in Greece as at 30 June 2017), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

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

A.2 Income Statement Analysis

A.2.1 Total income

€ mn	9M2017	9M2016	3Q2017	2Q2017	qoq ±%	(9M) yoy ±%
Net interest income	454	524	138	160	-14%	-13%
Net fee and commission income	133	112	45	45	0%	19%
Net foreign exchange gains and net gains on other financial instruments	32	35	9	12	-19%	-8%
Insurance income net of claims and commissions	39	35	14	15	5%	13%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	22	3	12	1	571%	733%
Other income	13	8	5	4	3%	54%
Non-interest income	239	193	85	77	11%	24%
Total income	693	717	223	237	-6%	-3%
Net Interest Margin (annualised)	3.18%	3.51%	2.86%	3.38%	-52 bps	-33 bps
Average interest earning assets (€ mn)	19,089	19,974	19,150	18,996	1%	-4%

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

Net interest income (NII) and net interest margin (NIM) for 9M2017 amounted to €454 mn and 3.18% respectively, down by 13% compared to €524 mn a year earlier. The NII and NIM for 3Q2017 amounted to €138 mn and 2.86% respectively, compared to €160 mn and 3.38% in 2Q2017. The decline reflects primarily lower cash collections of interest on delinquent exposures not previously recognised usually arising on the curing of NPEs, lower volumes of loans, the low interest rate environment and the cost of liquidity compliance.

Average interest earning assets for 9M2017 amounted to €19,089 mn, down by 4% yoy, largely due to debt for asset swaps and the elevated provision charges in 2Q2017. Average interest earning assets for 3Q2017 amounted to €19,150 mn, up by 1%, compared to €18,996 mn the previous quarter, due to increased liquid assets.

Non-interest income for 9M2017 amounted to €239 mn, mainly comprising of net fee and commission income of €133 mn, net insurance income of €39 mn and net foreign exchange income and net gains on financial instruments of €32 mn. Non-interest income for 9M2017 increased by 24% yoy, largely driven by the new and increased commission charges introduced in 4Q2016. Non-interest income for 3Q2017 was €85 mn, up by 11% qoq, comprising primarily net fee and commission income of €45 mn and net insurance income of €14 mn. The remaining component of non-interest income for 3Q2017 was a profit of €26 mn (compared to €17 mn for the previous quarter), which includes a net gain of €12 mn on the disposal of assets by REMU (compared to €1 mn for the previous quarter).

Total income for 9M2017 amounted to €693 mn, compared to €717 mn for 9M2016 (3% decrease yoy), with the reduction primarily reflecting the yoy reduction in NII. Total income for 3Q2017 amounted to €223 mn, compared to €237 mn for 2Q2017.

A.2.2 Total expenses

€ mn	9M2017	9M2016	3Q2017	2Q2017	qoq ±%	(9M) yoy ±%
Staff costs	(168)	(171)	(57)	(57)	-1%	-2%
Other operating expenses	(128)	(113)	(43)	(44)	-2%	13%
Total operating expenses	(296)	(284)	(100)	(101)	-1%	4%
Special levy and contribution to Single Resolution Fund (SRF)	(17)	(15)	1	(6)	-	17%
Total expenses	(313)	(299)	(99)	(107)	-7%	5%

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

A.2 Income Statement Analysis (continued)

A.2.2 Total expenses (continued)

Total expenses for 9M2017 were €313 mn, 54% of which related to staff costs (€168 mn), 41% to other operating expenses (€128 mn) and 5% to special levy and contribution to SRF. Total expenses for 3Q2017 were €99 mn, down by 7% qoq, mainly due to the reversal of the SRF contribution. Staff costs and other operating expenses amounted to €57 mn and €43 mn respectively, at similar levels with the previous quarter. During the quarter, special levy and SRF contribution amounted to (€1 mn) as there was a reversal of the 2017 annual SRF contribution of c.€6 mn, following the amendment of the Law on the Imposition of a Special Tax Credit Law to allow the offsetting of the SRF contribution with the special levy charge.

The cost to income ratio for 9M2017 was 45%, compared to 46% for 1H2017. Cost to income for 1H2017 was negatively affected by the SRF contribution. The cost to income ratio for 3Q2017 was 44%, compared to 45% in 2Q2017.

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

€ mn	9M2017	9M2016	3Q2017	2Q2017	qoq ±%	(9M) yoy ±%
Operating profit	380	418	124	130	-4%	-9%
Provisions	(729)	(267)	(73)	(592)	-88%	173%
Impairments of other financial and non-financial assets	(38)	(34)	(2)	(4)	-61%	11%
Provisions for litigation and regulatory matters	(73)	0	(38)	(18)	109%	-
Total provisions and impairments	(840)	(301)	(113)	(614)	-82%	180%
Share of profit from associates and joint ventures	5	3	1	2	-36%	64%
(Loss)/profit before tax and restructuring costs	(455)	120	12	(482)	-102%	-

Operating profit for 9M2017 was €380 mn, compared to €418 mn for 9M2016 (down by 9% yoy). The decrease mainly reflects the lower net interest income and higher non-staff costs. Operating profit for 3Q2017 was €124 mn, compared to €130 mn the previous quarter.

Provisions for 9M2017 totalled €729 mn, up by 173% yoy, following the additional provisions of c.€500 mn in 2Q2017. The elevated provisioning levels in 2Q2017 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. Provisions for 3Q2017 amounted to €73 mn, down by 88% qoq.

The annualised provisioning charge for 9M2017 accounted for 4.1% of gross loans, compared to an annualised provisioning charge of 4.2% for 1H2017. 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 September 2017, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures, totalled €4,470 mn (compared to €4,638 mn at 30 June 2017 and €4,519 mn at 31 December 2016) and accounted for 23.2% of gross loans (compared to 23.8% at 30 June 2017 and to 22.4% at 31 December 2016). The decrease of accumulated provisions in 3Q2017 of €168 mn is mainly affected by write offs during the quarter. The increase of accumulated provisions in the previous quarter amounted to €304 mn largely driven by the incremental provisions of c.€500 mn.

Impairments of other financial and non-financial assets for 9M2017 totalled €38 mn, compared to €34 mn for 9M2016 (up by 11% yoy), primarily affected by impairment charges relating to legacy exposures and legacy stock of properties in Greece and Romania. The 3Q2017 charge of €2 mn (compared to a charge of €4 mn in 2Q2017), reflects a €17 mn impairment loss on legacy properties in Greece reflecting additional haircuts taken to the carrying value in light of the stabilisation of property prices in Greece and the Group's strategy to accelerate disposals of legacy assets and exit from overseas non-core operations. This was partly offset by a reversal of €15 mn of impairment charges relating to legacy exposures following recent developments.

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

A.2 Income Statement Analysis (continued)

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

Provisions for litigation and regulatory matters for 9M2017 amounted to €73 mn. Provisions for litigation and regulatory matters for 3Q2017 amounted to €38 mn, primarily relating to redress provisions for the UK operations, following further analysis of the customer remediation from a pilot exercise which completed in 3Q2017. The charge for 2Q2017 amounted to €18 mn comprising €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.

A.2.4 (Loss)/profit after tax

€ mn	9M2017	9M2016	3Q2017	2Q2017	qoq ±%	(9M) yoy ±%
(Loss)/profit before tax and restructuring costs	(455)	120	12	(482)	-102%	-
Tax	(76)	(16)	(4)	(66)	-95%	361%
Profit attributable to non-controlling interests	(1)	(3)	0	(1)	3%	-75%
(Loss)/profit after tax and before restructuring costs	(532)	101	8	(549)	-101%	-
Advisory, VEP and other restructuring costs	(21)	(98)	(7)	(7)	7%	-79%
Net gain on disposal of non-core assets	-	59	-	-	-	-
(Loss)/profit after tax	(553)	62	1	(556)	-	-

The **tax charge** for 9M2017 totalled €76 mn compared to €16 mn in 9M2016. The tax charge for 3Q2017 totalled €4 mn compared to €66 mn in 2Q2017. The elevated tax charge in 2Q2017 reflects the reduction of Deferred Tax Assets (DTA) of €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 9M2017 totalled €532 mn, compared to a profit after tax and before restructuring costs of €101 mn for 9M2016. Profit after tax and before restructuring costs for 3Q2017 was €8 mn, compared to a loss after tax and before restructuring costs of €549 mn for 2Q2017.

Advisory, VEP and other restructuring costs for 9M2017 totalled €21 mn, compared to €98 mn for 9M2016 (down by 79% yoy). The elevated levels in the previous year relate mainly to the Voluntary Exit Plan (VEP). Advisory and other restructuring costs for 3Q2017 were €7 mn, at the same level as the previous quarter.

Net gain on disposal of non-core assets for 9M2016 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 9M2017 was €553 mn, compared to a profit after tax of €62 mn for 9M2016. Profit after tax attributable to the owners of the Company for 3Q2017 was €1 mn, compared to a loss after tax of €556 mn for 2Q2017.

B. Operating Environment

The Cyprus economy continued to perform well with the recovery strengthening into the first three quarters of 2017. Rising economic activity has, in turn, led to improved employment conditions and significant reductions in the unemployment rate whilst price inflation turned positive for the first time in five years. In public finances, the general government budget remained in surplus in the first half of the year whilst the current account deteriorated, driven by a widening of the gap in the goods and services balance. In the banking sector, non-performing loans continued to decline with significant improvements in the relevant metrics whilst funding conditions remain comfortable. The outlook over the medium term remains positive and risks are fairly balanced.

Real GDP increased by 3.9% year-on-year in the third quarter of the year on a seasonally adjusted basis, compared with an average increase of 3.8% in the first half, and an average increase of 3% in the whole of the previous year, according to data from the Cyprus Statistical Service. Economic activity remained broadly based mainly driven by tourism, trade, transportation and professional services. Manufacturing activity and particularly construction, made important contributions in the period.

Tourism continues to grow significantly benefiting from regional demand diversion. Total arrivals increased by 14.7% in the year to September and revenues by 13.5% to August, according to the Cyprus Statistical Service. In the labour market, the unemployment rate declined significantly in the year dropping to 11.3% in the second quarter on a seasonally adjusted basis compared with a 13% yearly average in 2016 according to Eurostat. After falling for the previous four years consumer prices increased by 0.7% in the year to September driven almost exclusively by higher costs for electricity and fuels. In property markets demand has been rising as evidenced in an increasing number of sales contracts. The Central Bank's Residential Property Price Index increased for the second consecutive time in the second quarter of the year rising by 1.1% year-on-year.

In the area of public finance, the government budget has been near balance or in surplus since 2014 when recapitalisation costs for the cooperative sector are excluded. Cyprus has consistently outperformed its fiscal targets during and after the economic adjustment programme. According to Eurostat the government budget was in surplus of 0.4% of GDP in 2016 and the corresponding primary surplus was 3%.

The overall outlook thus remains positive provided the external environment remains favourable. Real GDP growth is expected to average between 2.2% and 3% a year in the medium term according to most available forecasts, and the unemployment rate is expected to decline significantly. Inflation is expected to remain low aided by modest wage increases and low energy costs. The positive growth environment is expected to support a balanced budget and significant reductions in the stock public debt, both in absolute terms and in relation to GDP, and to also facilitate loan restructuring and a significant reduction in non-performing loans. Continued growth in the economy, debt sustainability and reductions in the stock of non-performing loans in the banking sector, remain the cornerstones for macroeconomic stability and further gains in competitiveness.

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 October 2017, Fitch Ratings upgraded its Long-Term Issuer Default ratings to 'BB' from 'BB-' with positive outlook. In September 2017, S&P Global Ratings affirmed its long term sovereign rating on Cyprus at 'BB+' and upgraded its outlook to 'positive' from 'stable'. In July 2017, Moody's Investors Service upgraded the long-term issuer rating of the Cyprus sovereign to Ba3 from B1 and maintained its outlook to positive. 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 90% of gross loans and 90% of customer deposits, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's recovery. Most recently in October 2017, Standard and Poor's assigned a 'B/B' long- and short-term issuer credit ratings with positive outlook. The Bank currently has a long-term deposit rating from Moody's Investors Service Cyprus Limited of Caa1 with a positive outlook and a long-term issuer default rating from Fitch Ratings Limited of B- with stable outlook. The key drivers for the ratings were the improvement in the bank's financial fundamentals mainly in asset quality, and its funding position.

Tackling the Bank's loan portfolio quality is of utmost importance for the Group. Recently an internal reorganisation of the Restructuring and Recoveries Division (RRD) was executed with the aim of boosting resources on both the Retail and SME portfolios of RRD in order to further improve pace and sustainability in these portfolios. Additionally, the Group is proceeding with the creation of an incremental servicing engine powered by an external party.

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 9M2017 amounted to €39 mn, up by 13% yoy, compared to €35 mn for 9M2016 contributing to 16% of non-interest income.

The Bank proceeded with the set-up of a UCITS (Undertakings for Collective Investment in Transferrable Securities) Management Company, BOC Asset Management (BOCAM). BOCAM, a 100% owned subsidiary of the Group, will offer a broad spectrum of investment products and services to private and institutional clients. The primary services offered include the management, administration and safekeeping of UCITS units catering to the current and future investment needs of clients in Cyprus.

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.

The Bank has received approval by the Cyprus Securities and Exchange Commission ('CySEC') to register a Real Estate Fund in Cyprus, CYREIT Variable Capital Investment Company PLC (the 'Fund'), subject to meeting certain conditions. The Fund is structured as an Alternative Investment Fund (AIF) with an anticipated size of c.€190 mn. The Fund will follow a core and core+ strategy by acquiring a diversified portfolio of high-quality income yielding commercial real estate assets in Cyprus with stable lease roll. These properties are located throughout Cyprus and are currently rented to various tenants offering gross average rental yield returns of over 6% per annum on a 5 to 10 year horizon. The Fund will be distributing, in the form of cash dividends, at least 80% of all distributable net proceeds on an annual basis. Upon satisfaction of CySEC's conditions and the Fund receiving final authorisation from CySEC for commencing its operations, the Bank shall proceed with the offering of all or part of its shares in the Fund to qualifying local and international institutional and well-informed investors. The shares of the Fund will be listed on the Non-Tradable Investment Schemes Market of the Cyprus Stock Exchange (CSE).

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Internally generating capital • Potential AT1 issuance
4. Focus on core markets	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 Sept 2017	Medium-Term Targets	Preliminary 2018 EPS Guidance maintained
Asset Quality	90+ Days Past Due ratio	41%	37%	<20%	<30%
	NPEs ratio	55%	48%	<30%	<40%
	NPEs coverage ratio	41%	49%	>50%	Substantially delivered
	Provisioning charge (Cost of Risk) (annualised)*	1.7%	4.1%*	<1.0%	<1.0%
Funding	Net Loans % Deposits	95%	85%	90%-110%	<100%
Capital	CET1 Ratio	14.5%	12.4%	>13%	>13%**
	Total Capital Ratio	14.6%	13.8%	>15%	>15%**
Margins and efficiency	Net interest margin (annualised)	3.5%	3.2%	~3.00%	<3%; 25 bps pressure on 2018 target due to change in balance sheet shape
	Net fee and commission income / total income	17%***	19%	>20%	Delivered but efforts for further improvement continuing
	Cost to Income ratio	41%	45%	40%-45%	Falling revenue puts pressure on C/I
Balance Sheet	Total assets	€22.2 bn	€22.9 bn	>€25 bn	Total assets to reach c.€24 bn by Dec 2018
Earnings per share	EPS****	€0.71	(€123.92)		~€0.40

* 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 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. Statutory Financial Results

Interim Consolidated Income Statement

	Nine months ended 30 September	
	2017	2016
	€000	€000
Turnover	882,224	928,621
Interest income	618,177	680,323
Interest expense	(163,838)	(155,836)
Net interest income	454,339	524,487
Fee and commission income	141,014	118,908
Fee and commission expense	(7,846)	(6,877)
Net foreign exchange gains	32,347	27,904
Net gains on financial instrument transactions	143	65,727
Insurance income net of claims and commissions	39,072	34,672
(Losses)/gains from revaluation and disposal of investment properties	(2,677)	5,649
Gains/(losses) on disposal of stock of property	24,382	(3,042)
Other income	12,468	10,421
	693,242	777,849
Staff costs	(168,066)	(233,558)
Special levy on deposits on credit institutions in Cyprus	(17,028)	(14,603)
Other operating expenses	(222,613)	(149,144)
	285,535	380,544
Gain on derecognition of loans and advances to customers and changes in expected cash flows	154,901	37,994
Provisions for impairment of loans and advances to customers and other customer credit losses	(884,134)	(304,876)
Impairment of other financial instruments	(7,443)	(11,822)
Impairment of non-financial instruments	(30,262)	(22,012)
(Loss)/profit before share of profit from associates and joint ventures	(481,403)	79,828
Share of profit from associates and joint ventures	5,235	3,189
(Loss)/profit before tax	(476,168)	83,017
Income tax	(75,678)	(17,839)
(Loss)/profit for the period	(551,846)	65,178
Attributable to:		
Owners of the Company/Bank of Cyprus Public Company Ltd	(552,750)	61,627
Non-controlling interests	904	3,551
(Loss)/profit for the period	(551,846)	65,178
Basic and diluted (losses)/earnings per share attributable to the owners of the Company/Bank of Cyprus Public Company Ltd (cent)	(123.9)	0.7

E. Statutory Financial Results (continued)

Interim Consolidated Statement of Comprehensive Income

	Nine months ended 30 September	
	2017	2016
	€000	€000
(Loss)/profit for the period	(551,846)	65,178
Other comprehensive income (OCI)		
OCI to be reclassified in the consolidated income statement in subsequent periods		
Foreign currency translation reserve		
Profit/(loss) on translation of net investment in foreign branches and subsidiaries	696	(42,262)
(Loss)/profit on hedging of net investments in foreign branches and subsidiaries	(335)	44,352
Transfer to the consolidated income statement on dissolution/disposal of foreign operations	210	1,049
	571	3,139
Available-for-sale investments		
Net gains from fair value changes before tax	39,230	1,427
Share of net gains from fair value changes of associates	1,920	1,652
Transfer to the consolidated income statement on impairment	(86)	498
Transfer to the consolidated income statement on sale	(498)	(47,239)
	40,566	(43,662)
	41,137	(40,523)
OCI not to be reclassified in the consolidated income statement in subsequent periods		
Property revaluation		
Tax	445	159
Actuarial gain/(loss) on the defined benefit plans		
Remeasurement gains/(losses) on defined benefit plans	1,939	(18,975)
	2,384	(18,816)
Other comprehensive income/(loss) after tax for the period	43,521	(59,339)
Total comprehensive (loss)/income for the period	(508,325)	5,839
Attributable to:		
Owners of the Company/Bank of Cyprus Public Company Ltd	(509,392)	6,907
Non-controlling interests	1,067	(1,068)
Total comprehensive (loss)/income for the period	(508,325)	5,839

E. Statutory Financial Results (continued)

Interim Consolidated Balance Sheet

	30 September 2017	31 December 2016
Assets	€000	€000
Cash and balances with central banks	2,738,737	1,506,396
Loans and advances to banks	971,615	1,087,837
Derivative financial assets	20,209	20,835
Investments	728,622	373,879
Investments pledged as collateral	296,797	299,765
Loans and advances to customers	14,458,358	15,649,401
Life insurance business assets attributable to policyholders	511,657	499,533
Prepayments, accrued income and other assets	241,220	269,911
Stock of property	1,548,264	1,427,272
Investment properties	28,686	38,059
Property and equipment	278,853	280,893
Intangible assets	156,624	146,963
Investments in associates and joint ventures	115,698	109,339
Deferred tax assets	383,581	450,441
Non-current assets held for sale	374,149	11,411
Total assets	22,853,070	22,171,935
Liabilities		
Deposits by banks	479,005	434,786
Funding from central banks	830,000	850,014
Repurchase agreements	258,773	257,367
Derivative financial liabilities	46,960	48,625
Customer deposits	17,314,523	16,509,741
Insurance liabilities	594,833	583,997
Accruals, deferred income and other liabilities	423,019	335,925
Subordinated loan stock	263,029	-
Deferred tax liabilities	45,141	45,375
Total liabilities	20,255,283	19,065,830
Equity		
Share capital	44,620	892,294
Share premium	2,794,358	552,618
Capital reduction reserve	-	1,952,486
Revaluation and other reserves	258,564	218,678
Accumulated losses	(535,781)	(544,930)
Equity attributable to the owners of the Company/Bank of Cyprus Public Company Ltd	2,561,761	3,071,146
Non-controlling interests	36,026	34,959
Total equity	2,597,787	3,106,105
Total liabilities and equity	22,853,070	22,171,935

E. Statutory Financial Results (continued)

Interim Consolidated Statement of Changes in Equity

	Attributable to the owners of the Company											Non-controlling interests	Total equity
	Share capital	Share premium	Capital reduction reserve	Treasury shares	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2017	892,294	552,618	1,952,486	(25,333)	(544,930)	90,936	7,139	6,059	103,251	36,626	3,071,146	34,959	3,106,105
(Loss)/profit for the period	-	-	-	-	(552,750)	-	-	-	-	-	(552,750)	904	(551,846)
Other comprehensive income after tax for the period	-	-	-	-	1,939	445	40,403	-	-	571	43,358	163	43,521
Total comprehensive (loss)/income for the period	-	-	-	-	(550,811)	445	40,403	-	-	571	(509,392)	1,067	(508,325)
Increase in value of in-force life insurance business	-	-	-	-	(2,286)	-	-	-	2,286	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	-	286	-	-	-	(286)	-	-	-	-
Transfer of realised profits on disposal of properties	-	-	-	-	7,403	(7,403)	-	-	-	-	-	-	-
Cancellation of shares due to reorganisation	(892,294)	-	-	-	-	-	-	-	-	-	(892,294)	-	(892,294)
Change of parent company to Bank of Cyprus Holdings Public Limited Company and issue of new shares	44,620	2,241,740	(1,952,486)	-	558,420	-	-	-	-	-	892,294	-	892,294
Disposal of treasury shares	-	-	-	3,870	(3,863)	-	-	-	-	-	7	-	7
30 September 2017	44,620	2,794,358	-	(21,463)	(535,781)	83,978	47,542	6,059	105,251	37,197	2,561,761	36,026	2,597,787

E. Statutory Financial Results (continued)

Interim Consolidated Statement of Changes in Equity (continued)

	Attributable to the owners of Bank of Cyprus Public Company Ltd												Non-controlling interests	Total equity
	Share capital	Share premium	Capital reduction reserve	Treasury shares	Accumulated losses	Property revaluation reserve	Revaluation reserve of available-for-sale investments	Other reserves	Life insurance in-force business reserve	Foreign currency translation reserve	Reserve of disposal group and assets held for sale	Total		
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000		
1 January 2016	892,294	552,618	1,952,486	(41,301)	(601,152)	99,218	47,125	6,059	99,050	30,939	17,619	3,054,955	22,376	3,077,331
Profit for the period	-	-	-	-	61,627	-	-	-	-	-	-	61,627	3,551	65,178
Other comprehensive (loss)/income after tax for the period	-	-	-	-	(18,975)	159	(39,043)	-	-	3,139	-	(54,720)	(4,619)	(59,339)
Total comprehensive income /(loss) for the period	-	-	-	-	42,652	159	(39,043)	-	-	3,139	-	6,907	(1,068)	5,839
Increase in value of in-force life insurance business	-	-	-	-	(2,520)	-	-	-	2,520	-	-	-	-	-
Tax on increase in value of in-force life insurance business	-	-	-	-	209	-	-	-	(209)	-	-	-	-	-
Transfer of realised profits on sale of properties	-	-	-	-	8,310	(8,310)	-	-	-	-	-	-	-	-
Disposal of subsidiary	-	-	-	-	17,619	-	-	-	-	-	(17,619)	-	-	-
Acquisition of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	18,753	18,753
Disposals of treasury shares	-	-	-	41,301	(40,560)	-	-	-	-	-	-	741	-	741
30 September 2016	892,294	552,618	1,952,486	-	(575,442)	91,067	8,082	6,059	101,361	34,078	-	3,062,603	40,061	3,102,664

F. Notes

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

€mn	Underlying Basis	Reclassification	Statutory Basis
Net interest income	454	-	454
Net fee and commission income	133	-	133
Net foreign exchange gains and net gains on other financial instruments	32	-	32
Insurance income net of claims and commissions	39	-	39
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	22	-	22
Other income	13	-	13
Total income	693	-	693
Total expenses	(313)	(94)	(407)
Operating profit	380	(94)	286
Provisions	(729)	-	(729)
Impairments of other financial and non-financial instruments	(38)	-	(38)
Provisions for litigation and regulatory matters	(73)	73	0
Share of profit from associates and joint ventures	5	-	5
Loss before tax and restructuring costs	(455)	(21)	(476)
Tax	(76)	-	(76)
Profit attributable to non-controlling interests	(1)	-	(1)
Loss after tax and before restructuring costs	(532)	(21)	(553)
Advisory and other restructuring costs	(21)	21	0
Loss after tax	(553)	-	(553)

The reclassification difference between the underlying and statutory bases relates to €94 mn expenses (€73 mn relate to Provisions for litigation and regulatory matters and €21 mn to Advisory and other restructuring costs), which for the purpose of management reporting are monitored and reported below the operating profit.

F. Notes (continued)

F.2 Customer deposits

Analysis of customer deposits is presented below:

	30 September 2017	31 December 2016
<i>By type of deposit</i>	€000	€000
Demand	6,254,877	6,182,096
Savings	1,250,092	1,061,786
Time or notice	9,809,554	9,265,859
	17,314,523	16,509,741
<i>By currency</i>		
Euro	13,392,882	12,397,828
US Dollar	1,762,191	2,201,980
British Pound	1,981,001	1,690,118
Russian Rouble	53,127	92,472
Romanian Lei	310	1,669
Swiss Franc	9,270	18,087
Other currencies	115,742	107,587
	17,314,523	16,509,741

<i>By customer sector</i>	Cyprus	United Kingdom	Romania	Total
30 September 2017	€000	€000	€000	€000
Corporate	1,507,356	36,542	135	1,544,033
SMEs	654,633	200,664	124	855,421
Retail	8,250,332	1,487,619	20	9,737,971
Restructuring				
– Corporate	135,911	-	-	135,911
– SMEs	42,932	-	-	42,932
Recoveries				
– Corporate	8,404	-	-	8,404
International banking services	4,238,246	-	-	4,238,246
Wealth management	751,605	-	-	751,605
	15,589,419	1,724,825	279	17,314,523
31 December 2016				
Corporate	1,184,681	53,457	1,446	1,239,584
SMEs	566,172	204,166	178	770,516
Retail	7,778,136	1,207,028	104	8,985,268
Restructuring				
– Corporate	192,442	-	-	192,442
– SMEs	27,685	-	-	27,685
Recoveries				
– Corporate	11,176	-	-	11,176
International banking services	4,494,755	-	-	4,494,755
Wealth management	788,315	-	-	788,315
	15,043,362	1,464,651	1,728	16,509,741

F. Notes (continued)

F.3 Credit risk concentration of gross loans and advances to customers

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

30 September 2017	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
By economic activity	€000	€000	€000	€000	€000	€000	€000	€000
Trade	2,044,816	537	13,522	8,613	51,249	2,118,737	(76,217)	2,042,520
Manufacturing	643,766	-	6,618	7,027	24,228	681,639	(21,381)	660,258
Hotels and catering	1,347,098	-	107,229	15	-	1,454,342	(50,029)	1,404,313
Construction	2,469,127	-	3,262	12,742	11,972	2,497,103	(164,694)	2,332,409
Real estate	1,848,679	19,503	1,276,429	94,687	1	3,239,299	(88,516)	3,150,783
Private individuals	6,783,222	214	43,956	262	-	6,827,654	(204,820)	6,622,834
Professional and other services	1,205,407	-	58,138	5,367	63,133	1,332,045	(64,559)	1,267,486
Other sectors	1,063,401	338	1,276	36,779	-	1,101,794	(51,081)	1,050,713
	17,405,516	20,592	1,510,430	165,492	150,583	19,252,613	(721,297)	18,531,316
By customer sector								
Corporate	7,171,981	20,378	1,228,422	154,402	140,502	8,715,685	(320,165)	8,395,520
SMEs	3,759,086	-	250,086	10,833	10,081	4,030,086	(175,828)	3,854,258
Retail								
- housing	4,105,745	-	12,930	98	-	4,118,773	(93,610)	4,025,163
- consumer, credit cards and other	2,045,392	214	18,992	159	-	2,064,757	(123,764)	1,940,993
International banking services	269,145	-	-	-	-	269,145	(3,220)	265,925
Wealth management	54,167	-	-	-	-	54,167	(4,710)	49,457
	17,405,516	20,592	1,510,430	165,492	150,583	19,252,613	(721,297)	18,531,316
By business line								
Corporate	3,292,179	20,378	1,223,877	91,558	140,502	4,768,494	(87,072)	4,681,422
SMEs	1,235,121	-	250,086	10,629	10,081	1,505,917	(15,514)	1,490,403
Retail								
- housing	3,012,922	-	12,930	98	-	3,025,950	(31,224)	2,994,726
- consumer, credit cards and other	1,103,259	214	16,960	159	-	1,120,592	(14,362)	1,106,230
Restructuring								
- major corporate	1,421,788	-	-	33,878	-	1,455,666	(56,128)	1,399,538
- corporate	850,995	-	-	-	-	850,995	(9,766)	841,229
- SMEs	1,181,139	-	-	-	-	1,181,139	(44,594)	1,136,545
- retail housing	441,987	-	-	-	-	441,987	(6,406)	435,581
- retail other	224,496	-	-	-	-	224,496	(8,254)	216,242
Recoveries								
- corporate	1,607,019	-	4,545	28,966	-	1,640,530	(167,199)	1,473,331
- SMEs	1,342,826	-	-	204	-	1,343,030	(115,720)	1,227,310
- retail housing	650,836	-	-	-	-	650,836	(55,980)	594,856
- retail other	717,637	-	2,032	-	-	719,669	(101,148)	618,521
International banking services	269,145	-	-	-	-	269,145	(3,220)	265,925
Wealth management	54,167	-	-	-	-	54,167	(4,710)	49,457
	17,405,516	20,592	1,510,430	165,492	150,583	19,252,613	(721,297)	18,531,316

The table above includes gross loans after fair value adjustment on initial recognition of €450,004 thousand in Cyprus, classified as held for sale under IFRS 5.

F. Notes (continued)

F.3 Credit risk concentration of gross loans and advances to customers (continued)

31 December 2016	Cyprus	Greece	United Kingdom	Romania	Russia	Total	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
By economic activity	€000	€000	€000	€000	€000	€000	€000	€000
Trade	2,044,324	-	13,964	11,141	55,100	2,124,529	(87,576)	2,036,953
Manufacturing	658,811	-	7,133	7,735	25,396	699,075	(25,734)	673,341
Hotels and catering	1,302,543	-	112,773	3,263	-	1,418,579	(62,665)	1,355,914
Construction	2,874,331	-	3,181	75,918	12,793	2,966,223	(210,436)	2,755,787
Real estate	2,022,559	19,599	1,056,924	200,825	6,934	3,306,841	(114,140)	3,192,701
Private individuals	6,980,383	214	45,557	3,093	-	7,029,247	(227,057)	6,802,190
Professional and other services	1,332,250	-	54,865	12,458	97,148	1,496,721	(80,501)	1,416,220
Other sectors	1,054,255	337	1,361	32,927	-	1,088,880	(120,344)	968,536
	18,269,456	20,150	1,295,758	347,360	197,371	20,130,095	(928,453)	19,201,642
By customer sector								
Corporate	7,517,473	19,936	1,040,941	334,440	179,293	9,092,083	(481,340)	8,610,743
SMEs	4,100,298	-	222,337	12,641	11,144	4,346,420	(202,240)	4,144,180
Retail								
- housing	4,202,358	-	13,314	100	-	4,215,772	(100,509)	4,115,263
- consumer, credit cards and other	2,064,802	214	19,166	179	6,934	2,091,295	(135,350)	1,955,945
International banking services	321,571	-	-	-	-	321,571	(3,619)	317,952
Wealth management	62,954	-	-	-	-	62,954	(5,395)	57,559
	18,269,456	20,150	1,295,758	347,360	197,371	20,130,095	(928,453)	19,201,642
By business line								
Corporate	2,557,653	19,936	1,036,331	237,203	165,592	4,016,715	(71,064)	3,945,651
SMEs	1,377,837	-	222,337	12,442	11,144	1,623,760	(29,071)	1,594,689
Retail								
- housing	3,531,293	-	13,314	100	-	3,544,707	(40,640)	3,504,067
- consumer, credit cards and other	1,317,434	214	17,617	179	-	1,335,444	(26,435)	1,309,009
Restructuring								
- major corporate	2,080,586	-	-	33,947	-	2,114,533	(156,190)	1,958,343
- corporate	1,014,853	-	-	-	-	1,014,853	(22,795)	992,058
- SMEs	1,219,572	-	-	-	-	1,219,572	(50,393)	1,169,179
Recoveries								
- corporate	1,864,381	-	4,610	63,290	13,701	1,945,982	(231,291)	1,714,691
- SMEs	1,502,889	-	-	199	-	1,503,088	(122,776)	1,380,312
- retail housing	671,065	-	-	-	-	671,065	(59,869)	611,196
- retail other	747,368	-	1,549	-	6,934	755,851	(108,915)	646,936
International banking services	321,571	-	-	-	-	321,571	(3,619)	317,952
Wealth management	62,954	-	-	-	-	62,954	(5,395)	57,559
	18,269,456	20,150	1,295,758	347,360	197,371	20,130,095	(928,453)	19,201,642

Restructuring major corporate business line includes customers with exposures over €100,000 thousand, whereas restructuring corporate business line includes customers with exposures between €6,000 thousand and €100,000 thousand.

F. Notes (continued)

F.4 Credit quality of gross loans and advances to customers

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

	30 September 2017			31 December 2016		
	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition	Gross loans before fair value adjustment on initial recognition	Fair value adjustment on initial recognition	Gross loans after fair value adjustment on initial recognition
	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	11,241,667	(145,508)	11,096,159	10,990,773	(166,185)	10,824,588
Past due but not impaired	2,226,041	(34,430)	2,191,611	2,238,127	(38,743)	2,199,384
Impaired	5,784,905	(541,359)	5,243,546	6,901,195	(723,525)	6,177,670
	19,252,613	(721,297)	18,531,316	20,130,095	(928,453)	19,201,642

Past due loans are those with delayed payments or in excess of authorised credit limits. Impaired loans are those for which a provision for impairment has been recognised on an individual basis or for which incurred losses exist at their initial recognition or customers in Debt Recovery.

During the nine months ended 30 September 2017 the total non-contractual write-offs recorded by the Group amounted to €340,490 thousand (year 2016: €517,694 thousand). The remaining gross loan balance of these customers as at 30 September 2017 was €263,776 thousand (31 December 2016: €305,591 thousand), of which €13,970 thousand (31 December 2016: €19,651 thousand) were past due for more than 90 days but not impaired and €193,407 thousand (31 December 2016: €130,964 thousand) were impaired.

Loans and advances to customers that are past due but not impaired

	30 September 2017	31 December 2016
Past due analysis:	€000	€000
- up to 30 days	520,234	455,394
- 31 to 90 days	308,540	375,161
- 91 to 180 days	165,519	128,675
- 181 to 365 days	263,969	140,714
- over one year	967,779	1,138,183
	2,226,041	2,238,127

The fair value of the collateral that the Group holds (to the extent that it mitigates credit risk) in respect of loans and advances to customers that are past due but not impaired as at 30 September 2017 is €1,815,890 thousand (31 December 2016: €1,762,528 thousand). The fair value of the collateral is capped to the gross carrying value of the loans and advances to customers.

Impaired loans and advances to customers

	30 September 2017		31 December 2016	
	Gross loans and advances	Fair value of collateral	Gross loans and advances	Fair value of collateral
	€000	€000	€000	€000
Cyprus	5,441,896	3,326,278	6,384,503	3,953,086
Greece	20,592	17,962	19,936	17,962
Russia	150,582	36,417	196,144	87,381
United Kingdom	10,712	3,290	12,041	7,213
Romania	161,123	43,701	288,571	54,436
	5,784,905	3,427,648	6,901,195	4,120,078

F. Notes (continued)

F.4 Credit quality of loans and advances to customers (continued)

The fair value of the collateral presented above has been computed based on the extent that the collateral mitigates credit risk and has been capped to the gross carrying value of the loans and advances to customers.

	30 September 2017	31 December 2016
Impaired:	€000	€000
- no arrears	342,022	471,855
- up to 30 days	17,918	62,119
- 31 to 90 days	25,157	29,201
- 91 to 180 days	12,923	49,572
- 181 to 365 days	96,544	51,438
- over one year	5,290,341	6,237,010
	5,784,905	6,901,195

Interest income on impaired loans

Interest income from loans and advances to customers includes interest on the recoverable amount of impaired loans and advances to customers amounting to €105,095 thousand for the nine months ended 30 September 2017 (corresponding period of 2016: €157,713 thousand).

F.5 Provision for impairment of loans and advances to customers

The movement in provisions for impairment of loans and advances is as follows:

30 September 2017	Cyprus	United Kingdom	Other countries	Total
	€000	€000	€000	€000
1 January	3,170,161	10,782	371,298	3,552,241
Transfer between geographical areas	23	(23)	-	-
Transfer upon acquisition of property through a restructuring activity	(12,792)	-	-	(12,792)
Foreign exchange and other adjustments	51,915	(158)	(6,337)	45,420
Applied in writing off impaired loans and advances	(556,072)	(117)	(125,510)	(681,699)
Interest accrued on impaired loans and advances	(80,423)	(3)	(1,153)	(81,579)
Collection of loans and advances previously written off	5,392	287	2	5,681
Charge for the period	857,194	1,117	13,226	871,537
30 September	3,435,398	11,885	251,526	3,698,809
Individual impairment	2,556,716	8,959	250,016	2,815,691
Collective impairment	878,682	2,926	1,510	883,118

F. Notes (continued)

F.5 Provision for impairment of loans and advances to customers (continued)

30 September 2016	Cyprus	United Kingdom	Other countries	Total
	€000	€000	€000	€000
1 January	3,731,750	39,394	422,289	4,193,433
Dissolution of subsidiaries	-	(6,154)	-	(6,154)
Acquisition of subsidiary	(8,577)	-	-	(8,577)
Foreign exchange and other adjustments	96,666	(4,447)	3,670	95,889
Applied in writing off impaired loans and advances	(718,967)	(3,954)	(76,460)	(799,381)
Interest accrued on impaired loans and advances	(110,353)	-	(1,515)	(111,868)
Collection of loans and advances previously written off	1,285	-	34	1,319
Charge for the period	266,130	(1,475)	37,921	302,576
30 September	3,257,934	23,364	385,939	3,667,237
Individual impairment	2,848,643	20,676	378,965	3,248,284
Collective impairment	409,291	2,688	6,974	418,953

The above table does not include the fair value adjustment on initial recognition of loans acquired from Laiki Bank and provisions for impairment on financial guarantees and commitments which are part of other liabilities on the balance sheet. The balance of provisions for impairment of loans and advances to customers at 30 September 2017 includes €75,855 thousand for loans and advances to customers classified as held for sale. There were no loans and advances to customers classified as held for sale as at 30 September 2016 or as at 31 December 2016.

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

At 30 September 2017 the average haircut (including liquidity haircut and selling expenses) used in the collective provisions calculation is 34% (31 December 2016: average of 10% of the current market value of the property for those collaterals for which the increase in their value is capped to zero and 10% of the projected market value of the property for those collaterals for which their value is expected to drop).

The timing of recovery from real estate collaterals used in the collective provision calculation has been estimated to be on average 6 years (31 December 2016: average of 3 years except for customers in Debt Recovery, average of 6 years).

For the calculation of specific provisions, the timing of recovery of collaterals as well as the haircuts used were based on the specific facts and circumstances of each case.

In accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 of the CBC, the cumulative average future change in property values during the year has been capped to zero.

The above assumptions are also influenced by the ongoing regulatory dialogue the Bank maintains with its lead regulator, the ECB, and other regulatory guidance and interpretations issued by various regulatory and industry bodies such as the ECB and EBA, which provide guidance and expectations as to relevant definitions and the treatment/classification of certain parameters/assumptions used in the estimation of provisions.

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

F. Notes (continued)

F.6 Rescheduled loans and advances to customers

Credit quality

	Cyprus	Greece	Russia	United Kingdom	Romania	Total
30 September 2017	€000	€000	€000	€000	€000	€000
Neither past due nor impaired	3,459,877	-	-	4,839	96	3,464,812
Past due but not impaired	1,335,179	-	-	1,025	62	1,336,266
Impaired	1,865,243	338	77,102	1,927	39,415	1,984,025
	6,660,299	338	77,102	7,791	39,573	6,785,103
31 December 2016						
Neither past due nor impaired	4,021,923	-	-	3,925	85	4,025,933
Past due but not impaired	1,212,177	-	671	962	225	1,214,035
Impaired	2,167,770	337	83,222	2,087	78,571	2,331,987
	7,401,870	337	83,893	6,974	78,881	7,571,955

F.7 Credit risk disclosures based on the Loan Impairment and Provisioning Procedures Directive of 2014 and 2015

The CBC issued to credit institutions the Loan Impairment and Provisioning Procedures Directives of 2014 and 2015 (Directive), which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of International Financial Reporting Standards (IFRSs) in the preparation of their financial statements. The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. The tables disclose Non-Performing Exposures (NPEs) based on the definitions of EBA standards.

According to the EBA standards, NPEs are defined as those exposures that satisfy one of the following conditions:

- (i) The debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR) (Article 178).
- (iii) Material exposures (as defined below) which are more than 90 days past due.
- (iv) Performing forbore exposures under probation for which additional forbearance measures are extended.
- (v) Performing forbore exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.
- Material arrears/excesses are defined as follows:
 - Retail exposures:
 - Loans: Arrears amount greater than €500 or number of instalments in arrears is greater than one.
 - Overdrafts: Excess amount is greater than €500 or greater than 10% of the approved limit.
 - Exposures other than retail: Total customer arrears/excesses are greater than €1,000 or greater than 10% of the total customer funded balances.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

- (i) The extension of forbearance measures does not lead to the recognition of impairment or default.
- (ii) One year has passed since the forbearance measures were extended.
- (iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.

F. Notes (continued)

F.7 Credit risk disclosures based on the Loan Impairment and Provisioning Procedures Directive of 2014 and 2015 (continued)

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

30 September 2017	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances ¹	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	98,207	3,872	4,272	3,608	3,014	2,221	2,213	2,155
Other financial corporations	439,307	319,490	229,993	200,366	110,161	107,499	36,101	34,836
Non-financial corporations	10,968,456	5,361,530	4,325,918	2,906,773	2,885,284	2,755,379	1,303,402	1,237,448
Of which: Small and Medium sized Enterprises (SMEs) ²	8,522,703	4,799,729	3,535,559	2,497,201	2,544,858	2,460,906	1,090,663	1,051,150
Of which: Commercial real estate ²	8,390,052	4,297,675	3,754,464	2,445,050	2,222,847	2,117,491	1,076,571	1,026,372
Non-financial corporations by sector								
Construction	2,463,525	1,756,592			963,411			
Wholesale and retail trade	2,049,782	913,800			528,135			
Accommodation and food service activities	1,375,056	463,674			225,845			
Real estate activities	2,811,479	1,085,826			554,394			
Manufacturing	664,754	353,912			182,551			
Other sectors	1,603,860	787,726			430,948			
Households	7,746,643	3,479,213	2,559,675	1,756,977	1,421,647	1,355,223	509,983	489,565
Of which: Residential mortgage loans ²	5,254,242	2,373,347	2,007,773	1,323,224	767,435	717,600	316,778	301,446
Of which: Credit for consumption ²	1,029,453	523,779	294,210	228,676	285,213	275,198	86,905	83,013
Total on-balance sheet	19,252,613	9,164,105	7,119,858	4,867,724	4,420,106	4,220,322	1,851,699	1,764,004

Note: the above table includes loans and advances classified as held for sale.

¹ Excluding loans and advances to central banks and credit institutions.

² The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

F. Notes (continued)

F.7 Credit risk disclosures based on the Loan Impairment and Provisioning Procedures Directive of 2014 and 2015 (continued)

31 December 2016	Gross loans and advances to customers				Provision for impairment and fair value adjustment on initial recognition			
	Group gross customer loans and advances ¹	Of which NPEs	Of which exposures with forbearance measures		Total provision for impairment and fair value adjustment on initial recognition	Of which NPEs	Of which exposures with forbearance measures	
			Total exposures with forbearance measures	Of which on NPEs			Total exposures with forbearance measures	Of which on NPEs
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	103,626	4,241	4,978	4,073	2,685	1,615	1,861	1,555
Other financial corporations	487,262	372,797	234,505	203,512	220,013	216,926	119,703	119,701
Non-financial corporations	11,590,608	6,818,489	5,052,743	3,738,859	3,020,161	2,932,686	1,211,059	1,178,127
Of which: Small and Medium sized Enterprises ²	9,398,025	6,116,979	4,306,269	3,294,185	2,642,367	2,564,855	1,030,218	998,465
Of which: Commercial real estate ²	8,951,533	5,535,377	4,413,488	3,252,816	2,240,852	2,168,019	1,004,617	974,143
Non-financial corporations by sector								
Construction	2,921,229	2,242,250			1,009,104			
Wholesale and retail trade	2,060,864	1,060,451			445,368			
Accommodation and food service activities	1,334,040	705,634			262,566			
Real estate activities	2,900,224	1,438,774			664,801			
Manufacturing	682,641	394,884			165,308			
Other sectors	1,691,610	976,496			473,014			
Households	7,948,599	3,838,722	2,803,740	1,942,888	1,237,835	1,168,475	334,936	317,645
Of which: Residential mortgage loans ²	5,413,446	2,601,852	2,166,098	1,469,563	603,504	551,690	192,535	179,947
Of which: Credit for consumption ²	1,062,416	589,843	312,853	242,723	292,588	283,181	65,865	62,917
Total on-balance sheet	20,130,095	11,034,249	8,095,966	5,889,332	4,480,694	4,319,702	1,667,559	1,617,028

¹ Excluding loans and advances to central banks and credit institutions.

² The analysis shown in lines 'non-financial corporations' and 'households' is non-additive across categories as certain customers could be in both categories.

F. Notes (continued)

F.8 Pending litigation, claims and regulatory matters

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

On 22 May 2017, the Cyprus Commission for the Protection of Competition (the Commission) imposed a fine of €18 mn against the Bank. The fine relates to complaints filed in 2010 relating to the Bank's alleged abuse of its dominant market position in its cards business. The Bank disagrees with the decision of the Commission and the Bank has already filed a recourse before the Administrative Court against the imposition of the fine by the Commission. The payment of the fine is suspended pending appeal. A fine of €1.7 mn has also been imposed to JCC Payment Systems Ltd (JCC), a card-processing business currently 75% owned by the Bank.

UK regulatory matters

During 2016 the Group reported on a Financial Conduct Authority (FCA) conduct principle issue for which a provision has been recorded in 2016 and 2017 (30 September 2017: €52,775 thousand). The level of the provision represents the best estimate of all probable outflows arising from customer redress based on information available to management. Management has continued to reassess the adequacy of the provision, as well as the assumptions underlying the calculations based upon experience and other relevant factors prevailing at that time.

F.9 Liquidity regulation

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

The CRR requires phased-in compliance with the LCR standard as from 1 October 2015 with an initial minimum ratio of 60%, increasing to 70% on 1 January 2016, 80% on 1 January 2017 and 100% as from 1 January 2018.

In October 2014, the Basel Committee on Banking Supervision proposed the methodology for calculating the NSFR. The NSFR is expected to be the minimum standard by 1 January 2018.

As at 30 September 2017 the Group is in compliance with its regulatory liquidity requirements with respect to the LCR. On the basis of the Commission Delegated Regulation (EU) 2015/61 the Group's LCR as at 30 September 2017 was 141% (31 December 2016: 49%); on the basis of Basel standards the Group's NSFR was 107% (31 December 2016: 95%). Following the full repayment of ELA funding on 5 January 2017, the Group is concentrating its efforts to comply with its regulatory liquidity ratios.

Furthermore, the Bank and Bank of Cyprus UK Ltd must comply with their local regulatory liquidity ratios. The minimum regulatory liquidity ratios for the operations in Cyprus are set by the CBC. In September 2017, the CBC proceeded with a partial relaxation of the regulatory liquidity requirements. According to the CRR, the local liquidity requirements are expected to be abolished by the end of 2017. For the purposes of bridging the requirements gap between national prudential liquidity requirements currently in place and the LCR under the CRR framework, it is expected that the CBC will move in the direction of a measure in the form of a liquidity add-on that will be imposed on top of the LCR. As at 30 September 2017 the Bank was in compliance with the CBC EUR stock ratio and the CBC EUR 0-30 days mismatch ratios, but was not in compliance with the rest of the local regulatory liquidity requirements.

F. Notes (continued)

F.10 Liquidity reserves

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

Composition of the liquidity reserves	30 September 2017			31 December 2016	
	Liquidity reserves	Liquidity reserves as per LCR Delegated Reg (EU) 2015/61		Liquidity reserves	Liquidity reserves of which Delegated Reg (EU) 2015/61 LCR eligible Level 1
		Level 1	Level 2A		
	€000	€000	€000	€000	€000
Cash and balances with central banks	2,736,054	2,310,717	-	1,505,120	1,146,015
Nostro and overnight placements with banks	448,639	-	-	423,603	-
Other placements with banks	314,700	-	-	376,145	-
Liquid investments	656,743	558,565	58,464	154,787	256,325
Available ECB Buffer	91,497	-	-	124,998	-
Other investments	8,019	-	-	6,340	-
Total	4,255,652	2,869,282	58,464	2,590,993	1,402,340

Investments under Liquidity Reserves are shown at market value net of haircut (as prescribed by regulators) in order to reflect the actual liquidity value that can be obtained. Liquid investments include off balance sheet Bank of England Treasury Bills acquired by Bank of Cyprus UK Ltd through the encumbrance of customer loans with the Bank of England. Under LCR Liquidity Reserves, all Cyprus Government Bonds remain eligible for inclusion as Level 1 assets given that they are issued by a Member State. LCR does not require liquid assets to be eligible as collateral for central bank operations and are included at market value.

F.11 Capital management

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

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

The CET1 ratio of the Group at 30 September 2017 stands at 12.4% (transitional) and the total capital ratio at 13.8%.

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

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

F. Notes (continued)

F.11 Capital management (continued)

The Group's minimum phased-in CET1 capital ratio stands at 9.50%, comprised of a 4.50% Pillar I requirement, a 3.75% Pillar II requirement and the capital conservation buffer (CCB) of 1.25% applicable for 2017. Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2017, based on the pre-notification received in September 2017, the Pillar II requirement which will be applicable as from 1 January 2018, is expected to be 3.00% compared to current level of 3.75%. As a result, the Group's minimum phased-in CET1 capital ratio is expected to be reduced to 9.375% from 9.50%, comprising of a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018. The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Requirement currently stands at 13.00%, comprising of a Pillar I requirement of 8.00% (of which up to 1.50% can be in the form of Additional Tier 1 capital and up to 2.00% in the form of Tier 2 capital), a Pillar II requirement of 3.75% (in the form of CET1), and the CCB of 1.25% applicable for 2017. Following the 2017 SREP pre-notification decision received, the overall Total Capital Requirement is expected to be reduced to 12.875% from 13.00%, comprising of 8.00% Pillar I requirement, a 3.00% Pillar II requirement and the CCB of 1.875% applicable as from 1 January 2018.

The new SREP requirements will be effective as from 1 January 2018, and as at the date of publication of this announcement these requirements remain subject to ECB final confirmation, which is expected by the end of 2017.

The minimum CET1 requirement including Pillar II, applicable for the year 2016 was determined by the ECB at 11.75% in November 2015 and included CCB on a fully loaded basis.

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

The Group and the Bank capital position at 30 September 2017 exceeds both their Pillar I and their Pillar II add-on capital requirements. However, the Pillar II add-on capital requirements are a point-in-time assessment and therefore are subject to change over time.

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

In accordance with the provisions of the above law, the CBC sets, on a quarterly basis, the Countercyclical Capital buffer (CCyB) level in accordance with the methodology described in this law. The CCyB is effective as from 1 January 2016 and is determined by the CBC ahead of the beginning of each quarter. The CBC has set the level of the CCyB at 0% for the years of 2016 and 2017.

In accordance with the provisions of this law, the CBC is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the CBC set the O-SII buffer for the Group at 2%. This buffer will be phased-in gradually, starting from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%) on 1 January 2022.

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

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

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

F. Notes (continued)

F.11 Capital management (continued)

F.11.1 Capital position

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

Regulatory capital	Group		Bank	
	30 September 2017	31 December 2016	30 September 2017	31 December 2016
	€000	€000	€000	€000
Transitional Common Equity Tier 1 (CET1) ^{3,4}	2,145,261	2,727,997	2,095,459	2,727,172
Transitional Additional Tier 1 capital (AT1)	-	-	-	-
Tier 2 capital (T2)	246,618	21,423	255,080	12,394
Transitional total regulatory capital⁴	2,391,879	2,749,420	2,350,539	2,739,566
Risk weighted assets – credit risk ⁵	15,378,723	16,861,793	14,420,647	16,041,100
Risk weighted assets – market risk	4,935	6,231	2,695	2,750
Risk weighted assets – operational risk	1,888,975	1,997,200	1,827,938	1,827,938
Total risk weighted assets	17,272,633	18,865,224	16,251,280	17,871,788
	%	%	%	%
Transitional Common Equity Tier 1 ratio	12.4	14.5	12.9	15.3
Transitional total capital ratio	13.8	14.6	14.5	15.3

During the nine months ended 30 September 2017, the CET1 was negatively affected by the loss for the period and by the phase in of transitional adjustments, mainly deferred tax asset. The Risk-Weighted Assets (RWA) were positively affected by the Group's ongoing efforts for risk-weighted assets optimisation as well as of the increased provisioning. As a result of the above, the CET1 ratio decreased by 210 bps during the period.

³ CET1 includes regulatory deductions, primarily comprising deferred tax assets and intangible assets amounting to €130,805 thousand and €88,407 thousand as at 30 September 2017 and 31 December 2016 respectively.

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

⁵ Includes Credit Valuation Adjustments (CVA)

F. Notes (continued)

F.11 Capital management (continued)

F.11.2 Overview of RWA

		RWA		Minimum capital requirements
		30 September 2017	30 June 2017	30 September 2017
		€000	€000	€000
1	Credit risk (excluding counterparty credit risk (CCR))	14,489,330	14,581,725	1,159,146
2	Of which the standardised approach	14,489,330	14,581,725	1,159,146
6	CCR	45,795	50,151	3,664
7	Of which mark to market	22,657	24,763	1,813
11	Of which risk exposure amount for contributions to the default fund of a Central Counterparty (CCP)	-	-	-
12	Of which Credit Valuation Adjustment (CVA)	23,138	25,388	1,851
13	Settlement Risk	-	-	-
19	Market risk	4,935	5,061	395
20	Of which the standardised approach	4,935	5,061	395
22	Large Exposures	-	-	-
23	Operational risk	1,888,975	1,888,975	151,118
24	Of which basic indicator approach	-	-	-
25	Of which standardised approach	1,888,975	1,888,975	151,118
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	843,598	842,465	67,488
29	Total	17,272,633	17,368,377	1,381,811

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

The main changes in RWA are observed in line 2. The RWA movement observed in line 2 relates to the redistribution of the exposures to lower risk exposure classes. Particularly, (a) a significant decrease in balance sheet amounts in the higher risk exposure classes (exposures in default and higher-risk categories) due to repayments and intense increased provisioning, (b) a movement of exposure amounts from higher risk exposure classes (exposures in default and higher-risk categories) towards lower risk categories (Corporates, Retail, Secured by mortgages on immovable properties, and Other items) due to customer loan restructurings, new customer loans, and debt-for-property and debt-for-equity swaps deleveraging actions, and (c) increase in balance sheet amounts to exposures with central governments or central banks which carry 0% risk weight.

F. Notes (continued)

F.11 Capital management (continued)

F.11.3 Standardised approach – Credit risk exposure and Credit Risk Mitigation (CRM) effects

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

Exposure classes	30 September 2017		31 December 2016	
	RWA and RWA density		RWA and RWA density	
	RWA	RWA density	RWA	RWA density
	€000	%	€000	%
Central governments or central banks	-	0.0	-	0.0
Regional government or local authorities	1,379	20.0	626	20.0
Public sector entities	1	0.0	1	0.0
Multilateral development banks	-	0.0	-	0.0
International organisations	-	0.0	-	0.0
Institutions	275,238	28.1	318,843	30.1
Corporates	3,457,906	98.4	3,449,352	98.7
Retail	1,418,479	71.0	1,422,499	70.8
Secured by mortgages on immovable property	1,660,506	37.6	1,615,895	38.7
Exposures in default	3,168,105	105.5	4,072,498	109.8
Higher-risk categories	2,574,842	150.0	3,071,736	150.0
Covered bonds	8,709	10.0	1,167	10.0
Collective investment undertakings	47	100.0	41	100.0
Equity	320,640	231.0	332,938	231.6
Other items	2,447,076	106.8	2,522,648	111.2
Total	15,332,928	70.5	16,808,244	80.0

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

The RWA density has significantly decreased since 31 December 2016 due to redistribution of the exposures to lower risk exposure classes. Particularly, (a) a significant decrease in balance sheet amounts in the higher risk exposure classes (exposures in default and higher-risk categories) due to repayments and intense increased provisioning, (b) a movement of exposure amounts from higher risk exposure classes (exposures in default and higher-risk categories) towards lower risk categories (Corporates, Retail, Secured by mortgages on immovable properties, and Other items) due to customer loan restructurings, new customer loans, and debt-for-property and debt-for-equity swaps deleveraging actions, and (c) increase in balance sheet amounts to exposures with central governments or central banks which carry 0% risk weight.

F. Notes (continued)

F.12 Leverage ratio

According to CRR Article 429, the leverage ratio, expressed as a percentage, is calculated as the capital measure divided by the total exposure measure of the Group.

The leverage ratio of the Group is presented below:

	30 September 2017	31 December 2016
Transitional basis	€000	€000
Capital measure (CET1)	2,145,261	2,727,997
Total exposure measure	22,792,452	22,833,225
Leverage ratio (%)	9.4	11.9
Fully loaded basis		
Capital measure (CET1)	2,046,997	2,611,563
Total exposure measure	22,798,514	22,785,112
Leverage ratio (%)	9.0	11.5

F.13 Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Assessment Process (ILAAP), Pillar II and SREP

The Group prepared the ICAAP and ILAAP reports for the year 2016. Both reports were approved by the Board of Directors and have been submitted to the ECB in April 2017.

The Group also undertakes a quarterly review of its ICAAP results. During the quarterly review of the ICAAP, the Group's risk profile and risk management policies and processes are reviewed and any changes since the full ICAAP exercise are taken into consideration. The quarterly review identifies whether the Group is exposed to new risks and assesses the adequacy of capital resources in order to cover its risks, as these have evolved (compared to the full ICAAP exercise). Given completion of the full ICAAP report in April 2017, one quarterly review took place in the third quarter of 2017, covering the period up to end of June 2017, and another one will take place in the fourth quarter of 2017 covering the period up to end of September 2017.

A quarterly review is also performed for the ILAAP through quarterly stress tests submitted to the Assets and Liabilities Committee (ALCO) and Board Risk Committee, as from 2016. During the quarterly review, the liquidity risk drivers are assessed and, if needed, the stress test assumptions are amended accordingly. The quarterly review identifies whether the Group has an adequate liquidity buffer to cover the stress outflows.

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

G. Definitions & Explanations

Accelerated phase-in period	Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the DTA phase-in period was reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016. The applicable rate of the DTA phase-in is 60% for 2017, 80% for 2018 and 100% for 2019 (fully phased-in).
Accumulated provisions	Comprise (i) provisions for impairment of customer loans and advances, (ii) the fair value adjustment on initial recognition of loans acquired from Laiki Bank, and (iii) provisions for off-balance sheet exposures disclosed on the balance sheet within other liabilities.
Advisory, VEP and other restructuring costs	Comprise mainly: 1) fees of external advisors in relation to: (i) disposal of operations and non-core assets, (ii) customer loan restructuring activities which are not part of the effective interest rate and (iii) the listing on the London Stock Exchange and 2) voluntary exit plan cost.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Basel II requirements.
CET1 fully loaded	CET1 fully loaded is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Core strategy	This is an unleveraged, low-risk/low-potential return strategy with predictable cash flows. Such fund will generally invest in stable, fully leased, multi-tenant properties within strong, diversified metropolitan areas.
Core+ strategy	This is a moderate-risk/ moderate-return strategy. Such fund will generally invest in core properties; however, many of these properties will require some form of enhancement or value-added element.
Cost to Income ratio	Cost-to-income ratio is the total 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 €20.7 mn, €13.8 mn, €7.3 mn, €114.3 mn and €98.3 mn for the nine months ended 30 September 2017, 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 nine months ended 30 September 2016, respectively. Gains on disposal of non-core assets pre-tax was €0 mn, €0 mn, €0 mn, €59.2 mn and €59.2 mn for the nine months ended 30 September 2017, 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 nine months ended 30 September 2016, respectively.
Data from the Statistical Service of the Republic of Cyprus	The latest data was published on 14 November 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.
ECB	European Central Bank
Gross loans	Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €721 mn at 30 September 2017 (compared to €812 mn at 30 June 2017).

G. Definitions & Explanations (continued)

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.
IFRS 9 assessment	The IFRS 9 assessment is a “point in time” estimate and is not a forecast. The actual effect of the implementation of IFRS 9 on the Bank and the Group could vary significantly from these estimates. The Bank continues to refine models, methodologies and controls, and monitor regulatory and other developments in advance of IFRS 9 adoption on 1 January 2018. All estimates are based on the Bank’s current interpretation of the requirements of IFRS 9, reflecting industry guidance and discussions to date.
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).
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, €0 mn, €59.2 mn and €59.2 mn for the nine months ended 30 September 2017, 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 nine months ended 30 September 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 forbore exposures under probation for which additional forbearance measures are extended, or (v) there are performing forbore exposures under probation that present more than 30 days past due within the probation period. The NPEs are reported before the deduction of accumulated provisions (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).
Operating profit	Comprises profit before total provisions and impairments (as defined), share of profit from associates and joint ventures, tax, profit attributable to non-controlling interests, advisory, VEP and other restructuring costs, and net gains on disposal of non-core assets (where applicable).

G. Definitions & Explanations (continued)

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, 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.
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 nine months ended 30 September 2017 and for the six months ended 30 June 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 (as defined).
Provisioning coverage ratio for 90+ DPD calculated with reference to the contractual balances of customers	Provisioning coverage ratio for 90+ DPD is calculated as the accumulated provisions (as defined) divided by 90+DPD (as defined), after the addition of total contractual interest due of those loans to both to the numerator and denominator.
Provisioning coverage ratio for NPEs	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs (as defined).
Provisioning coverage ratio for NPEs calculated with reference to the contractual balances of customers	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs (as defined), after the addition of total contractual interest due of those loans to both to the numerator and denominator.
Quarterly average interest earning assets	Average of interest earning assets as at the beginning and end of the relevant quarter. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net customer loans and advances, plus investments (excluding equities and mutual funds) and derivatives.
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.

G. Definitions & Explanations (continued)

Underlying basis	Statutory basis adjusted for certain items as detailed in the Basis of Preparation.
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 nine months ended 30 September 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 comparative information for 2016 and as at 31 December 2016 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 have been annexed to the annual return and delivered to the Registrar of Companies of Ireland.

Statutory basis: Statutory information is set out on pages 18-22. However, a number of factors have had a significant effect on the comparability of the Group’s financial position and results. Accordingly, the results are also presented on an underlying basis.

Underlying basis: The statutory results are adjusted for certain items to allow a comparison of the Group’s underlying performance, as described on page 23.

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

This announcement and the presentation of the Financial Results of the Group for the nine months ended 30 September 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 G.

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 123 branches, of which 121 operate in Cyprus, 1 in Romania and 1 in the United Kingdom*. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,319 staff worldwide. At 30 September 2017, the Group’s Total Assets amounted to €22.9 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.

*Bank of Cyprus UK Ltd has re-designated 3 locations from Branches to Business Centres, whilst opening a further 4 Business Centres across the UK, as part of its ongoing geographic diversification strategy.