Bank of Cyprus Holdings

Announcement

Group Financial Results for the year ended 31 December 2018

Nicosia, 28 March 2019

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

Key Highlights for the year ended 31 December 2018

Capital Strength into 2019

- CET1 ratio of 15.4% pro forma for DTC and Helix (12.1% as reported)
- Total Capital ratio of 18.3% pro forma for DTC and Helix (14.9% as reported)
- SREP 2019 ratios: CET1 of 10.5% and Total Capital of 14.0%, reflecting phasing-in of CCB and O-SII Buffer
- Legislative amendments to convert DTA to DTC adopted on 1 March 2019 result in a more capital efficient tax asset, releasing €285 mn of capital (FL for DTA, as of 1 Jan 2019)
- DTC conversion to add c.170 bps of capital, Helix to add c.160 bps of capital (pro forma as at 31 Dec 2018)

Real progress on Balance Sheet repair

- Fifteen consecutive quarters of organic NPE reduction
- NPEs reduced by €4.0 bn yoy to €4.8 bn, pro forma for Helix, 68% down since December 2014
- NPE ratio at 36% and coverage at 47% pro forma for Helix
- Government ESTIA scheme for the resolution of NPEs backed by primary residence currently expected to be launched in 2Q2019. This will positively impact c.€900 mn of NPEs
- Continue to actively explore a number of alternatives to accelerate de-risking, including further disposals of NPEs and other non-core assets

Corporate actions unlocking value for shareholders

- Agreement to sell €2.7 bn of NPEs (Project Helix); completion is currently expected in early 2Q2019
- Sale of UK subsidiary, adding 70 bps to capital, focus now on Cyprus
- Issuance of €220 mn AT1 Capital Securities, adding 140 bps to Total Capital ratio

Strong liquidity position

- Significant liquidity surplus of €4.4 bn, pro forma for Helix
- Loan to deposit ratio of 65% pro forma for Helix
- Cyprus deposits stable qoq at €16.8 bn

Performance reflects continued derisking

- Total Income of €782 mn, Operating profit of €382 mn, Underlying profit of €140 mn for FY2018
- Loss relating to Helix of €150 mn, declining to c.€105 mn by completion as the time value of money unwinds
- The rapid de-risking of the Bank also resulted in a 4Q2018 impairment of the DTA of €79 mn, expected to be reversed in 1Q2019, following the recharacterisation of the tax asset to DTC
- The combination of all the above result in a loss after tax of €104 mn for FY2018

A. Group Financial Results – Statutory Basis

Audited Consolidated Income Statement for the year ended 31 December 2018

	2018	2017 (represented)
	€000	€000
Turnover	**984,698**	1,102,049
Interest income	**557,065**	723,268
Interest similar to interest income	**52,054**	31,878
Interest expense	**(144,024)**	(167,223)
Expense similar to interest expense	**(46,042)**	(44,014)
Net interest income	**419,053**	543,909
Fee and commission income	**178,907**	183,752
Fee and commission expense	**(23,636)**	(10,211)
Net foreign exchange gains	**37,688**	45,062
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	**46,670**	3,008
Insurance income net of claims and commissions	**52,912**	50,401
Net losses from revaluation and disposal of investment properties	**(13,275)**	(4,061)
Net gains on disposal of stock of property	**31,867**	30,447
Other income	**25,604**	19,042
	755,790	861,349
Staff costs	**(216,740)**	(205,888)
Special levy on deposits on credit institutions in Cyprus and contribution to Single Resolution Fund	**(25,095)**	(22,846)
Other operating expenses	**(234,891)**	(275,318)
	279,064	357,297
Net gains on derecognition of financial assets measured at amortised cost	**27,825**	173,443
Credit losses to cover credit risk on loans and advances to customers	**(329,083)**	(953,498)
Credit losses of other financial instruments	**(1,610)**	(6,459)
Impairment of non-financial instruments	**(18,651)**	(58,972)
Loss before share of profit from associates	**(42,455)**	(488,189)
Share of profit from associates	**9,095**	8,957
Loss before tax from continuing operations	**(33,360)**	(479,232)
Income tax	**(75,916)**	(75,573)
Loss after tax from continuing operations	**(109,276)**	(554,805)
Discontinued operations		
Profit after tax from discontinued operations	**7,243**	480
Loss for the year	**(102,033)**	(554,325)
Attributable to:		
Owners of the Company – continuing operations (loss)	**(110,764)**	(552,332)
Owners of the Company – discontinued operations (profit)	**7,243**	480
Total loss attributable to the owners of the Company	**(103,521)**	(551,852)
Non-controlling interests – continuing operations	**1,488**	(2,473)
Loss for the year	**(102,033)**	(554,325)
Basic and diluted losses per share attributable to the owners of the Company (€ cent) – continuing operations	**(24.8)**	(123.8)
Basic and diluted losses per share attributable to the owners of the Company (€ cent)	**(23.2)**	(123.7)

A. Group Financial Results – Statutory Basis (continued)

Audited Consolidated Balance Sheet as at 31 December 2018

	2018	2017
Assets	**€000**	€000
Cash and balances with central banks	**4,610,491**	3,393,934
Loans and advances to banks	**472,532**	1,192,633
Derivative financial assets	**24,754**	18,027
Investments	**777,104**	830,483
Investments pledged as collateral	**737,587**	290,129
Loans and advances to customers	**10,921,786**	14,602,454
Life insurance business assets attributable to policyholders	**402,565**	429,890
Prepayments, accrued income and other assets	**256,002**	226,105
Stock of property	**1,530,388**	1,641,422
Investment properties	**24,475**	19,646
Property and equipment	**260,723**	279,814
Intangible assets	**170,411**	165,952
Investments in associates and joint ventures	**114,637**	118,113
Deferred tax assets	**301,778**	383,498
Non-current assets and disposal groups held for sale	**1,470,038**	6,500
Total assets	**22,075,271**	23,598,600
Liabilities		
Deposits by banks	**431,942**	495,308
Funding from central banks	**830,000**	930,000
Repurchase agreements	**248,945**	257,322
Derivative financial liabilities	**38,983**	50,892
Customer deposits	**16,843,558**	17,849,919
Insurance liabilities	**591,057**	605,448
Accruals, deferred income and other liabilities	**285,483**	306,227
Pending litigation, claims, regulatory and other matters	**116,951**	138,375
Subordinated loan stock	**270,930**	302,288
Deferred tax liabilities	**44,282**	46,113
Non-current liabilities and disposal group held for sale	**5,812**	-
Total liabilities	**19,707,943**	20,981,892
Equity		
Share capital	**44,620**	44,620
Share premium	**1,294,358**	2,794,358
Revaluation and other reserves	**190,411**	273,708
Retained earnings/(accumulated losses)	**591,941**	(527,128)
Equity attributable to the owners of the Company	**2,121,330**	2,585,558
Other equity instruments	**220,000**	-
Total equity excluding non-controlling interests	**2,341,330**	2,585,558
Non-controlling interests	**25,998**	31,150
Total equity	**2,367,328**	2,616,708
Total liabilities and equity	**22,075,271**	23,598,600

B. Group Financial Results – Underlying Basis

Unaudited Consolidated Income Statement

€ mn	FY2018	FY2017 represented[2]	4Q2018	3Q2018	2Q2018 represented[2]	1Q2018 represented[2]	(4q vs 3q) ±%	(FY) Yoy[2] ±%
Net interest income	452	544	112	113	114	113	-2%	-17%
Net fee and commission income	166	174	43	43	41	39	3%	-4%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	67	48	15	10	13	29	42%	40%
Insurance income net of claims and commissions	53	50	15	13	13	12	22%	5%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	18	26	3	(6)	2	19	-	-30%
Other income	26	19	9	6	5	6	37%	34%
Total income	**782**	**861**	**197**	**179**	**188**	**218**	10%	-9%
Staff costs	(217)	(205)	(59)	(53)	(53)	(52)	10%	6%
Other operating expenses	(158)	(154)	(44)	(34)	(43)	(37)	26%	3%
Special levy and contribution to Single Resolution Fund	(25)	(23)	(7)	(6)	(5)	(7)	10%	10%
Total expenses	**(400)**	**(382)**	**(110)**	**(93)**	**(101)**	**(96)**	16%	5%
Operating profit	**382**	**479**	**87**	**86**	**87**	**122**	3%	-20%
Provision charge	(168)	(780)	(40)	(29)	(41)	(58)	37%	-78%
(Impairments)/reversal of impairments of other financial and non-financial assets	(20)	(65)	(7)	1	(6)	(8)	-	-69%
(Provisions)/reversal of provisions for litigation, regulatory and other matters	(23)	(93)	(13)	(15)	7	(2)	-4%	-75%
Total provisions and impairments	**(211)**	**(938)**	**(60)**	**(43)**	**(40)**	**(68)**	45%	-78%
Share of profit from associates	9	9	0	4	3	2	-67%	2%
Profit/(loss) before tax and non-recurring items	**180**	**(450)**	**27**	**47**	**50**	**56**	-41%	-
Tax	3	(14)	7	0	(0)	(4)	-	-
(Profit)/loss attributable to non-controlling interests	(1)	3	(4)	1	0	2	-	-
Profit/(loss) after tax and before non-recurring items	**182**	**(461)**	**30**	**48**	**50**	**54**	-36%	-
Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)	(42)	(29)	(16)	(11)	(7)	(8)	56%	43%
Profit/(loss) after tax - Organic	**140**	**(490)**	**14**	**37**	**43**	**46**	-62%	-
Profit/(loss) from discontinued operations (UK)	3	0	(1)	(0)	1	3	8%	-
Restructuring costs relating to NPE sale (Helix)	(18)	-	(1)	(5)	(6)	(6)	-66%	-
Loss relating to NPE sale (Helix)	(150)	-	-	(15)	(135)	-	-	-
Impairment of DTA	(79)	(62)	(79)	-	-	-	-	27%
(Loss)/profit after tax – attributable to the owners of the Company	**(104)**	**(552)**	**(67)**	**17**	**(97)**	**43**	**-**	-81%

B. Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios	**FY2018**	**FY2017 represented**[2]	**4Q2018**	**3Q2018**	**2Q2018 represented**[2]	**1Q2018 represented**[2]	(4q vs 3q) ±	(FY) Yoy[2] ±
Net Interest Margin (annualised)[1]	2.48%	3.10%	2.39%	2.47%	2.54%	2.56%	-8 bps	-62 bps
Cost to income ratio	51%	44%	55%	52%	54%	44%	+3 p.p.	+7 p.p.
Cost to income ratio excluding special levy and contribution to Single Resolution Fund	48%	42%	52%	49%	51%	41%	+3 p.p.	+6 p.p.
Operating profit return on average assets (annualised)[1]	1.8%	2.3%	1.6%	1.6%	1.6%	2.3%	-	-0.5 p.p.
Basic earnings/(losses) per share attributable to the owners of the Company - Organic (€ cent)	31.45	(109.93)	3.12	8.27	9.59	10.48	(5.15)	141.38
Basic (losses)/earnings per share attributable to the owners of the Company (€ cent)	(23.21)	(123.72)	(14.93)	3.84	(21.79)	9.67	(18.77)	100.51

1. Ignoring the classification of the Helix portfolio of €1,148 mn (NBV) and of the Velocity portfolio of €6 mn (NBV) as disposal groups held for sale. 2. Represented for the disposal of the UK subsidiary

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

Commentary on Underlying Basis

Reclassifications to comparative information were made to conform to current year presentation. Provisions for pending litigation, claims, regulatory and other matters were reclassified from other 'Accruals deferred income and other liabilities' to the face of the consolidated balance sheet. In addition, investments previously classified in ‘Life insurance business assets attributable to policyholders’ totalling €91 mn were reclassified to ‘Investments’ and an amount of €2 mn was reclassified from ‘Prepayments, accrued income and other assets’ to ‘Life insurance assets attributable to policyholders’. Furthermore, the results of the discontinued operations in the UK were represented as discontinued operations. The reclassifications and representation did not have an impact on the results for the year or the equity of the Group.

B. Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Balance Sheet

€ mn	31.12.2018	31.12.2017	±%
Cash and balances with central banks	4,610	3,394	36%
Loans and advances to banks	473	1,193	-60%
Debt securities, treasury bills and equity investments	1,515	1,121	35%
Net loans and advances to customers	10,922	14,602	-25%
Stock of property	1,530	1,641	-7%
Other assets	1,555	1,641	-5%
Non-current assets and disposal groups held for sale	1,470	7	-
Total assets	**22,075**	**23,599**	**-6%**
Deposits by banks	432	495	-13%
Funding from central banks	830	930	-11%
Repurchase agreements	249	257	-3%
Customer deposits	16,844	17,850	-6%
Subordinated loan stock	271	302	-10%
Other liabilities	1,082	1,148	-6%
Total liabilities	**19,708**	**20,982**	**-6%**

Shareholders' equity	**2,121**	**2,586**	**-18%**
Other equity instruments	**220**	**-**	**-**
Total equity excluding non-controlling interests	**2,341**	**2,586**	**-9%**
Non-controlling interests	26	31	-17%
Total equity	**2,367**	**2,617**	**-10%**
Total liabilities and equity	**22,075**	**23,599**	**-6%**

Key Balance Sheet figures and ratios	**31.12.2018 before[1]**	**31.12.2018**	**31.12.2017**	**±[1]**
Gross loans (€ mn)	15,900	**13,148**	18,755	-15%
Accumulated provisions (€ mn)	3,852	**2,254**	4,204	-8%
Customer deposits (€ mn)	16,844	**16,844**	17,850	-6%
Loans to deposits ratio (net)	72%	**65%**	82%	-10 p.p.
NPE ratio	47%	**36%**	47%	0 p.p.
NPE provisioning coverage ratio	52%	**47%**	48%	+4 p.p.
Leverage ratio	10.0%	**10.0%**	10.4%	-0.4 p.p.
Capital ratios and risk weighted assets	**31.12.2018 pro forma[2]**	**31.12.2018**	**31.12.2017**	**±**
Common Equity Tier 1 (CET1) ratio (transitional)	15.4%	**12.1%**	12.7%	-60 bps
CET1 FL (allowing for IFRS 9 transitional arrangements)[3]	15.4%	**11.9%**	12.2%	-30 bps
Total capital ratio	18.3%	**14.9%**	14.2%	+70 bps
Risk weighted assets (€ mn)	14,016	**15,373**	17,260	-11%

p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point; 1. Ignoring the classification of the Helix portfolio of €1,148 mn (NBV) and of the Velocity portfolio of €6 mn (NBV) as disposal groups held for sale. 2. Pro forma for DTC and Helix. 3. The CET1 FL ratio for 31 December 2018, including the full impact of IFRS 9, amounts to 10.1% and 13.5% pro forma for DTC and Helix.

B. Group Financial Results – Underlying Basis (continued)

B.1. Unaudited reconciliation of the Income Statement for the year ended 31 December 2018 between statutory and underlying bases

€ mn	Underlying Basis	Reclassification	Statutory Basis
Net interest income	452	(33)	419
Net fee and commission income	166	(11)	155
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	67	17	84
Insurance income net of claims and commissions	53	-	53
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	18	-	18
Other income	26	-	26
Total income	**782**	(27)	**755**
Staff costs	(217)	-	(217)
Other operating expenses	(158)	(77)	(235)
Special levy and contribution to Single Resolution Fund	(25)	-	(25)
Total expenses	**(400)**	(77)	**(477)**
Operating profit	**382**	(104)	**278**
Provision charge	(168)	(133)	(301)
Impairments of other financial and non-financial assets	(20)	-	(20)
Provisions for litigation, regulatory and other matters	(23)	23	-
Total provisions and impairments	**(211)**	(110)	**(321)**
Share of profit from associates	9	-	9
Profit/(loss) before tax and non-recurring items	**180**	(214)	**(34)**
Tax	3	(79)	(76)
(Profit)/loss attributable to non-controlling interests	(1)	-	(1)
Profit/(loss) after tax and before non-recurring items	**182**	(293)	**(111)**
Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)	(42)	42	-
Profit/(loss) after tax - Organic	**140**	(251)	**(111)**
Profit from discontinued operations (UK)	3	4	7
Restructuring costs relating to NPE sale (Helix)	(18)	18	-
Loss relating to NPE sale (Helix)	(150)	150	-
Impairment of DTA	(79)	79	-
Loss after tax – attributable to the owners of the Company	**(104)**	-	**(104)**

The reclassification differences between the statutory and underlying bases mainly relate to the impact from the 'non-recurring items', that is the NPE sale (Helix) and related restructuring costs and items associated with the classification of the UK as discontinued operations, as well as the impairment of the deferred tax asset. In detail:

- Net interest income includes €32.5 mn unrecognised interest on previously credit impaired loans which have cured during the year. For statutory reporting purposes, this amount is presented within "Credit losses to cover credit risk on loans and advances to customers".

B. Group Financial Results – Underlying Basis (continued)

B.1. Unaudited reconciliation of the Income Statement for the year ended 31 December 2018 between statutory and underlying bases (continued)

- €11.2 mn fee and commission expense on the amounts deposited in regards to the AT1 issue disclosed within ‘Advisory and other restructuring costs - excluding NPE sale (Helix)’ under the underlying basis.
- ‘Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates’ under the statutory basis include an amount of €16.1 mn relating to net gains on loans and advances to customers measured at fair value through profit or loss (FVPL) disclosed within ‘Provisions charge’ under the underlying basis. Additionally, it includes €3.8 mn relating to the UK disclosed within discontinued operations in the underlying basis.
- ‘Restructuring costs relating to NPE sale (Helix)’ of €18.4 mn, ‘Provisions for litigation, regulatory and other matters’ of €22.8 mn and ‘Advisory and other restructuring costs-excluding the NPE sale (Helix)’ of €32.2 mn disclosed as expenses under the statutory basis are shown separately under the underlying basis (from the total of €32.2 mn around €1.3 mn relates to restructuring costs on the disposal of the UK group therefore is classified as discontinued operations in the underlying basis).
- Additionally €3.6 mn for UK regulatory matters included within expenses in the statutory basis, are disclosed within discontinued operations in the underlying basis.
- The loss of disposal of Helix of €149.8 mn disclosed within ‘Provisions charge’ under the statutory basis is separately disclosed under the underlying basis.
- Impairments of other financial instruments relating to UK of €2.7 mn is classified as a cost on discontinued operations per the underlying basis.
- Finally, the impairment of deferred tax asset of €79 mn included within Tax in the statutory basis is classified as a non-recurring item and disclosed within ‘Impairment of DTA’ under the underlying basis.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity (excluding non-controlling interests) totalled €2,341 mn at 31 December 2018, compared to €2,206 mn at 30 September 2018 and to €2,586 mn at 31 December 2017. Shareholders' equity totalled €2,121 mn at 31 December 2018, compared to €2,206 mn at 30 September 2018 and to €2,586 mn at 31 December 2017, mainly as a result of the initial application of IFRS 9. The **Common Equity Tier 1 capital (CET1) ratio (transitional basis)** stood at 12.1% at 31 December 2018, compared to 11.9% at 30 September 2018 and 12.7% at 31 December 2017. During 4Q2018 the CET1 ratio was positively affected by the reduction in risk-weighted assets. Adjusting for Deferred Tax Assets, the CET1 ratio on a **fully-loaded basis (IFRS 9 transitional)** totalled 11.9% at 31 December 2018, compared to 11.6% at 30 September 2018 and 12.2% at 31 December 2017.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. For the year 2018 the impact on the capital ratios is 5% of the impact on the impairment amounts from the initial application of IFRS 9, increasing to 15% (cumulative) for the year 2019. The CET1 ratio on a **fully-loaded basis (including the full impact of IFRS 9)** amounts to 10.1% at 31 December 2018 (and 13.5% pro forma for DTC and Helix), compared to 9.7% at 30 September 2018 (and 10.9% pro forma for Helix). On a transitional basis and on a fully phased-in basis after the five year period of transition is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

As at 31 December 2018, the Total Capital ratio stood at 14.9%, compared to 13.4% at 30 September 2018 and 14.2% at 31 December 2017.

The Group's capital ratios are above the minimum CET1 regulatory capital ratio of 9.375%, comprising a 4.50% Pillar I requirement, a 3.00% Pillar II requirement and a phased-in CCB of 1.875% and the overall Total Capital Ratio requirement of 12.875%, comprising a Pillar I requirement of 8.00% (of which up to 1.5% can be in the form of Additional Tier 1 capital and up to 2.0% in the form of Tier 2 capital), a Pillar II requirement of 3.00% (in the form of CET1), as well as a phased-in CCB of 1.875%.

In accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, the Central Bank of Cyprus (CBC) is also the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the O-SII buffer requirement for these systemically important banks. The Group has been designated as an O-SII and the O-SII buffer currently set by the CBC for the Group is 2%. This buffer 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 Annual Supervisory Review and Evaluation Process (SREP) performed by the European Central Bank (ECB) in 2018 and based on the final 2018 SREP decision received in March 2019, the Group's minimum phased-in CET1 capital ratio and Total Capital ratio remain unchanged, when ignoring the phasing-in of the Capital Conservations Buffer and the Other Systemically Important Institution Buffer. The Group's phased-in CET1 capital ratio will be 10.5%, comprising a 4.5% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The Group's Total Capital requirement will be 14.0%, comprising an 8.0% Pillar I requirement, a 3.0% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 0.5%. The final 2018 SREP decision will apply from 1 April 2019. The Group CET1 ratio remains above these requirements.

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

The EBA final guidelines on Supervisory Review and Evaluation Process (SREP) and supervisory stress testing in July 2018 and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that CET1 held for the purposes of Pillar II add-ons cannot be used to meet any other capital requirements (Pillar 1, P2R or the combined buffer requirements), and therefore cannot be used twice. Such restrictions are, however, only expected to apply with effect from the 2019 SREP cycle. Pillar II add-ons derive from the Group's individual capital guidance, which is a point in time assessment made in the context of the SREP process and, accordingly, they may vary over time.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Sale of Bank of Cyprus UK Limited (BOC UK)

In November 2018, the Company completed the sale of its wholly owned subsidiary bank in the UK, Bank of Cyprus UK Limited ('BOC UK') and its subsidiary Bank of Cyprus Financial Services Limited ('BOC FS', and together the 'UK Group'), following receipt of the necessary regulatory approvals from the Prudential Regulation Authority and the ECB. The transaction has had an overall positive impact on the Group capital ratios of c.70 bps.

Additional Tier 1

In December 2018, the Company proceeded with the issuance of €220 mn of Additional Tier 1 Capital Securities (the 'Capital Securities'), which had been priced in August 2018, after obtaining the consent of the ECB for the reduction of capital and the approval of the Irish Court for the reclassification of the share premium to distributable reserves, pursuant to section 85(1) of the Companies Act 2014 of Ireland. This reclassification had been approved at the Company's Annual General Meeting in August 2018. The reduction of capital did not have any impact on regulatory capital or the total equity position of the Company, the Bank or the Group.

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

The proceeds of the issue have been on-lent by the Company to the Bank. The on-loan constitutes Additional Tier 1 capital for the Bank. The issuance has increased the Total Capital Ratio by c.140 bps to 14.9% as at 31 December 2018.

Subsequent to the issuance, the Capital Securities were admitted to the official list of the Luxembourg Stock Exchange (LuxSE) and to trading on the Euro MTF market of the LuxSE.

Project Helix

In August 2018, the Company reached an agreement for the sale of a portfolio (the 'Portfolio') of loans with a gross book value of €2.8 bn as at 30 June 2018 (of which €2.7 bn related to non-performing exposures (NPEs)) secured by real estate collateral (known as 'Project Helix', or the 'Transaction'). The gross book value of €2.8 bn included properties of €39 mn as at 30 June 2018 that will also be transferred to the buyer. The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the 'CyCAC') by the Bank. As at 31 December 2018, the Helix portfolio included loans with gross book value of €2.7 bn (of which €2.6 bn related to NPEs) secured by real estate collateral, and properties of €74 mn (compared to properties of €60 mn as at 30 September 2018).

At completion, the Bank will receive gross cash consideration of c.€1.4 bn. The Bank's participation in the senior debt in relation to such financing has been syndicated down to €50 mn, from the initial level of €450 mn, significantly de-risking the Bank's residual exposure to the portfolio sold.

The impact from this Transaction on the CET1 ratio is a decrease of c.80 bps relating to the accounting loss (including transaction costs) of c.€150 mn for FY2018, declining to c.€105 mn as the time value of money of c.€45 mn unwinds to completion. On completion, the derecognition of the Helix portfolio is expected to have a positive impact on the CET1 ratio of 160 bps, resulting from the release of risk weighted assets.

In March 2019, the Bank received approval from the ECB for the Significant Risk Transfer ('SRT') benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. All relevant figures and pro forma calculations are based on 31 December 2018 financial results, unless otherwise stated. Calculations on a pro forma basis assume completion of the Transaction, currently expected to occur in early 2Q2019.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Legislative amendments for the conversion of DTA to DTC

Legislative amendments allowing for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC) were adopted by the Cyprus Parliament on 1 March 2019 and published on the Official Gazette of the Republic on 15 March 2019.

The law amendments cover the income tax losses transferred from Laiki Bank to the Bank in March 2013. The introduction of CRD IV in January 2014 and its subsequent phasing-in led to a more capital intensive treatment of this DTA for the Bank.

The law amendments will result in improved regulatory capital treatment, under CRR, of the DTA amounting to c.€250 mn or a CET1 uplift of c.170 bps (transitional basis) as at 31 December 2018. The improvement in the regulatory capital ratios as of 1 January 2019 amounts to c.€285 mn or a CET1 uplift of c.190 bps (fully loaded basis, allowing for IFRS 9 transitional arrangements). This improvement includes the impact from a reversal of impairment of the related DTA of €108 mn recognised in prior periods.

Pro forma capital ratios

The CET1 ratio (transitional basis) of 12.1% as at 31 December 2018 improves to 15.4% pro forma for DTC and Helix. The Total Capital ratio of 14.9% as at 31 December 2018 improves to 18.3% pro forma for DTC and Helix.

B.2.2 Funding and Liquidity

Funding

Funding from Central Banks

At 31 December 2018, the Bank's funding from central banks amounted to €830 mn, which relates to ECB funding, (compared to ECB funding of €830 mn at 30 September 2018 and €930 mn at 31 December 2017), comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO II).

The Bank fully repaid ELA in January 2017.

Deposits

Group customer deposits totalled €16,844 mn at 31 December 2018, compared to €16,850 mn at 30 September 2018 and €17,850 mn at 31 December 2017. Group customer deposits decreased by 6% yoy, reflecting the disposal of the UK subsidiary.

Cyprus deposits remained broadly flat qoq and increased by 5% yoy to €16,844 mn at 31 December 2018 (compared to €15,983 mn at 31 December 2017) accounting for 100% of Group customer deposits, after the disposal of the UK subsidiary at the end of 3Q2018. The 11% increase in local deposits in FY2018 offsets the 11% reduction in deposits of International Business Units (IBUs) in the same period.

The Bank's deposit market share in Cyprus reached 36.0% at 31 December 2018 (compared to 36.3% at 30 September 2018, on the same basis). Customer deposits accounted for 76% of total assets at 31 December 2018.

The Loan to Deposit ratio (L/D) stood at 72% at 31 December 2018 when ignoring the classification of the Helix portfolio as a disposal group held for sale, at the same levels as at 30 September 2018 and 82% at 31 December 2017, compared to a high of 151% at 31 March 2014. Post NPEs sales (Helix and Velocity), the L/D ratio is reduced by a further 7 p.p to 65%.

Subordinated Loan Stock

At 31 December 2018 the Bank's subordinated loan stock (including accrued interest) amounted to €271 mn (compared to €264 mn as at 30 September 2018 and €302 mn as at 31 December 2017) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 mn, issued by the Bank in January 2017.

The Bank's subordinated loan stock as at 31 December 2017 of €302 mn included an unsecured and subordinated Tier 2 Capital Loan of nominal value £30 mn issued in December 2017 by the Bank's subsidiary in the UK.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.2 Funding and Liquidity

Liquidity

At 31 December 2018 the Group Liquidity Coverage Ratio (LCR) stood at 231% (compared to 220% at 30 September 2018, and 190% at 31 December 2017) and was in compliance with the minimum regulatory requirement of 100%.

The Net Stable Funding Ratio (NSFR ratio) was not introduced on 1 January 2018, as opposed to what was expected. It will become a regulatory indicator when CRR2 is enforced with the limit set at 100%. At 31 December 2018, the Group's NSFR, on the basis of Basel III standards, stood at 119% (compared to 117% at 30 September 2018 and 111% at 31 December 2017).

In accordance with the Capital Requirements Regulation (CRR), the local regulatory liquidity requirements set by the CBC were abolished on 1 January 2018. The CBC introduced a macro-prudential measure in the form of a liquidity add-on imposed on top of the LCR requirement of the Bank, which became effective on 1 January 2018 until 31 December 2018. The objective of the measure was to ensure that there was going to be a gradual release of the excess liquidity in the Cyprus market arising from the lower liquidity requirements under the LCR compared to the ones under the local regulatory liquidity requirements previously in place. The add-on applied stricter outflow and inflow rates on some of the parameters used in the calculation of the LCR, as well as additional liquidity requirements in the form of outflow rates on items that are not subject to outflow rates under the LCR. The measure was implemented in two stages, the first stage was applicable from 1 January 2018 until 30 June 2018 and the second stage from 1 July 2018 until 31 December 2018, with a reduction of 50% of the add-on rates from 1 July 2018. The LCR add-on was fully abolished on 1 January 2019. As at 31 December 2018, the Bank was in compliance with the LCR including the add-on, which stood at 171%.

B.2.3 Loans

Group gross loans totalled €15,900 mn at 31 December 2018, compared to €16,201 mn at 30 September 2018 and €18,755 mn at 31 December 2017. Gross loans in Cyprus totalled €15,702 mn at 31 December 2018 and accounted for 99% of Group gross loans.

The remaining UK operations as at 31 December 2018 included gross loans in the UK amounting to €11 mn, compared to €1,621 mn at 31 December 2017. The exposures remaining post the sale of BOC UK are expected to be run down over time and have been categorised as non-core overseas exposures as of 30 September 2018.

New loan originations for the Group reached €2,231 mn for FY2018, at the same levels as new lending in FY2017. New loans granted in Cyprus reached €1,870 mn for FY2018, exceeding new lending in Cyprus for FY2017.

At 31 December 2018, the Group net loans and advances to customers totalled €10,922 mn (compared to €14,602 mn at 31 December 2017).

In addition, at 31 December 2018, net loans and advances to customers of €1,148 mn were classified as a disposal group held for sale in line with IFRS 5 and relate to Helix, compared to €1,184 mn at 30 September 2018, €1,239 mn at 30 June 2018 and €Nil at 31 December 2017. Moreover, at 31 December 2018, net loans and advances to customers of €6 mn were classified as a disposal group held for sale in line with IFRS 5 and relate to Project Velocity.

The Bank is the single largest credit provider in Cyprus with a market share of 45.4% at 31 December 2018, at the same levels as at 30 September 2018 and 38.6% as at 30 June 2018. The market share on loans was affected as at 30 September 2018 following a decrease in total loans in the banking sector, mainly attributed to €6 bn non-performing loans of Cyprus Cooperative Bank (CyCB) which remained to SEDIPES as a result of the agreement between CyCB and Hellenic Bank.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loan portfolio quality

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

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €203 mn or 3% during 4Q2018 to €7,419 mn at 31 December 2018, accounting for 47% of gross loans (ignoring the classification of the Helix (and Velocity) portfolio as a disposal group held for sale), compared to 47% at 30 September 2018 on the same basis, and compared to 43% at 30 June 2018 and 47% at 31 December 2017, on the same basis with respect to Helix (and Velocity), but before the disposal of the UK operations. The organic reduction of NPEs in 4Q2018 on the residual portfolio was €217 mn, in line with the guidance. This included an amount of €99 mn, which relates to a reclassification between gross loans and accumulated provisions on loans and advances to customers classified as a disposal group held for sale.

The provisioning coverage ratio of NPEs stood at 52% at 31 December 2018 (ignoring the classification of the Helix (and Velocity) portfolio as a disposal group held for sale), compared to 52% at 30 September 2018 on the same basis, and compared to 52% at 30 June 2018 and 48% at 31 December 2017, on the same basis with respect to Helix (and Velocity), but before the disposal of the UK operations.

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

	31.12.2018[1]		30.09.2018[1]	
	€ mn	**% of gross loans**	€ mn	% of gross loans
NPEs as per EBA definition	**7,419**	**46.7%**	7,622	47.0%
Of which, in pipeline to exit: - NPEs with forbearance measures, no arrears[2]	**1,211**	**7.6%**	1,283	7.9%

1. Ignoring the classification of the Helix portfolio of €1,148 mn (NBV) and of the Velocity portfolio of €6 mn (NBV) as disposal groups held for sale. 2. The analysis is performed on a customer basis.

Overall, the Group has recorded significant organic NPE reductions for fifteen consecutive quarters and expects the organic reduction of residual NPEs (post Helix) to continue during the coming quarters at a pace of c.€200 mn per quarter, as portfolio size and business line mix is expected to change radically.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loan portfolio quality (continued)

Project Helix

During 2018, in addition to the organic reduction of NPEs, the Group accelerated balance sheet de-risking through reaching an agreement in August 2018 for the sale of a portfolio of loans (the 'Portfolio') with a gross book value of €2.8 bn (of which €2.7 bn relate to non-performing loans as at 30 June 2018), secured by real estate collateral ('NPLs') (known as 'Project Helix', or the 'Transaction'). The Portfolio had a contractual balance of c.€5.7 bn as at 31 March 2018.

The Transaction is the first NPL disposal by the Bank and represents a significant milestone in the delivery of the Bank's strategy of improving asset quality through the reduction of NPEs.

Following the completion of Project Helix, the Bank's gross NPEs will be 68% lower than its peak in 2014.

Project Helix reduces the NPE ratio by c.11 p.p. to 36% as at 31 December 2018. Ignoring the classification of the Helix (and Velocity) portfolios as disposal groups held for sale, the NPE ratio is 47%, including the impact from the UK sale (+5 p.p.).

The NPE provision coverage as at 31 December 2018 is 47%, compared to 49% as at 30 September 2018. The drop of 2 p.p. is mainly due to increased NPE inflows in 4Q2018 due to the 'unlikely to pay' (UTP) criteria, as well as the settlement and agreement for sale of high coverage exposures. Ignoring the classification of the Helix (and Velocity) portfolios as disposal groups held for sale, the NPE provision coverage is 52%.

In March 2019, the Bank received approval from the ECB for the Significant Risk Transfer ('SRT') benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. All relevant figures and pro forma calculations are based on 31 December 2018 financial results, unless otherwise stated. Calculations on a pro forma basis assume completion of the Transaction, currently expected to occur in early 2Q2019.

ESTIA

In July 2018, the **Government announced a scheme aimed at addressing NPEs backed by primary residence**, known as ESTIA. This Scheme is expected to positively impact c.€0.9 bn of retail core NPEs, subject to eligibility criteria and participation rate. This Estia eligible portfolio refers to the potentially eligible portfolio based on the Bank's available data. Eligibility criteria relate primarily to the Open Market Value (OMV) of the residence, total income and net wealth of the household. These will act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of contractual and OMV, and the Government to subsidise one third of the instalment. The terms of the Scheme are subject to finalisation and the Scheme is currently expected to be launched in 2Q2019.

Project Velocity

In December 2018, the Bank entered into an agreement with APS Delta s.r.o, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €245 mn and a gross book value of €34 mn as at 30 September 2018 **(known as "Project Velocity" or the "Sale")**. This portfolio comprises of 9,700 heavily delinquent borrowers, including 8,800 private individuals and 900 small-to-medium-sized enterprises. The gross book value of this portfolio as at 31 December 2018 was €33 mn.

The Sale is expected to be neutral to both the profit and loss account and to capital. The Sale is subject to the necessary approvals and is expected to be completed within 2Q2019.

The Group continues to actively explore a number of alternatives to accelerate the de-risking of its balance sheet, including further disposals of NPEs and other non-core assets.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5. Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** on-boarded €117 mn of assets (including construction cost) in 4Q2018 (up by 29% qoq) and €428 mn of assets in FY2018, via the execution of debt for asset swaps and repossessed properties. The focus for REMU is increasingly shifting from on-boarding of assets resulting from debt for asset swaps towards the disposal of these assets. The Group completed disposals of €42 mn in 4Q2018 (compared to €28 mn in 3Q2018) and disposals of €196 mn in FY2018, resulting in a profit on disposal of €33 mn for the year. During FY2018, the Group executed sale-purchase agreements (SPAs) with contract value of €238 mn (656 properties). In addition, the Group signed SPAs for disposals of assets with contract value of €106 mn.

Following the incorporation of Cyreit Variable Capital Investment Company PLC, properties of carrying value €166 mn were reclassified from the stock of properties (measured at the lower of cost and net realisable value under IAS 2) to investment properties (measured at fair value under IAS 40). In November 2018, the Bank signed an agreement for the disposal of its entire holding in the investment shares of the Cyreit Fund, resulting in a valuation loss of €14 mn recorded in 3Q2018, relating to both properties and other receivables. The completion of the disposal is subject to regulatory approvals and expected in early 2Q2019.

As at 31 December 2018, assets held by REMU had a carrying value of €1.5 bn, in addition to assets reclassified to investment properties of €166 mn, which were subsequently classified as a disposal group held for sale. As at 31 December 2018, properties with carrying value of €74 mn were included in the portfolio for the NPE sale (Helix), compared to €60 mn as at 30 September 2018 and €39 mn as at 30 June 2018.

Assets held by REMU (Group) **€ mn**	**FY2018**	**FY2017**	**4Q2018**	**3Q2018**	qoq ±%	yoy ±%
Opening balance	**1,641**	1,427	**1,558**	1,524	2%	15%
On-boarded assets (including construction cost)	**428**	520	**117**	91	29%	-18%
Sales	**(196)**	(258)	**(42)**	(28)	56%	-24%
Transfer to investment properties	**(166)**	-	**-**	-	-	-
Transfer to non-current assets and disposal groups held for sale	**(162)**	-	**(102)**	(21)	384%	-
Closing balance	**1,530**	1,641	**1,530**	1,558	-2%	-7%

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

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

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.6 Non-core overseas exposures

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

€ mn	31 December 2018	31 December 2017
Greece	**164**	193
Romania	**35**	79
Serbia	**7**	9
Russia	**23**	31
UK	**11**	-

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

In addition, further to the disposal of the UK operations, residual exposures of €11 mn remain in the UK as at 31 December 2018, compared to €23 mn as at 30 September 2018, relating to legacy exposures. These exposures are expected to be run down over time and are now categorised as non-core overseas exposures.

In addition to the above, at 31 December 2018 there were overseas exposures of €144 mn in Greece (compared to exposures of €156 mn at 30 September 2018 and €168 mn as at 31 December 2017), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

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

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	FY2018	FY2017 represented[2]	4Q2018	3Q2018	2Q2018 represented[2]	1Q2018 represented[2]	(4q vs 3q) ±%	(FY) Yoy[2] ±%
Net interest income	**452**	**544**	**112**	**113**	**114**	**113**	**-2%**	**-17%**
Net fee and commission income	166	174	43	43	41	39	3%	-4%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	67	48	15	10	13	29	42%	40%
Insurance income net of claims and commissions	53	50	15	13	13	12	22%	5%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	18	26	3	(6)	2	19	-	-30%
Other income	26	19	9	6	5	6	37%	34%
Non-interest income	**330**	**317**	**85**	**66**	**74**	**105**	30%	4%
Total income	**782**	**861**	**197**	**179**	**188**	**218**	10%	-9%
Net Interest Margin (annualised)[1]	2.48%	3.10%	2.39%	2.47%	2.54%	2.56%	-8 bps	-62 bps
Average interest earning assets (€ mn)[1]	18,190	17,553	18,468	18,237	17,951	17,981	1%	4%

1. Ignoring the classification of the Helix portfolio of €1,148 mn (NBV) and of the Velocity portfolio of €6 mn (NBV) as disposal groups held for sale.
2. Represented for the disposal of the UK subsidiary.

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

Net interest income (NII) and net interest margin (NIM) for FY2018 amounted to €452 mn and 2.48% respectively, when ignoring the classification of the Helix portfolio as a disposal group held for sale. NII was down by 17% compared to €544 mn a year earlier, and the yoy decline in NIM of 62 bps reflects the lower volume on loans, pressure on lending rates and the cost of liquidity compliance. The NII for 4Q2018 amounted to €112 mn, compared to €113 mn in 3Q2018 and the NIM for 4Q2018 was 2.39%, down by 8 bps from 2.47% for 3Q2018, on the same basis, reflecting continued pressure on lending rates.

The NII presented under the underlying basis includes unrecognised interest on previously credit impaired loans which have cured during 4Q2018, amounting to €8 mn (€33 mn for FY2018). For statutory reporting purposes, for the year ended 31 December 2018, this amount is presented within "Credit losses to cover credit risk on loans and advances to customers" in line with an IFRIC discussion, which has taken place in November 2018 (Presentation of unrecognised interest following the curing of a credit-impaired financial asset (IFRS 9)). Accordingly, the ratios calculated based on the underlying basis, are disclosed without taking into account such reclassification.

Average interest earning assets for FY2018 amounted to €18,190 mn, ignoring the classification of the Helix portfolio as a disposal group held for sale, up by 4% yoy. **Quarterly average interest earning assets** for 4Q2018 amounted to €18,468 mn on the same basis, compared to €18,237 mn for 3Q2018.

Non-interest income for FY2018 amounted to €330 mn, up 4% yoy, mainly comprising net fee and commission income of €166 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €67 mn, net insurance income of €53 mn, net gains from revaluation and disposal of investment properties and on disposal of stock of properties of €18 mn and other income of €26 mn.

Net fee and commission income for 4Q2018 amounted to €43 mn, at the same levels as for 3Q2018. Net fee and commission income for FY2018 amounted to €166 mn, compared to €174 mn a year earlier, on the same basis, down by 4% yoy, mainly due to the implementation of IFRS 9 under which certain commission income types are not recognised on Stage 3 loans.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €67 mn for FY2018, increased by 40% yoy, mainly due to the gains on disposal of bonds during the 1Q2018 of €19 mn.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for FY2018 amounted to €18 mn, which included a net profit from the disposal of stock of properties of €33 mn (REMU gains) and a valuation loss of the Cyreit assets of €14 mn. The FY2017 gain was €26 mn, of which €30 mn related to a net profit from the disposal of stock of properties (REMU gains).

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 4Q2018 amounted to €3 mn, including net gains from the revaluation of investment properties of €2 mn and a net profit from the disposal of stock of properties (REMU gains) of €1 mn, compared to net losses of €6 mn for 3Q2018, comprising REMU gains of €8 mn and a loss on disposal of the Cyreit of €14 mn.

Total income for FY2018 amounted to €782 mn, compared to €861 mn for FY2017, down by 9% yoy, with the reduction reflecting the yoy reduction in NII. Total income for 4Q2018 amounted to €197 mn, compared to €179 mn for 3Q2018, up by 10% qoq.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	FY2018	FY2017 represented[2]	4Q2018	3Q2018	2Q2018 represented[2]	1Q2018 represented[2]	(4q vs 3q) ±	(FY) Yoy[2] ±
Staff costs	(217)	(205)	(59)	(53)	(53)	(52)	10%	6%
Other operating expenses	(158)	(154)	(44)	(34)	(43)	(37)	26%	3%
Total operating expenses	(375)	(359)	(103)	(87)	(96)	(89)	17%	4%
Special levy and contribution to Single Resolution Fund (SRF)	(25)	(23)	(7)	(6)	(5)	(7)	10%	10%
Total expenses	**(400)**	**(382)**	**(110)**	**(93)**	**(101)**	**(96)**	16%	5%
Cost to income ratio[1]	51%	44%	55%	52%	54%	44%	3 p.p.	7 p.p.
Cost to income ratio excluding special levy and contribution to Single Resolution Fund[1]	48%	42%	52%	49%	51%	41%	3 p.p.	6 p.p.

1. Ignoring the classification of the Helix portfolio of €1,148 mn (NBV) and of the Velocity portfolio of €6 mn (NBV) as disposal groups held for sale.
2. Represented for the disposal of the UK subsidiary.

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

Total expenses for FY2018 were €400 mn (compared to €382 mn for FY2017), 54% of which related to staff costs (€217 mn), 40% to other operating expenses (€158 mn) and 6% (€25 mn) to special levy and contribution to Single Resolution Fund (SRF). Total expenses for 4Q2018 were €110 mn, compared to €93 mn in 3Q2018 (up by 16% qoq).

Total operating expenses for FY2018 were €375 mn, increased by 4% yoy, compared to €359 mn for FY2017. Total operating expenses for 4Q2018 were €103 mn, increased by 17% qoq, compared to €87 mn in 3Q2018.

Staff costs of €217 mn for FY2018 increased by 6% yoy (compared to €205 mn in FY2017), mainly due to the effect of the renewal of the 2017 annual collective agreement with the employees' union. Staff costs for 4Q2018 amounted to €59 mn, compared to €53 mn in 3Q2018, mainly due to the annual increment granted wholly in the quarter. An amount of €4 mn recorded in 4Q2018 relates to previous quarters and one-off transactional staff costs. The renewal of the collective agreement for 2018 remains under discussion.

Other operating expenses for FY2018 were €158 mn, increased by 3% yoy. Other operating expenses for 4Q2018 were €44 mn, compared to €34 mn for 3Q2018, mainly due to the completion of projects ahead of the year-end relating to the Digital Transformation Programme and other professional services.

The **cost to income ratio excluding special levy and contribution to Single Resolution Fund** for 4Q2018 was 52%, (compared to 49% for 3Q2018), principally reflecting the increase in other operating expenses. Management remain focused on cost reduction.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 Profit/(loss) before tax and non-recurring items

€ mn	**FY2018**	**FY2017 represented[1]**	**4Q2018**	**3Q2018**	**2Q2018 represented[1]**	**1Q2018 represented[1]**	(4q vs 3q) ±%	(FY) Yoy[1] ±%
Operating profit	**382**	**479**	**87**	**86**	**87**	**122**	3%	-20%
Provision charge	(168)	(780)	(40)	(29)	(41)	(58)	37%	-78%
(Impairments)/reversal of impairments of other financial and non-financial assets	(20)	(65)	(7)	1	(6)	(8)	-	-69%
(Provisions)/reversal of provisions for litigation, regulatory and other matters	(23)	(93)	(13)	(15)	7	(2)	-4%	-75%
Total provisions and impairments	**(211)**	**(938)**	**(60)**	**(43)**	**(40)**	**(68)**	45%	-78%
Share of profit from associates	9	9	0	4	3	2	-67%	2%
Profit/(loss) before tax and non-recurring items	**180**	**(450)**	**27**	**47**	**50**	**56**	-41%	-

1. Represented for the disposal of the UK subsidiary.

Operating profit for FY2018 was €382 mn, compared to €479 mn for FY2017, down by 20% yoy, mainly due to the lower volume on loans and pressure on lending rates. Operating profit for 4Q2018 was €87 mn, compared to €86 mn for 3Q2018.

The **provision charge** for FY2018 totalled €168 mn, compared to €780 mn for FY2017 (down by 78% yoy), as the previous year was affected by the additional provisions of c.€500 mn taken in 2Q2017. The provision charge for 4Q2018 totalled €40 mn, compared to €29 mn for 3Q2018 (up by 37% qoq) and at similar levels to 2Q2018.

The provisioning charge for FY2018, ignoring the classification of the Helix portfolio as a disposal group held for sale, accounted for 1.0% of gross loans, compared to an annualised provisioning charge of 1.0% for 9M2018, on the same basis and to 4.3% for FY2017. An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions was included in the cost of risk for FY2017, but was not annualised. The annualised provisioning charge for 4Q2018, ignoring the classification of the Helix portfolio as a disposal group held for sale, accounted for 1.0% of gross loans, compared to 0.7% for 3Q2018 on the same basis.

At 31 December 2018, accumulated provisions, including fair value adjustment on initial recognition and provisions for off-balance sheet exposures and ignoring the classification of the Helix portfolio as a disposal group held for sale, totalled €3,852 mn (compared to €3,993 mn at 30 September 2018 and to €4,204 mn at 31 December 2017) and accounted for 24.2% of gross loans on the same basis (compared to 24.7% at 30 September 2018 and to 22.4% at 31 December 2017). Ignoring the classification of the Helix portfolio as a disposal group held for sale, the decrease in accumulated provisions in 4Q2018 amounted to €141 mn, whilst the decrease in accumulated provisions in the previous quarter amounted to €107 mn.

Impairments of other financial and non-financial assets for FY2018 totalled €20 mn, compared to €65 mn for FY2017 (down by 69% yoy). Impairments of other financial and non-financial assets for 4Q2018 were €7 mn, mainly relating to Greek tax receivables (the carrying value of the remaining receivable was c.€12 mn), compared to a net reversal for 3Q2018 of €1 mn (which included a valuation loss on properties of €7 mn and a reversal of previously recognised expected credit losses relating to balances with central banks of €8 mn).

Provisions for litigation, regulatory and other matters for FY2018 amounted to €23 mn, compared to €93 mn for FY2017. The charge for the FY2017 related mainly to redress provisions for the UK operations, a fine imposed by the Cyprus Commission for the Protection of Competition and the increase in provision for litigation for securities issued by BOC PCL between 2007 and 2011.

Provisions for litigation, regulatory and other matters for 4Q2018 amounted to €13 mn (compared to €15 mn for 3Q2018 (down by 4% qoq)), primarily relating to litigation for securities issued by the BOC PCL between 2007 and 2011 and other provisions for regulatory matters.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.4 (Loss)/profit after tax

€ mn	FY2018	FY2017 represented[1]	4Q2018	3Q2018	2Q2018 represented[1]	1Q2018 represented[1]	(4q vs 3q) ±%	(FY) Yoy[1] ±%
Profit/(loss) before tax and non-recurring items	**180**	**(450)**	**27**	**47**	**50**	**56**	-41%	-
Tax	3	(14)	7	0	(0)	(4)	-	-
(Profit)/ loss attributable to non-controlling interests	(1)	3	(4)	1	0	2	-	-
Profit/(loss) after tax and before non-recurring items	**182**	**(461)**	**30**	**48**	**50**	**54**	-36%	-
Advisory and other restructuring costs – excluding discontinued operations and NPE sale (Helix)	(42)	(29)	(16)	(11)	(7)	(8)	56%	43%
Profit/(loss) after tax - Organic	**140**	**(490)**	**14**	**37**	**43**	**46**	-62%	-
Profit/(loss) from discontinued operations (UK)	3	0	(1)	(0)	1	3	8%	-
Restructuring costs relating to NPE sale (Helix)	(18)	-	(1)	(5)	(6)	(6)	-66%	-
Loss relating to NPE sale (Helix)	(150)	-	-	(15)	(135)	-	-	-
Impairment of DTA	(79)	(62)	(79)	-	-	-	-	-
(Loss)/profit after tax – attributable to the owners of the Company	**(104)**	**(552)**	**(67)**	**17**	**(97)**	**43**	**-**	-81%

1. Represented for the disposal of the UK subsidiary.

The **tax credit** for 4Q2018 totalled €7 mn (compared to €Nil in 3Q2018) comprising mainly reversals of tax provisions relating to prior years. The **tax credit** for FY2018 totalled €3 mn, compared to a tax charge of €14 mn for FY2017.

Profit after tax and before non-recurring items for FY2018 was €182 mn, compared to a loss of €461 mn for FY2017, reflecting the additional provisions of c.€500 mn taken in 2Q2017. Profit after tax and before non-recurring items for 4Q2018 was €30 mn, compared to a profit of €48 mn for 3Q2018.

Advisory and other restructuring costs - excluding discontinued operations and NPE sale (Helix) for FY2018 amounted to €42 mn, compared to €29 mn a year earlier. Advisory and other restructuring costs excluding discontinued operations and NPE sale (Helix) for 4Q2018 amounted to €16 mn, compared to €11 mn for 3Q2018.

Profit after tax arising from the organic operations of the Group for FY2018 amounted to €140 mn, compared to a loss of €490 mn a year earlier, reflecting the additional provisions of c.€500 mn taken in 2Q2017. Profit after tax arising from the organic operations of the Group for 4Q2018 amounted to €14 mn (compared to €37 mn for 3Q2018).

Profit from discontinued operations for FY2018 amounted to €3 mn (compared to €Nil for FY2017) and relate to the UK operations sold during the year.

Restructuring costs relating to NPE sale (Helix) for 4Q2018 were €1 mn, compared to €5 mn for 3Q2018, comprising mainly advisory costs and legal fees. Restructuring costs relating to NPE sale (Helix) for FY2018 amounted to €18 mn.

Loss relating to NPE sale (Helix) including transactions costs for FY2018 amounted to €150 mn, comprising a loss of €15 mn recorded in 3Q2018 and a loss of €135 mn recorded in 2Q2018. The loss of €15 mn for 3Q2018 related mainly to the effect of discounting following extension of the expected completion date. The loss arising from Helix is expected to decline to c.€105 mn, as the time value of money of c.€45 mn unwinds to completion.

The **impairment of DTA** for FY2018 and for 4Q2018 was €79 mn (compared to €62 mn for FY2017), resulting from the on-going review of the recoverability of the deferred tax asset (DTA). This amount, together with related impairments recorded in prior periods totalling €108 mn, is expected to be reversed in 1Q2019, following amendments to the Income Tax legislation in Cyprus.

Loss after tax attributable to the owners of the Company for FY2018 was €104 mn, compared to €552 mn for FY2017. **Loss after tax** attributable to the owners of the Company for 4Q2018 was €67 mn, compared to a profit of €17 mn for 3Q2018.

C. Operating Environment

Economic recovery became firmly entrenched with real Gross Domestic Product (GDP) rising by 3.9% in 2018 following increases of 4.5% and 4.8% in the preceding two years (Cyprus Statistical Service). GDP growth in 2018 was underpinned by robust expansion in private consumption and services exports particularly tourism. Fixed investments particularly building activity also made an important contribution. On a sectoral basis growth was mainly driven by tourism, trade and transport, construction and professional and business services. The outlook for 2019-2020 remains positive with real GDP expected to rise by 3.3% and 2.7% respectively according to the European Commission (European Economic Forecast, Winter 2019, Interim).

Employment increased by 5.6% in 2018, compared with an increase of 4.6% in 2017 (Cyprus Statistical Service). As a result, the unemployment rate dropped to an average of 8.4% in 2018 from 11% in 2017 and contributed to strong private consumption growth (Cyprus Statistical Service).

Exports of goods and services continued to grow robustly in 2018 rising by 3.3% in real terms (Cyprus Statistical Service). Exports are expected to continue to underpin the recovery, but Cyprus might also be impacted negatively by the exit of the UK from the EU (Brexit). Cyprus has close trade and investment links with the UK, making its economy vulnerable to the impact of Brexit on the UK economy. Tourist arrivals from the UK accounted for about 34% of total arrivals in 2017-2018. A possible decline in tourist arrivals from the UK and a drop in their spending will need to be mitigated by increasing arrivals and revenues from other countries.

Regarding prices, consumer inflation accelerated modestly in 2018 to 1.4% from 0.5% in 2017 (Cyprus Statistical Service). This was owed in large to higher global energy prices. Inflation is expected to accelerate further in the medium term as tighter labour market conditions gradually lead to higher wages, but will remain relatively modest by historical standards.

The budget turned to a surplus of 1.8% of GDP in 2017. The budget surplus is estimated at 2.8% of GDP in 2018, according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018), excluding the impact of banking support measures related to the Cyprus Cooperative Bank (CyCB). The budget surplus will also remain sizable in 2019-2020 according to the European Commission. The budget surplus is driven by buoyant revenue growth underpinned by strong economic activity. Expenditure increases will be driven mainly by public sector pay rises and social transfers, but are expected to lag revenue growth. The budget cost of the ESTIA Scheme, a State-supported scheme to aid the loan repayment of vulnerable groups with non-performing exposures (NPEs) backed by primary residences, will be relatively low and its impact on the budget balance will be marginal.

Gross Government debt is estimated at 105% of GDP in 2018 according to the European Commission, up from 96% in 2017. This followed the placement of €3.2 bn Government bonds in the CyCB to facilitate the sale of the good assets of CyCB. However, its underlying dynamics remain stable and it is expected to decline significantly in coming years. The debt ratio will decline to 98% in 2019 and to 91% in 2020 according to the European Commission (Post-Programme Surveillance Report Cyprus, Autumn 2018).

In the banking sector, the stock of NPEs declined significantly. For the first eleven months of 2018, NPEs dropped by 46% or by €9.6 bn to €11.2 bn, after the CyCB transaction and the sale of a package of NPEs by Bank of Cyprus, according to data by the CBC. The ratio of NPEs to gross loans dropped to 32.1% at the end of November 2018 from 42.5% at the end of December 2017. The ratio of total impairments to total NPEs was 52.2% at the end of November 2018.

In July 2018, the Cyprus government took additional steps to address regulatory issues relating to NPEs. Parliament voted on Cyprus government legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures, along with ESTIA, will support further reductions in the remaining stock of NPEs.

The sovereign risk ratings of the Cyprus government improved considerably. In October 2018 Fitch Ratings upgraded its Long-Term Issuer Default ratings for Cyprus to investment grade (BBB-) with a stable outlook. In September 2018, S&P Global Ratings also upgraded Cyprus to investment grade (BBB-) with stable outlook. In July 2018 Moody’s Investors Service upgraded Cyprus’ sovereign rating to Ba2 from Ba3. The improvement in the ratings since the crisis in 2013 reflects the government’s fiscal consolidation efforts, the generation of primary fiscal surpluses, a gradual stabilisation in the banking sector and the successful implementation of the economic adjustment programme.

D. Business Overview

As the Cypriot operations account for 99% of gross loans and 100% of customer deposits, after the disposal of the UK operations, the Group's financial performance is highly correlated to the economic and operating conditions in Cyprus and will consequently benefit from the country's recovery. Most recently, in March 2019, Fitch Ratings affirmed their long-term issuer default rating of B- (positive outlook). In January 2019, Moody's Investors Service upgraded the Bank's long-term deposit rating to B3 from Caa1, with a positive outlook. The positive outlook reflects expectations of further improvements in the banks' financial fundamentals, mainly asset quality over the next 12-18 months, in the context of an improved operating environment in Cyprus. At the end of August 2018, Standard and Poor's upgraded their long-term issuer credit rating on the Bank to 'B+' from 'B' and changed the outlook to stable from positive. 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. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio, and expects the reduction of residual NPEs (post the NPE sale (Helix)) to continue at a revised pace of c.€200 mn per quarter, as portfolio size and business line mix is expected to change radically post execution of Helix. In parallel, the Group continues to actively explore a number of alternatives to accelerate the de-risking of its balance sheet, including further disposals of NPEs and other non-core assets.

Project Helix

In August 2018, the Company reached an agreement for the sale of a Portfolio of loans with a gross book value of €2.8 bn as at 30 June 2018 (of which €2.7 bn relate to non-performing loans) secured by real estate collateral. The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the "CyCAC") by the Bank. The shares of the CyCAC will then be acquired by certain funds affiliated with Apollo Global Management LLC (NYSE:APO) (together with its consolidated subsidiaries "Apollo"), the purchaser of the Portfolio. Funds managed by Apollo will provide equity capital in relation to the financing of the purchase of the Portfolio. The purchaser was selected following a competitive sale process. Following a transitional period where servicing is retained by the Bank, it is intended that the servicing of the Portfolio will be carried out by a long-term servicer. Arrangements in relation to the migration of servicing from the Bank to the long-term servicer, including the timing of the migration, remain under discussion between the parties.

The transaction is the first NPL disposal by the Bank and represents a significant milestone in the delivery of the Bank's strategy of improving asset quality through the reduction of NPEs. Following the completion of Project Helix, the Bank's gross NPEs will be 68% lower than its peak in 2014.

In March 2019, the Bank received approval from the ECB for the Significant Risk Transfer ('SRT') benefit from the Transaction. This is an important step towards completion of the Transaction, which remains subject to various outstanding conditions precedent. All relevant figures and pro forma calculations are based on 31 December 2018 financial results, unless otherwise stated. Calculations on a pro forma basis assume completion of the Transaction, currently expected to occur in early 2Q2019.

Project Velocity

In December 2018, the Bank entered into an agreement with APS Delta s.r.o, to sell a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €245 mn and gross book value of €34 mn as at 30 September 2018 **(known as "Project Velocity" or the "Sale")**. This portfolio comprises of 9,700 heavily delinquent borrowers, including 8,800 private individuals and 900 small-to-medium-sized enterprises. The gross book value of this portfolio as at 31 December 2018 was €33 mn.

APS Delta s.r.o is a wholly owned subsidiary of APS Capital Group s.r.o., a company registered in Czech Republic which specialises in the investment, management and recovery of loan portfolios across Central and South-Eastern Europe.

The Sale is part of the Bank's strategy to reduce its stock of non-performing loans and has been conducted at arm's length. Furthermore, the Sale is consistent with ECB guidelines regarding the management of non-performing loans.

The Sale is expected to be neutral to both the profit and loss account and to capital. The Sale is subject to the necessary approvals and is expected to be completed within 2Q2019.

ESTIA

In July 2018, the Government announced ESTIA, a scheme aimed at addressing NPEs backed by primary residence. This Scheme is expected to positively impact c.€0.9 bn of retail core NPEs, subject to eligibility criteria and participation rate. This Estia-eligible portfolio refers to the potentially eligible portfolio based on the Bank's available data. Eligibility criteria relate primarily to the OMV of the residence, total income and net wealth of the household. These will act as a clear definition of socially protected borrowers, acting as an enabler against strategic defaulters. In accordance with the Scheme, the eligible loans are to be restructured to the lower of contractual and OMV, and the Government to subsidise one third of the instalment. The terms of the Scheme are subject to finalisation and the Scheme is currently expected to be launched in 2Q2019.

D. Business Overview (continued)

Sale of Bank of Cyprus UK Limited (BOC UK)

In November 2018, the Company completed the sale of its wholly owned subsidiary bank in the UK, Bank of Cyprus UK Limited ('BOC UK') and its subsidiary Bank of Cyprus Financial Services Ltd ('BOC FS', and together the 'UK Group'), to Cynergy Capital Limited ('Cynergy'), following receipt of the necessary regulatory approvals from the Prudential Regulation Authority (PRA) and the ECB.

The sale consideration amounted to £107 mn (c.€120 mn) comprising of £103 mn base consideration plus a purchase price adjustment of £4 mn. Half of the base consideration together with the purchase price adjustment was received upon completion and the remaining half is deferred over 24 months, without any performance conditions attached.

The Group lost control over the UK Group and as a result, it did not consolidate it on and as from 30 September 2018. The sale of the UK Group was completed on 23 November 2018. Comparatives have been represented for the results of the UK Group, from continuing operations to discontinued operations. The representation did not have an impact on the financial performance of the Group.

The sale has an overall positive impact on the Group capital ratios of c.70 bps and is broadly neutral to the profit and loss account, including the recycling to the Income Statement of a foreign currency gain of €18 mn previously recorded in the foreign currency translation reserve.

The decision to sell the UK Group was in line with the Group's strategy of delivering value for shareholders and focusing principally on supporting the growing Cypriot economy. In addition, the Group and BOC UK signed an agreement for cooperation in a number of key areas going forward, including continuity of servicing for existing customers. Following completion, BOC UK has been rebranded to 'Cynergy Bank', a name chosen to reflect the bank's Cypriot heritage, combined with a modern and energetic focus.

Other

The strategic focus of the Group is to reshape its business model to grow in the core Cypriot market through prudent new lending. As at 31 December 2018, the Bank's capital position is adequate and is strengthened pro forma for DTC and Helix. 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.

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

Management is also placing emphasis on diversifying income streams by optimising fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Group's income streams. The insurance income net of insurance claims for FY2018 amounted to €53 mn, compared to €50 mn for FY2017, contributing to 16% of non-interest income.

In order to **further optimise its funding structure**, the Bank continues to **focus on the shape and cost of deposit franchise,** taking advantage of the increased customer confidence towards the Bank, as well as improving macroeconomic conditions.

Post the execution of further NPE reduction, the Bank is focusing on the need to manage costs.

The Bank continues its **Digital Transformation Programme** in collaboration with IBM, the Bank's Strategic Digital Transformation Partner, which focuses on three strategic pillars: developing digital services and products that enhance customer experience, streamlining internal processes and introducing new ways of working to improve the workplace environment. The Bank has spent the last year establishing the foundations to support the delivery of change. Various new products and features were introduced such as the launch of the new mobile app, the introduction of the 1Bank B2B (business to business) APIs (Application Programming Interface) which are interfaces that enable businesses to enjoy access to 1Bank functionality directly through their own systems without the need to access the 1Bank website. Moreover, the Bank is leading the way in Cyprus in establishing an open banking ecosystem, by being the first bank in Cyprus to launch its PSD2 APIs (Payment Service Directive2, Application Programming Interface) and also by integrating with eight UK banks allowing customers to view their account balances and transactions from the integrated banks together with their Bank of Cyprus accounts through 1Bank. Furthermore, several initiatives are in progress, including enhancing digital channels to improve customer experience, automating internal end to end processes using a BPM (Business Process Management) platform and introducing collaboration and knowledge sharing tools across the organisation.

E. Strategy and Outlook

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

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

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

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

Project Helix and the sale of the UK Group meaningfully change the shape of the Group going forward. Good progress has been achieved towards the completion of Project Helix. Completion is currently expected to occur in early 2Q2019. These actions collectively are expected to result in a stronger, safer, more Cyprus focused Bank.

The organic reduction of residual NPEs (post Helix) is expected to continue in the coming quarters at a pace of c.€200 mn per quarter, as portfolio size and business line mix is expected to change radically. Furthermore, with the completion of these transactions, the Group's capital ratios are expected to be strengthened.

Please refer to the investors' presentation for the results of the year ended 31 December 2018 pro forma for DTC and Helix.

F. Definitions & Explanations

Accelerated phase-in period	Following the Regulation (EU) 2016/445 of the ECB of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4), the DTA phase-in period was reduced from 10 to 5 years, with effect as from the reporting of 31 December 2016. The applicable rate of the DTA phase-in is 60% for 2017, 80% for 2018 and 100% for 2019 (fully phased-in).
Accumulated provisions	Comprise (i) provisions for impairment of customer loans and advances, (ii) the fair value adjustment on initial recognition of loans acquired from Laiki Bank and on loans classified at FVPL, and (iii) provisions for off-balance sheet exposures disclosed on the balance sheet within other liabilities.
Advisory and other restructuring costs	Comprise mainly: 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
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
CET1 fully loaded (FL)	The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service of the Republic of Cyprus	The latest data was published on 14 February 2019.
Deferred Tax Asset (DTA) adjustments	The DTA adjustments relate to Deferred Tax Assets totalling €302 mn and recognised on tax losses totalling €2.42 bn and can be set off against future profits of the Bank until 2028 at a tax rate of 12.5%. There are tax losses of c.€7 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.
ECB	European Central Bank
ELA	Emergency Liquidity Assistance
Gross loans	Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €462 mn at 31 December 2018 (compared to €480 mn at 30 September 2018, €514 mn at 30 June 2018, €566 mn at 31 March 2018 and to €668 mn at 31 December 2017). Additionally, gross loans (i) include loans and advances to customers measured at fair value through profit and loss of €456 mn and (ii) are reported after the reclassification between gross loans and expected credit losses on loans and advances to customers classified as a disposal group held for sale of €99 mn.
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or the "Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries.
Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets for the relevant period.

F. Definitions & Explanations (continued)

Market Shares	Both deposit and loan market shares are based on data from the Central Bank of Cyprus. The Bank is the single largest credit provider in Cyprus with a market share of 45.4% at 31 December 2018, at the same levels as at 30 September 2018 and compared to 38.6% at 30 June 2018 and 37.4% at 31 March 2018. The market share on loans was affected as at 30 September 2018 following a decrease in total loans in the banking sector, mainly attributed to €6 bn non-performing loans of Cyprus Cooperative Bank (CyCB) which remained to SEDIPES as a result of the agreement between CyCB and Hellenic Bank. The market share on loans was affected as at 30 June 2018 following a decrease in total loans in the banking sector of €2.1 bn, as reported by CBC, (due to loan reclassifications, revaluations, exchange rate or other adjustments).
Net fee and commission income over total income	Net fee and commission income over total income is the net fee and commission income divided by the total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the average interest earning assets. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net customer loans and advances, plus investments (excluding equities and mutual funds).
Net loans and advances	Loans and advances net of accumulated provisions (as defined).
Net loan to deposit ratio	Net loan to deposits ratio is calculated as the net loans and advances to customers divided by customer deposits, including net loans and deposits held for sale, where applicable.
Net Stable Funding Ratio (NSFR)	The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF), on the basis of Basel III standards. Its calculation is a SREP requirement. The European Banking Authority (EBA) is working on finalising the NSFR and enforcing it as a regulatory ratio under CRR2.
New lending	New lending includes the average YTD change (if positive) for credit cards and overdraft facilities.
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains and net gains on other financial instruments and loss on disposal/dissolution of subsidiaries and associates, Insurance income net of claims and commissions, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.
Non-performing exposures (NPEs)	According to the EBA reporting standards on forbearance and non-performing exposures (NPEs), published in 2014, ECB's Guidance to Banks on Non-Performing Loans published in March 2017 and EBA Guidelines on management of non-performing and forborne exposures published in October 2018 and applicable from June 2019, a loan is considered an NPE if: (i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due, or (ii) the exposures are impaired i.e. in cases where there is a specific provision, or (iii) there are material exposures which are more than 90 days past due, or (iv) there are performing forborne exposures under probation for which additional forbearance measures are extended, or (v) there are performing forborne exposures under probation that present more than 30 days past due within the probation period. The NPEs are reported before the deduction of accumulated provisions (as defined).
Non-recurring items	Non-recurring items as presented in the 'Unaudited Consolidated Income Statement – Underlying basis' relate to: (i) advisory and other restructuring costs, (ii) discontinued operations (UK sale), (iii) loss relating to NPE sale (Helix) and (iv) impairment of DTA.
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).

F. Definitions & Explanations (continued)

Operating profit	Comprises profit before total provisions and impairments (as defined), share of profit from associates, tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the 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).
Pro forma for DTC	Relates to the conversion of Deferred Tax Assets (DTA) to Deferred Tax Credits (DTC) as per CRR Article 39(2), following legislative amendments adopted by the Cyprus Parliament on 1 March 2019 and published in the Official Gazette of the Republic on 15 March 2019, allowing for a release of capital. According to Cyprus Law, for a law of the Parliament to become effective it must be published in the Official Gazette of the Republic and, unless another date is provided by the law itself, a law comes into operation upon such publication.
Pro forma for DTC and Helix	Relates to both pro forma for DTC (as defined) and pro forma for Helix (as defined), in this order.
Pro forma for Helix	In addition to the impact from Project Helix, this pro forma also includes the impact from the agreement for the sale of a portfolio of retail unsecured NPEs, with gross book value €33 mn as at 31 December 2018, known as Project Velocity.
Profit/(loss) after tax and before non-recurring items	Excludes non-recurring items (as defined)
Provision charge	The provision charge comprises provisions for impairments of customer loans and provisions for off-balance sheet exposures, 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 provision charge (as defined) divided by average gross loans (the average balance calculated as the average of the opening balance and the closing balance). An amount of c.€500 mn reflecting the one-off effect of the change in the provisioning assumptions was included in the cost of risk for FY2017, but was not annualised.
Provisioning coverage ratio for NPEs	Provisioning coverage ratio for NPEs is calculated as accumulated provisions (as defined) over NPEs (as defined).
Quarterly average interest earning assets	Average of interest earning assets as at the beginning and end of the relevant quarter. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net customer loans and advances, plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Special levy	Relates to the special levy on deposits of credit institutions in Cyprus.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013.

F. Definitions & Explanations (continued)

Total expenses	Total expenses comprise staff costs, other operating expenses and the special levy and contribution to the Single Resolution Fund. It does not include 'advisory and other restructuring costs-excluding discontinued operations and NPE sale (Helix)' or any restructuring costs or loss relating to NPE sale (Helix). 'Advisory and other restructuring costs-excluding discontinued operations and NPE sale (Helix)' amount to €42 mn for FY2018 (€16 mn for 4Q2018, €11 mn for 3Q2018, €7 mn for 2Q2018 and €8 mn for 1Q2018) and €29 mn for the year ended 31 December 2017. Restructuring costs relating to NPE sale (Helix) amount to €18 mn for FY2018 (€1 mn for 4Q2018, €5 mn for 3Q2018, €6 mn for 2Q2018 and €6 mn for 1Q2018) and €Nil for the year ended 31 December 2017. Loss relating to NPE sale (Helix) amounts to €150 mn for FY2018 (€Nil for 4Q2018, €15 mn for 3Q2018, €135 mn for 2Q2018 and €Nil for 1Q2018) and €Nil for the year ended 31 December 2017.
Total income	Total income comprises net interest income and non-interest income (as defined).
Total provisions and impairments	Total provisions and impairments comprise provision charge (as defined), plus (provisions)/reversal of provisions for litigation, regulatory and other matters plus (impairments)/reversal of impairments of other financial and non-financial assets.
Underlying basis	Statutory basis adjusted for certain items as detailed in the Basis of Presentation.
Write offs	Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

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

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

Financial information presented in this announcement is being published for the purposes of providing an overview of the Group financial results for the year ended 31 December 2018. The financial information in this announcement does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2018, upon which the auditors have given an unqualified report, are expected to be published today and delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2019. The Board of Directors approved the Group statutory financial statements for the year ended 31 December 2018 on 28 March 2019. BOC Holdings’ statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the year ended 31 December 2017, upon which the auditors have given an unqualified audit report, were published on 27 March 2018 and were annexed to the annual return and delivered to the Registrar of Companies of Ireland.

It is noted that there are, what the Group considers to be, non-material reclassification differences between some of the figures included in the final Group financial results for the year ended 31 December 2018 published today and the preliminary Group financial results for the year ended 31 December 2018 which were published on 4 March 2019. These changes were made following the completion of the audit of the Group financial results for the year ended 31 December 2018.

Statutory basis: Audited statutory information is set out on pages 3-4. However, a number of factors have had a significant effect on the comparability of the Group’s financial position and results. Accordingly, the results are also presented on an underlying basis.

Underlying basis: The statutory results are adjusted for certain items (as described on pages 8-9) to allow a comparison of the Group’s underlying performance, as set out on pages 5-7.

This announcement and the presentation for the Group Financial Results for the year ended 31 December 2018 have been posted on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

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

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

Forward Looking Statements

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

Contacts

For further information please contact:
Investor Relations
+ 357 22 122239
investors@bankofcyprus.com

The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Bank of Cyprus Group operates through a total of 108 branches in Cyprus. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,146 staff worldwide. At 31 December 2018, the Group's Total Assets amounted to €22.1 bn and Total Equity was €2.4 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.