Bank of Cyprus

Announcement

Group Financial Results for the nine months ended 30 September 2016

Nicosia, 15 November 2016

Key Highlights

- Positive momentum continued in 3Q2016
- Further reduction of problem loans (90+ DPD) by €501 mn qoq; €2,6 bn or 23% reduction during 9M2016
- NPE reduction of €592 mn or 5% qoq; €2,1 bn or 15% reduction during 9M2016
- Significant increase in deposits by €896 mn or 6% qoq; €1,5 bn or 10% increase during 9M2016
- ELA reduced ytd by €3,0 bn to €0,8 bn
- CET1 ratio strengthened further to 14,6%; 60 basis points added during 9M2016
- Profit before provisions of €138 mn for 3Q2016, directed at increased provisions and impairment charges to faster de-risk balance sheet, a practice which is expected to continue into 2017
- Profit after tax of €5 mn for 3Q2016 and €62 mn for 9M2016

Statement by Bank of Cyprus Group CEO:

"We are pleased that the positive momentum continued in the third quarter of 2016, strengthening further our CET1 ratio and accelerating the reduction of non-performing loans and the increase in deposits compared to the previous quarter.

We reduced the stock of non-performing loans for a sixth consecutive quarter and by €2,6 bn or 23% during the nine month period. We have completed €3,4 bn of restructurings with the success of the restructurings performed starting to yield results. For the first time, the reduction of NPEs during the three months ended 30 September 2016 exceeded the reduction of 90+ DPD loans mainly as a result of restructured loans meeting the NPE exit criteria following satisfactory performance. The reduction of problem loans is expected to continue.

We are satisfied that our funding conditions continue to improve. We have repaid €3,0 bn of ELA year to date to a current level of €0,8 bn and full repayment now looks like a realistic near-term target. At the same time our deposits grew by €896 mn in the third quarter and our loans to deposit ratio stands at 102% as at the end of September 2016.

Our good underlying operating profitability continued in the third quarter at €138 mn and we have directed this to support faster derisking of our balance sheet, through increased provisions, a trend which we expect to continue into 2017.

The profit after tax for the third quarter was €5 mn and for the nine months ended 30 September 2016 was €62 mn.

The Group's capital ratio (CET1) was further strengthened by 60 basis points during the nine month period and stands at 14,6% at 30 September 2016.

We remain focused on operating as an accelerator for growth in the real Cypriot economy. Since the beginning of the year, we granted over €1 bn of new loans to promising sectors of the domestic economy through our core operations and to entrepreneurs in the UK through our UK subsidiary. New loans of €763 mn were granted to Cypriot households and businesses this year and we are actively seeking to provide more credit to viable businesses and consumers."

John Patrick Hourican

Group Profile

Founded in 1899, Bank of Cyprus Group is the leading banking and financial services group in Cyprus. The Group provides a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Group operates through a total of 129 branches, of which 123 operate in Cyprus, 1 in Romania and 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4.229 staff worldwide. At 30 September 2016, the Group's Total Assets amounted to €22,4 bn and Total Equity was €3,1 bn.

EUROMONEY AWARDS FOR EXCELLENCE 2016

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A. Analysis of the Financial Results for the nine months ended 30 September 2016

A.1 Balance Sheet Analysis

A.1.1 Capital Base

Shareholders' equity totalled €3.063 mn at 30 September 2016. The **CET1 ratio**[1] totalled 14,6% at 30 September 2016, compared to 14,4% at 30 June 2016 and to 14,0% at 31 December 2015. The CET1 was positively affected by the lower risk weighted assets mainly driven by balance sheet movements. Adjusting for Deferred Tax Assets[2], the **CET1 ratio on a fully-loaded basis** totalled 13,8% at 30 September 2016.

Following the Supervisory Review and Evaluation Process (SREP) performed by the ECB in 2016, based on the pre-notification received in September 2016, the Group's minimum phased-in CET1 capital ratio was set at 10,75%, comprising of a 4,5% Pillar I requirement, a 3,75% Pillar II requirement and the capital conservation buffer (CCB) which stands at 2,5% fully phased-in (in accordance with the prevailing Capital Requirement Directive IV (CRD IV) legislation in Cyprus). The ECB has also provided non public guidance for an additional Pillar II CET1 buffer.

The overall Total Capital Requirement has been set at 14,25%, comprising of a Pillar I requirement of 8% (of which up to 1,5% can be in the form of Additional Tier 1 capital and up to 2,0% in the form of Tier 2 capital), a Pillar II requirement of 3,75% (in the form of CET1), as well as the CCB of 2,5% fully phased in, which has been set for all credit institutions through the requirements of Capital Requirement Directive (CRR)/CRD IV.

The new SREP requirements will be effective as from 1 January 2017, and as at the date of publication of this announcement these requirements remain subject to ECB final confirmation, which is expected by the end of 2016.

A.1.2 Customer Deposits and Loans

Group customer deposits totalled €15.643 mn at 30 September 2016 (compared to €14.746 mn at 30 June 2016 and €14.181 mn at 31 December 2015), and recorded an increase of 10% year to date. Customer deposits in Cyprus increased by €899 mn during the quarter, part of which relates to government deposits. Cyprus deposits stood at €14.210 mn at 30 September 2016, accounting for 91% of Group customer deposits. The Bank's deposit market share[3] in Cyprus reached 30,3% at 30 September 2016, compared to 29,0% at 30 June 2016.

Customer deposits are the primary source of funding, with their contribution towards the Group's overall funding gradually increasing. Customer deposits accounted for 70% of total assets at 30 September 2016, compared to 65% of total assets at 30 June 2016. Overall, customer deposits over total assets recorded an increase of 22 percentage points, since the low of 48% at 31 March 2014. The Loans to Deposits ratio (L/D) improved to 102% at 30 September 2016, compared to 110% at 30 June 2016 and a high of 151% at 31 March 2014.

Group gross loans[4] totalled €20.596 mn at 30 September 2016, compared to €21.083 mn at 30 June 2016 and €22.592 mn at 31 December 2015. The reduction in gross loans is, to a large extent, driven by the restructuring activity, including debt for property and debt for equity swaps. Gross loans in Cyprus totalled €18.773 mn at 30 September 2016 and accounted for 91% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a 41,1% loan market share[5] at 30 September 2016, compared to 41,4% at 30 June 2016. Gross loans in the UK amounted to €1.232 mn, compared to €1.179 mn at 30 June 2016 and accounted for 6% of Group total loans.

[1] Transitional basis; includes reviewed profits for the nine months ended 30 September 2016.
[2] The DTA adjustments relate to Deferred Tax Assets totalling €450 mn and recognised on tax losses totalling €3,6 bn and can be set off against future profits of the Bank until 2028 at a tax rate of 12,5%. Furthermore, there are tax losses of c. €8,5 bn for which no deferred tax asset has been recognised. The recognition of deferred tax assets is supported by the Bank's business forecasts and takes into account the recoverability of the deferred tax assets within their expiry period.
[3] Based on data from the Central Bank of Cyprus.
[4] Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €989 mn at 30 September 2016 (compared to €1.043 mn at 30 June 2016).
[5] See note 3.

A.1.3 Eurosystem Funding

At 30 September 2016, the Bank's Eurosystem funding totalled €2,0 bn, comprising ELA of €1,3 bn and European Central Bank (ECB) funding of €650 mn. Post 30 September 2016, ELA funding was reduced by €500 mn to a current level of €0,8 bn. In total, ELA has been reduced by €10,6 bn since its peak of €11,4 bn in April 2013.

A.1.4 Loan portfolio quality

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

Loans in arrears for more than 90 days (90+ DPD)[6] were reduced by €501 mn (5% reduction qoq) in 3Q2016. The decrease was primarily due to the restructuring activity, including debt for property and debt for equity swaps. 90+ DPD stood at €8.768 mn at 30 September 2016, accounting for 43% of gross loans (90+ DPD ratio), compared to 44% a quarter earlier. 90+ DPD were reduced by €2,6 bn or by 23% in the first nine months of 2016. The provisioning coverage ratio of 90+ DPD[7] loans increased to 54% at 30 September 2016 (53% at 30 June 2016). When taking into account tangible collateral at fair value, 90+ DPD loans are fully covered. The provisioning coverage ratio of 90+ DPD, calculated with reference to the contractual balances of customers, totalled 66%[8] at 30 September 2016, compared to 64% at 30 June 2016.

	30.09.2016		**30.06.2016**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
90+ DPD	**8.768**	**42,6%**	**9.269**	**44,0%**
Of which:				
- impaired with no arrears	514	2,5%	647	3,1%
- impaired with arrears less than 90 days	74	0,4%	66	0,3%

Non-performing exposures (NPEs)[9] as defined by the European Banking Authority (EBA) were reduced by €592 mn or 5% during 3Q2016 to €11.901 mn at 30 September 2016, accounting for 58% of gross loans. For the first time, the reduction of NPEs during the quarter exceeded the reduction of 90+ DPD mainly due to curing of restructured performing NPEs that met the exit criteria following satisfactory performance post their restructuring. Further curing of restructured performing NPEs is expected in the following quarters. The provisioning coverage ratio of NPEs stood at 40% at 30 September 2016, up from 39% at 30 June 2016. The provisioning coverage ratio of NPEs, calculated with reference to the contractual balances of customers, stood at 52%[10] at 30 September 2016, compared to 51% at 30 June 2016.

	30.09.2016		**30.06.2016**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**11.901**	**57,8%**	**12.493**	**59,3%**
Of which:				
- NPEs with forbearance measures, no impairments and no arrears	2.349	11,4%	2.436	11,6%

[6] Loans in arrears for more than 90 days (90+ DPD) are defined as loans past-due for more than 90 days and loans that are impaired (impaired loans are those which are not considered fully collectable and for which a provision for impairment has been recognised on an individual basis or for which incurred losses existed at their initial recognition or customers in Debt Recovery).
[7] Provisioning coverage ratio for 90+ DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, over 90+ DPD.
[8] This ratio is calculated by adjusting both the provisions stock and the customer balances to include any unrecognised interest income due on contractual balances.
[9] In 2014 the European Banking Authority (EBA) published its reporting standards on forbearance and non-performing exposures (NPEs). According to the EBA standards, a loan is considered a non-performing exposure if: (i) the debtor is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due, for example in case of a write off, a legal action against the borrower, or bankruptcy, or (ii) the exposures are impaired i.e. in cases where there is a specific provision, or (iii) there are material exposures which are more than 90 days past due, or (iv) there are performing forborne exposures under probation for which additional forbearance measures are extended, or (v) there are performing forborne exposures under probation that present more than 30 days past due within the probation period.
[10] See Note 8.

A.1.5 Real Estate Management Unit

The **Real Estate Management Unit (REMU)** was set up at the beginning of this year to on-board assets through debt for property swaps, to manage these assets (including selective investment and development) and to execute exit strategies in order to monetise these assets, thus achieving an accelerated and cheaper foreclosure process. During 9M2016, REMU acquired €894 mn of assets via the execution of debt for property swaps. During the first nine months of 2016, the Bank completed the disposal of real estate assets amounting to €110 mn. As at 30 September 2016, REMU was managing properties with a total carrying value of €1,3 bn.

A.1.6 Non-core overseas exposures

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

The remaining non-core overseas exposures at 30 September 2016 are as follows:

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €12 mn (compared to €13 mn at 30 June 2016), (b) 636 foreclosed properties with a book value of €161 mn (compared to 639 foreclosed properties with a book value of €164 mn at 30 June 2016), (c) off-balance sheet exposures totalling €115 mn (compared to €119 mn at 30 June 2016) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €80 mn (compared to €81 mn at 30 June 2016) and lending exposures in Cyprus with collaterals in Greece totalling €145 mn (compared to €144 mn at 30 June 2016).
- Romania: The overall net exposure is €221 mn (compared to €262 mn at 30 June 2016).
- Serbia: The overall net exposure is €42 mn, in line with the net exposure as at 30 June 2016.
- Russia: The remaining net exposure (on and off balance sheet) is €45 mn, in line with the net exposure as at 30 June 2016.

A.2 Income Statement Analysis

Net interest income (NII) and net interest margin (NIM) for 9M2016 amounted to €524 mn and 3,51% respectively. NII for 3Q2016 was €164 mn, down 7%, compared to €175 mn for 2Q2016, reflecting the reduction in customer loan balance primarily as a result of the elevated loan restructuring activity, including debt for property swaps. The NIM for 3Q2016 was at 3,35% compared to 3,55% for 2Q2016.

Non-interest income for 9M2016 was €193 mn, with recurring income comprising net fee and commission income of €112 mn and net insurance income of €35 mn. Non-interest income for 3Q2016 was €71 mn, up by 15% qoq, mainly due to a gain of €9 mn from the buyback of Cyprus Government Bonds. Recurring income comprising net fee and commission income and net insurance income totalled €38 mn and €10 mn for 3Q2016, respectively. The remaining component of non-interest income[11] for 3Q2016 was a net profit of €23 mn, which was positively affected by the gain from the buyback of Cyprus Government bonds, compared to a net profit of €14 mn for 2Q2016.

Total income[12] for 9M2016 amounted to €717 mn, compared to €786 mn for 9M2015, down 9% yoy, with the reduction primarily reflecting the reduction in NII. Total income for 3Q2016 recorded a decrease of 1% qoq and amounted to €235 mn (€238 mn for 2Q2016).

Total expenses for 9M2016 were €299 mn, 57% of which related to staff costs (€171 mn) and 43% to other operating expenses (€128 mn). The cost to income ratio for 9M2016 stood at 42%. Total expenses for 3Q2016 were €97 mn, compared to €103 mn a quarter earlier, down 5% qoq primarily driven by the 7% decrease in staff costs reflecting the effect of the voluntary exit plan (VEP) completed in 2Q2016. The cost to income ratio for 3Q2016 was 41%, compared to 43% for 2Q2016.

[11] Non interest income comprises of net foreign exchange gains/(losses), net gains/(losses) on other financial instruments, gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties and other income.
[12] Total income includes Net Interest Income and Non-Interest Income.

Profit before provisions and impairments[13], advisory, VEP, other restructuring costs and discontinued operations for 9M2016 was €418 mn, compared to €490 mn a year earlier, primarily reflecting the lower level of NII. Profit before provisions and impairments[14], advisory, VEP, other restructuring costs and discontinued operations for 3Q2016 was €138 mn, compared to €135 mn for 2Q2016, up by 2% qoq, a net result of the lower NII, the higher gains of financial instruments and the lower staff costs.

Provisions for impairment of customer loans (continuing operations) net of gains/(losses) on derecognition of loans and changes in expected cash flows for 9M2016 totalled €267 mn. Provisions for impairment of customer loans (continuing operations) net of gains/(losses) on derecognition of loans and changes in expected cash flows for 3Q2016 amounted to €109 mn, compared to €96 mn for 2Q2016. The annualised provisioning charge for 9M2016 accounted for 1,6%[15] of gross loans, compared to 1,4% for 1H2016. At 30 September 2016, accumulated provisions, including fair value adjustment on initial recognition[16], totalled €4.703 mn[17] (compared to €4.875 mn at 30 June 2016) and accounted for 22,8% of gross loans (compared to 23,1% at 30 June 2016).

Impairments of other financial and non-financial assets for 9M2016 totalled €34 mn. Impairments of other financial and non-financial assets for 3Q2016 totalled €12 mn, compared to €14 mn for 2Q2016, including impairment losses of stock of properties in Cyprus, Greece and in Romania.

Profit after tax excluding advisory, VEP, other restructuring costs, discontinued operations and net profit on disposal of non-core assets for 9M2016 totalled €101 mn. Profit after tax excluding advisory, VEP and other restructuring costs, discontinued operations and net profit on disposal of non-core assets for 3Q2016 totalled €16 mn compared to €17 mn in 2Q2016.

Advisory, VEP and other restructuring costs[18] for 9M2016 totalled €98 mn. Advisory, VEP and other restructuring costs for 3Q2016 totalled €11 mn, compared to €70 mn in 2Q2016. Adjusting for the one-off cost of the VEP in 2Q2016, the advisory, VEP and other restructuring costs remained at similar levels (€13 mn for 2Q2016). **Net gains on disposals of non-core assets** for 9M2016 of €59 mn primarily relate to the gain on disposal of the investment in Visa Europe during 2Q2016.

Profit after tax attributable to the owners of the Bank for 9M2016 was €62 mn. Profit after tax attributable to the owners of the Bank for 3Q2016 totalled €5 mn, compared to a profit of €6 mn for 2Q2016.

B. Outlook

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

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

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

The Group is now focused on its core operations in Cyprus, which account for 91% and 91% of gross loans and customer deposits respectively. The **financial performance of the Group and the economic recovery of Cyprus are mutually reinforced**. Growth in the Cypriot economy accelerated in the first half of 2016 with real GDP rising by 2,7% year-on-year seasonally adjusted. Growth was broadly based with almost all sectors participating including construction and manufacturing. Tourist activity was strong with arrivals up 19,2% in the

[13] Comprising provisions for impairments of customer loans and impairments of other financial and non-financial assets, net of gains/(losses) on derecognition and changes in expected cash flows.
[14] See Note 13.
[15] That is Provisions for impairment of customer loans and gains/(losses) on derecognition of loans and changes in expected cash flows on acquired loans over average gross loans (as defined in Note 4).
[16] Including the fair value adjustment on initial recognition (difference between the outstanding contractual amount and the fair value of loans acquired from Laiki Bank) and provisions for off-balance sheet exposures.
[17] The decrease in accumulated provisions of €172 mn primarily relates to increased restructuring activity for the quarter. (The reduction in the previous quarter amounted to €201 mn).
[18] Advisory, VEP and other restructuring costs comprise mainly: 1) fees of external advisors in relation to: (i) disposal of operations (ii) customer loan restructuring activities which are not part of the effective interest rate and (iii) the contemplated listing on the London Stock Exchange and 2) voluntary exit plan cost.

year to August and tourist receipts up 13,7% in the year to June. Growth was further supported by a drop in unemployment, a near balanced government budget, a steady improvement in the banking sector, and upgrades of the sovereign's credit ratings. In September 2016, S&P Global raised Cyprus' long-term sovereign credit rating to 'BB', with a positive outlook, to reflect Cyprus' economic growth and debt reduction, as well as improvement in the banking sector's asset quality. In October 2016, Fitch upgraded Cyprus' long-term issuer default rating 'BB-' with a positive outlook to reflect continuing progress in economic adjustment particularly in terms of the economic recovery, the banking sector's strengthening and fiscal management. In November 2016 Moody's Investors Service improved the outlook on the Republic of Cyprus from stable to positive. These upgrades reflect the stronger than expected economic growth, the improvement in the fiscal position of the government and the improvement in the banking sector.

The outlook for the Cypriot economy in the second half of 2016 and over the medium term remains positive, underpinned by the strong performance of the tourist sector, a number of investment projects which are planned, including the casino resort and other infrastructure works in the tourist and energy sectors, as well as its unique position as a regional centre for business services.

Direct consequences on Cyprus of the UK referendum to exit the EU, will mostly emanate from tourist activity depending on the extent and durability of depreciation of the British Pound against the Euro, or from a possible economic recession in the UK. The possible loss of UK tourist arrivals may be mitigated at least in part, by increases in arrivals of tourists from other destinations, as tourist traffic may continue to divert away from other regional destinations. Downside risks to growth projections relate to the high level of non-performing loans and the worsening of the external environment.

Tackling the Group's loan portfolio quality remains the top priority for management. The Group continues to make steady progress across all asset quality metrics and the strong momentum in the loan restructuring activity continues. The Group has been successful in engineering sustainable restructuring solutions at an average of €1 bn a quarter since January 2015 across the spectrum of its loan portfolio. There is a shift of focus to the Recoveries portfolio, with recoveries via foreclosures and other available tools, to unlock solutions with problematic cases and non-cooperative borrowers. During the first nine months of 2016 the recoveries portfolio was deleveraged by €0,7 bn. Overall, the Bank is responsible for approximately two-thirds of the reduction of NPEs in Cyprus during the period of 1 January 2015 to 30 June 2016 that demonstrates the effectiveness of its strategy to tackle non-performing loans via a dedicated RRD division. Further reduction of the Group's 90+ DPD is expected in the forthcoming quarters, on the back of slower creation of 90+ DPD loans, restructuring momentum, implementation of regulatory reforms particularly the insolvency framework, foreclosure law and sale of loans bill, tax incentives to support debt restructuring and the improving economic and operating conditions in Cyprus. The set-up of REMU at the beginning of the year to professionalise the on boarding, management and sale of foreclosed property is expected to support the acceleration of the recovery process.

In order to normalise its funding structure and to fully repay ELA, the Bank is **stepping up its efforts to attract deposits**, leveraging on increasing customer confidence towards the Bank and improving macroeconomic conditions. During the year, the Bank introduced new deposit products aimed at attracting local and international depositors. The Bank's strong capital position and overall improvement in its financial position **enhance its funding options and facilitate access to the debt capital markets for wholesale funding,** subject to market conditions and investor appetite. So far, the Bank has been successful in reducing its reliance on ELA funding, with the quantum coming down by €10,6 bn as at today. ELA has been reduced to less than €1 bn and is expected to be fully extinguished early next year.

The Bank considers that it is adequately capitalized, taking into account its risk profile, level of non-performing loans, macro-economic environment and applicable regulatory requirements. Whilst the Bank considers that its current levels of Common Equity Tier 1 capital are appropriate for its circumstances, the Bank continues to seek opportunities to optimise the level and composition of its liabilities in light of existing and upcoming regulatory requirements, including the Minimum Requirement for Own Funds and Eligible Liabilities ('MREL'). Although the precise calibration and ultimate designation of the Bank's MREL liabilities have not yet been finalised, the Bank continues to consider various funding opportunities (including both senior debt and/or subordinated capital instruments) in anticipation of such requirements and in order to further strengthen its balance sheet.

Strategic focus and reshaping of business model to grow in core Cypriot market are through prudent new lending and developing the UK franchise. Growth in new lending is focused on selected industries that are more in line with the Bank's target risk profile, such as tourism, trade, professional services, information/communication technologies, energy, education and green projects. The Group is also aiming to pursue a focused growth strategy in the UK, targeting entrepreneurs and owner-managed businesses. With selective presence in London and Birmingham and a predominantly retail funded franchise, the UK strategy is to support its core proposition in the property market, specifically targeting the professional buy-to-let market and further expanding its mortgage, business and its savings, current accounts and trade-related products for SMEs, professionals and Cypriot residents.

Management is also focused on developing a lean bank by disposing non-core assets in addition to placing emphasis on diversifying income streams by boosting fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife and General Insurance of Cyprus operating in the sectors of Life and General insurance respectively, constitute a leading player in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Bank's income streams. The insurance income net of insurance claims for the 9M2016 amounted to €35 mn compared to €32 mn for 9M2015.

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

Bank to apply for a listing on the London Stock Exchange and the Cyprus Stock Exchange using a Holding Company structure

The Bank today announced that it is **applying for a standard listing on the London Stock Exchange (LSE)**. The Group intends to maintain a listing on the Cyprus Stock Exchange and will no longer be listed on the Athens Exchange. The London listing is in line with the Bank's long-term strategic commitment to list on a major European stock exchange. The Bank continues to work towards a premium listing on the LSE, and intends to apply for a step up to the premium segment of the LSE at a future date, with the intention of becoming eligible for inclusion in the FTSE UK Index series. Work is ongoing and the standard listing is an intermediate step on this long-term path.

In order to be considered eligible for future inclusion in the FTSE UK index series following a step up to a premium listing, **the Bank has decided to incorporate a new holding company in Ireland**, which is a FTSE eligible jurisdiction. The newly set up company, Bank of Cyprus Holdings plc (BOC Holdings) was incorporated in Ireland earlier this year for this purpose. **It is intended that BOC Holdings will own all of the existing shares of the Bank, and existing shareholders of the Bank will receive shares in BOC Holdings in proportion to their current ownership**. The Group's headquarters, management and operations will all remain in Cyprus and the new holding company will be, and the Bank will remain, tax resident in Cyprus. The Group will continue to be regulated by the ECB and the CBC. **The change in the Group's structure will be implemented by means of a Cypriot law scheme of arrangement (the 'Scheme') and is therefore subject, amongst other things, to the approval/sanctioning of the Scheme by (i) the shareholders at an extraordinary general meeting, (ii) the Bank's regulators (including the ECB and the CBC) and (iii) the Courts of Cyprus following a hearing upon the fairness of the Scheme terms**. It is intended that a circular setting out full details of the Scheme will be made available to the Bank's shareholders in the coming days and a prospectus in relation to the shares in the new holding company is intended to be published thereafter.

C. Key Performance Indicators

The below table shows the Group's performance vis-à-vis the set of Medium Term Targets, including targets relating to 90+ DPD ratio, ELA, Loans to Deposits ratio and Total Assets.

Group Key Performance Indicators		Actual Dec-2015	Actual Sept-2016	Medium-Term Targets
Asset Quality	90+ Days Past Due ratio	50%	43%	**<30%**
	90+ Days Past Due coverage ratio	48%	54%	**>50%**
	Provisioning charge[19] (Cost of Risk) annualised	4,3%	1,6%[20]	**<1,0%**
Funding	ELA % Assets; € bn	16% €3,8 bn	6% €1,3 bn	**Fully Repay**
	Net Loans % Deposits	121%	102%	**100%-120%**
Capital	CET1 (transitional)[21]	14,0%	14,6%	**>15%**
Efficiency	Net interest margin	3,8%	3,5%	**~3,00%**
	Fee and Commission income / total income	15%	16%	**>20%**
	Cost to Income ratio	40%	42%	**40%-45%**
Balance Sheet	Total assets	€23,3 bn	€22,4 bn	**>€25 bn**

[19] IFRS 9 impact, which is effective as from 1 January 2018, has not been taken into account for the purpose of the targets. Targets are set on the basis of the present regulatory environment.
[20] See Note 15.
[21] See Note 1.

D. Appendix

Interim Condensed Consolidated Income Statement							
€ mn	**9M2016**	**9M2015**	**yoy ±%**	**3Q2016**	**2Q2016**	**qoq ±%**	**1Q2016**
Net interest income	524	644	-19%	164	175	-7%	185
Net fee and commission income	112	115	-3%	38	38	1%	36
Net foreign exchange gains and net gains on other financial instruments	35	18	91%	20	9	126%	6
Insurance income net of insurance claims	35	32	9%	10	11	-9%	14
Gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	3	(36)	-107%	1	1	-67%	1
Other income	8	13	-33%	2	4	-16%	2
Total income	**717**	**786**	-9%	**235**	**238**	-1%	**244**
Staff costs	(171)	(177)	-3%	(54)	(59)	-7%	(58)
Other operating expenses	(128)	(119)	7%	(43)	(44)	-3%	(41)
Total expenses	**(299)**	**(296)**	1%	**(97)**	**(103)**	-5%	**(99)**
Profit before provisions and impairments, gains/(losses) on derecognition of loans and changes in expected cash flows, restructuring costs and discontinued operations	**418**	**490**	-15%	**138**	**135**	2%	**145**
Provisions for impairment of customer loans net of gains/(losses) on derecognition of loans and changes in expected cash flows	**(267)**	**(329)**	-19%	**(109)**	**(96)**	14%	**(62)**
Impairments of other financial and non-financial assets	(34)	(37)	-9%	(12)	(14)	-10%	(8)
Share of profit from associates and joint ventures	3	3	-12%	1	1	96%	1
Profit before tax, restructuring costs and discontinued operations	**120**	**127**	-5%	**18**	**26**	-32%	**76**
Tax	(16)	(18)	-7%	(4)	(4)	0%	(8)
(Loss)/profit attributable to non-controlling interests	(3)	6	-162%	2	(5)	-142%	(1)
Profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**101**	**115**	-13%	**16**	**17**	-4%	**67**
Advisory, VEP and other restructurings costs[22]	(98)	(27)	267%	(11)	(70)	-84%	(17)
Loss from disposal groups held for sale/discontinued operations	-	(38)	-100%	-	-	-	-
Net gain on disposal of non-core assets	59	23	154%	0	59	-100%	-
Profit after tax	**62**	**73**	-16%	**5**	**6**	-15%	**50**

Key Performance Ratios	**9M2016**	**9M2015**	**yoy ±%**	**3Q2016**	**2Q2016**	**qoq ±%**	**1Q2016**
Net Interest Margin (annualised)	3,51%	3,82%	-31 bps*	3,35%	3,55%	-20 bps*	3,63%
Cost to income ratio	42%	38%	+4p.p*	41%	43%	-2 p.p*	40%
Return on average assets (annualised)	0,4%	0,4%	-	0,1%	0,1%	-	0,9%
Return on average equity (annualised)	2,7%	2,8%	-1p.p*	0,7%	0,8%	-0,1 p.p*	6,5%
Basic earnings/(losses) per share (€ cent)	0,69	0,82	(0,13)	0,06	0,07	(0,01)	0,56

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

[22] See Note 18

Interim Condensed Consolidated Balance Sheet			
€ mn	**30.09.2016**	**31.12.2015**	**±%**
Cash and balances with central banks	1.587	1.423	12%
Loans and advances to banks	1.184	1.314	-10%
Debt securities, treasury bills and equity investments	595	1.009	-41%
Net loans and advances to customers	15.939	17.192	-7%
Other assets	3.065	2.284	34%
Non-current assets and disposal group held for sale	12	49	-76%
Total assets	**22.382**	**23.271**	-4%
Deposits by banks	371	242	53%
Funding from central banks	1.950	4.453	-56%
Repurchase agreements	329	368	-11%
Customer deposits	15.643	14.181	10%
Debt securities in issue	0	1	-100%
Other liabilities	986	944	4%
Non-current liabilities and disposal group held for sale	0	4	-100%
Total liabilities	**19.279**	**20.193**	-5%
Share capital	892	892	0%
Capital reduction reserve and share premium	2.505	2.505	0%
Revaluation and other reserves	241	259	-7%
Accumulated losses	(575)	(601)	-4%
Shareholders' equity	**3.063**	**3.055**	0%
Non-controlling interests	40	23	79%
Total equity	**3.103**	**3.078**	1%
Total liabilities and equity	**22.382**	**23.271**	-4%

Key Balance Sheet figures and ratios	**30.09.2016**	**31.12.2015**	**±%**
Gross loans (€ mn)	20.596	22.592	-9%
Customer deposits (€ mn)	15.643	14.181	10%
Loans to deposits ratio (net)	102%	121%	-19p.p.*
90+ DPD ratio	43%	50%	-7p.p.*
90+ DPD provisioning coverage ratio[23]	54%	48%	+6p.p.*

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

Capital	**30.09.2016**	**31.12.2015**	**±%**
Common Equity Tier 1 capital ratio (CET1) (transitional)[24]	14,6%	14,0%	+6p.p. *
Total capital ratio	14,7%	14,1%	+6p.p.*
Risk weighted assets (€ mn)	18.803	19.666	-4%

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

Notes to the Financial Results of the Group for the nine months ended 30 September 2016:

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2016 are available at the Bank of Cyprus Public Company Ltd Registered Office (at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2016 have not been audited by the Bank's external auditors, but have been reviewed in accordance with the International Standard on Review Engagements 2410.

The announcement and the presentation for the financial results for the nine months ended 30 September 2016 have been posted on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

[23] See Note 7.
[24] See Note 1.