Bank of Cyprus Group

Announcement

Group Financial Results for the quarter ended 31 March 2015

Nicosia, 29 May 2015

Key Highlights

- **Positive customer flows continued in 2015; net loans to deposits ratio (L/D) improved to 138% from 141% at 31 December 2014.**
- **ELA reduced in 1Q2015 by €500 mn to €6,9 bn at 31 March 2015, with a further reduction to €6,4 bn as at today.**
- **Common Equity Tier 1 capital ratio (transitional basis) at 13,9%.**
- **Profit after tax from continuing operations of €57 mn for 1Q2015, compared to a loss of €107 mn for 4Q2014. Profit after tax attributable to the owners of the Bank of €29 mn for 1Q2015, compared to a loss of €337 mn for 4Q2014.**

Bank of Cyprus Group CEO Statement:

We have made good progress against our strategic objectives during the first quarter, most notably reducing ELA by €500 mn to €6,9 bn, and to a current level of €6,4 bn, and continuing to stabilise our deposit base, while maintaining our capital position. The loan to deposits ratio improved to 138%, partly because of the continuation of positive customer flows, which is evidence of the increasing trust and confidence of our customers. Furthermore, the improvement in the Bank's core results continued, with profit after tax from continuing operations totalling €57 mn, compared to a loss of €107 mn for 4Q2014.

The Bank's significantly strengthened capital position and overall improvement in its financial position enhance its funding options and will facilitate access to the capital markets, especially following the recent successful debt raising by the Republic of Cyprus. Depending on market conditions and investor appetite, the Bank will assess the possibility of raising wholesale funding, with the proceeds of such funding used to reduce ELA.

The adoption of the foreclosure legislation and insolvency framework is a significant step in enabling the Bank to tackle its delinquent loans and improve asset quality.

The Cyprus economy is showing further signs of stabilisation amidst a relatively unfavourable external environment, with the economy recording its first quarter of positive economic growth following fourteen consecutive quarters of negative economic growth. In order to support the recovery of the Cypriot economy, the Bank has introduced new lending schemes and other initiatives to support local businesses, creating the conditions to help boost domestic economic activity.

Through specific, deliberate and well-timed actions we are delivering a stronger, more focused institution capable of supporting the recovery of the Cypriot economy**.** As the leading financial institution in Cyprus, the Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus and will benefit significantly from the economic recovery.

John Patrick Hourican, Group Chief Executive Officer

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 259 branches, of which 130 operate in Cyprus, 123 in Russia, 1 in Romania, 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 6.715 staff worldwide. At 31 March 2015, the Group's Total Assets amounted to €26,7 bn and Total Equity to €3,5 bn.

A. Summary of Financial Results for the quarter ended 31 March 2015

Balance Sheet Highlights

- The **Common Equity Tier 1** capital (CET 1) ratio (transitional basis) was 13,9% at 31 March 2015, compared to 14,0% at 31 December 2014, while the fully loaded CET 1 ratio remained unchanged at 13,4%.

- At 31 March 2015, **gross loans**[1] and **customer deposits**[2] totalled €24,1 bn and €13,6 bn respectively, with the L/D ratio[3] improving to 138%, compared to 141% at 31 December 2014.
- **Emergency Liquidity Assistance (ELA)** has been further reduced by €500 mn during 1Q2015 to €6,9 bn at 31 March 2015. Post quarter end, ELA was further reduced by €500 mn to €6,4 bn. ELA has been reduced by €5,0 bn since its peak of €11,4 bn in April 2013.
- **90+ DPD**[4] stood at €12.789 mn at 31 March 2015, up by 1% qoq, mainly due to the impact from foreign exchange fluctuations, and accounted for 53% of gross loans (90+ DPD ratio); the 90+ DPD provisioning coverage ratio improved to 42%[5], compared to 41% at 31 December 2014.

Income Statement Highlights[6]

- **Net Interest income (NII)** for 1Q2015 totalled €225 mn in line with the previous quarter. The **Net Interest Margin (NIM)** for 1Q2015 was 3,94%, compared to 3,81% for 4Q2014. **Total income** for 1Q2015 was €272 mn, compared to €281 mn for 4Q2014.

- **Total expenses** for 1Q2015 were €102 mn, showing an 11% decrease from €114 mn for 4Q2014, mainly due to increased non-recurring other operating expenses during 4Q2014. Hence the cost to income ratio improved to 38% for 1Q2015 from 41% for 4Q2014.

- **Profit before provisions and impairments**[7]**, restructuring costs and discontinued operations** for 1Q2015 was €170 mn, compared to €167 mn for 4Q2014.

- **Provisions for impairment** of customer loans (continuing operations) for 1Q2015 amounted to €148 mn[8], compared to the elevated provisions of €248 mn for 4Q2014, which related to the completion of the review of the Asset Quality Review (AQR) results.

- **Profit after tax from continuing operations (profit after tax excluding restructuring costs, discontinued operations and net loss on disposal of non-core assets)** for 1Q2015 totalled €57 mn, compared to a loss of €107 mn for 4Q2014.

- **Loss from disposal groups held for sale/discontinued operations** for 1Q2015 was €21 mn, of which a loss of €20 mn related to the Russian operations (compared to a net loss of €214 mn for 4Q2014, of which a loss of €246 mn related to the Russian operations).

- **Profit after tax attributable to the owners of the Bank** for 1Q2015 was €29 mn, compared to a loss of €337 mn for 4Q2014.

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[1] 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 €1.545 mn (compared to €1.566 mn at 31 December 2014) and include loans of discontinued operations/disposal group held for sale.
[2] Including deposits of discontinued operations/disposal group held for sale.
[3] Net loans to deposits ratio includes loans and deposits of discontinued operations/disposal group held for sale. Net loans to deposits ratio excluding loans and deposits of discontinued operations/disposal group held for sale was 140% at 31 March 2015, compared to 143% at 31 December 2014.
[4] Loans in arrears for more than 90 days (90+ DPD) are defined as loans with a specific provision (i.e. impaired loans) and loans past-due for more than 90 days, but not impaired.
[5] 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.
[6] As from 4Q2014 the Group's operations in Russia are treated as a disposal group held for sale and results have been presented accordingly as discontinued operations according to IFRS 5. Hence comparatives have been represented accordingly. In addition, comparatives for impairment of other financial and non-financial assets and for gains on derecognition and changes in expected cash flows on acquired loans have been reclassified to conform with changes in the presentation of the current period.
[7] Comprising provisions for impairments of customer loans and impairments of other financial and non-financial assets, net of gains on derecognition and changes in expected cash flows on acquired loans.
[8] Provisions for impairment of customer loans for 1Q2015 were €171 mn and for FY2014 €969 mn, when including provisions for impairments of discontinued operations.

B. Analysis of Financial Results for the quarter ended 31 March 2015

B.1 Balance Sheet Analysis

B.1.1 Capital Base

Group shareholders' equity totalled €3.502 mn at 31 March 2015. The Bank remains appropriately capitalised, with **CET1 ratio (transitional basis) at 13,9%** at 31 March 2015 (compared to 14,0% at 31 December 2014). Adjusting for Deferred Tax Assets, the **CET1 ratio on a fully-loaded basis** totalled 13,4% at 31 March 2015. During 1Q2015, the Group's CET1 ratio was positively affected by the profits for the period (it is noted that the CET1 ratio includes unaudited profits amounting to €15 mn for the quarter), but was negatively affected by the increase in risk weighted assets, primarily due to fluctuations in foreign exchange rates and the phasing-in of transitional adjustments (mainly deferred tax) as from 1 January 2015. As at 31 March 2015, the Group's capital position exceeds its Pillar I and Pillar II add-on capital requirements, providing a loss-absorbing buffer to the Group.

Post 31 March 2015, the Bank disposed of its investment in Marfin Diversified Strategy Fund Plc[9], resulting in a positive impact of approximately 0,1 percentage points on the Group's Common Equity Tier 1 capital ratio, due to the reduction of risk weighted assets.

As part of Phase 3 of its Share Capital Increase[10], the Bank announced the completion of the Retail Offer on 13 January 2015. The Bank received valid applications for 567.188 Retail Shares at the Subscription Price of €0,24 per Retail Share, totalling €136.125. As a result, the total number of Issued Ordinary Shares of the Bank is 8.922.944.533, with a nominal value of €0,10 each and the Issued Share Capital currently stands at €892.294.453,30.

Going forward, the Group aims to preserve and enhance its capital adequacy by retaining internally generated capital, while the restructuring and disposal of non-core assets will be driven by risk mitigation and capital considerations.

B.1.2 Customer Deposits and Loans

Group customer deposits totalled €13.611 mn at 31 March 2015, compared to €13.169 mn at 31 December 2014. In constant exchange rates, Group customer deposits decreased slightly by €30 mn, while customer deposits in Cyprus increased by €32 mn during 1Q2015.

Post abolition of external capital controls in April 2015, customers have been utilising their funds, but no significant outflows have been observed. Net customer inflows[11] in Cyprus continued during 2015, which is evidence of the growing trust and confidence of customers towards the Bank.

As at 31 March 2015, customer deposits in Cyprus accounted for 86% of Group customer deposits, the United Kingdom for 10% and Russia for 4%. The Bank's deposit market share[12] in Cyprus totalled 25,3% at 31 March 2015, compared to a low of 24,6% at 30 November 2014.

Customer deposits remain the Group's primary source of funding, with their contribution towards the Group's overall funding gradually increasing. Customer deposits accounted for 51% of Group total assets at 31 March 2015, compared to 49% at 31 December 2014 and a low of 48% at 31 March 2014. The L/D ratio[13] improved to 138% at 31 March 2015, compared to 141% at 31 December 2014 and a high of 151% at 31 March 2014.

Group gross loans[14] totalled €24,1 bn at 31 March 2015, compared to €23,8 bn at 31 December 2014. In constant exchange rates, the Group gross loans were reduced by €87 mn and gross loans in Cyprus by €106

[9] See relevant announcement dated 30 April 2015, http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20150429SaleOfMDSF_ENG_Final.pdf
[10] The Share Capital Increase was approved by the Bank's shareholders at an Extraordinary General Meeting on 28 August 2014 and Phases 1 and 2 were completed on 18 September 2014.
[11] Customer flows are defined as the difference between changes in the stock of customer deposits and changes in the stock of gross customer loans.
[12] Based on data from the Central Bank of Cyprus.
[13] See Note 3.
[14] See Note 1.

mn. Gross loans in Cyprus totalled €21,3 bn at 31 March 2015, and accounted for 89% of gross loans of the Group. The Bank continues to be the single largest credit provider in Cyprus with a 37,7% market share at 31 March 2015, compared to 38,8% at 31 December 2014. Loans in Russia (€1,1 bn) and the UK operations (€1,0 bn) accounted for 9% of total loans. In order to support the recovery of the Cypriot economy, the Bank has renewed its partnership with the European Investment Bank (EIB) and the European Regional Development Fund (ERDF), and continues to provide joint financed schemes aimed at supporting local businesses. Furthermore, the Bank has introduced new credit facilities aimed at boosting foreign trade activities through guarantees offered by the EIB.

B.1.3 Eurosystem Funding

The Bank's Eurosystem funding totalled €7,7 bn at 31 March 2015, comprising ELA of €6,9 bn and ECB funding of €800 mn. Customer inflows and proceeds from deleveraging were used to reduce ELA by €500 mn during the 1Q2015 to €6,9 bn at 31 March 2015, accounting for 26% of total assets. During the 1Q2015, the ECB funding was reduced by €80 mn to €800 mn at 31 March 2015 from €880 mn at 31 December 2014. Post 31 March 2015, ELA and ECB funding were reduced further by €500 mn to €6,4 bn and €40 mn to €760 mn, respectively. In total, ELA has been reduced by €5,0 bn since its peak of €11,4 bn in April 2013.

B.1.4 Loan portfolio quality

The quality of the Group's loan portfolio continues to be pressured primarily by the challenging economic conditions in Cyprus. The recent adoption of the foreclosure legislation and the insolvency framework, along with the full adoption and implementation of the relevant regulations, are significant steps in enabling the Bank to tackle its delinquent loans in Cyprus and to improve asset quality.

Loans in arrears for more than 90 days (90+ DPD)[15] for the Group totalled €12.789 mn at 31 March 2015 and accounted for 53% of gross loans (90+ DPD ratio). In constant exchange rates, 90+ DPD decreased by €46 mn. 90+ DPD in Cyprus totalled €11.531 mn and accounted for 90% of total 90+ DPD.

The provisioning coverage ratio of 90+ DPD[16] for the Group improved to 42% at 31 March 2015, from 41% at 31 December 2014, and, while taking into account tangible collateral at fair value, 90+ DPD are fully covered. The provisioning coverage ratio of 90+ DPD for the Group, taking into account the unrecognised interest income on nominal customer balances, the calculation of which is in line with local peers, totalled 52% at 31 March 2015, compared to 51% at 31 December 2014.

Non-performing exposures[17] **(NPEs) as defined by the European Banking Authority (EBA)** totalled €15.175 mn at 31 March 2015 (compared to €14.961 mn at 31 December 2014) and accounted for 63% of gross loans. In constant exchange rates, NPEs increased by €18 mn. The provisioning coverage ratio of NPEs (as defined by EBA) totalled 35% at 31 March 2015, compared to 34% at 31 December 2014.

	31.03.2015		**31.12.2014**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**15.175**	**63%**	**14.961**	**63%**
90+ DPD (as per financial statements definition)	**12.789**	**53%**	**12.653**	**53%**
Of which:				
impaired with no arrears	1.006	4%	1.153	5%
impaired with arrears less than 90 days	343	1%	291	1%

[15] See Note 4.
[16] See Note 5.
[17] 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 re-restructured within a 2 year probation period, or (v) there are performing forborne exposures under probation (2 years) that present more than 30 days past due after the restructuring date.

B.1.5 Update on non-core operations

As part of its **deleveraging strategy**, and through specific, deliberate and well-timed actions, the Bank continues to reduce its risk profile, to enhance its liquidity position and to improve its capital position through the disposal of operations that are considered as non-core. Post 31 March 2015, the Bank disposed of its investment in Marfin Diversified Strategy Fund Plc[18].

The non-core overseas operations as at 31 March 2015 are as follows:

- Greece[19]: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €76 mn (compared to €97 mn at 31 December 2014), (b) 619 foreclosed properties with a book value of €200 mn (compared to about 600 foreclosed properties with a book value of €179 mn at 31 December 2014), and (c) off-balance sheet exposures totalling €154 mn (compared to €185 mn at 31 December 2014).
- Romania: The overall net exposure is €439 mn (compared to €520 mn at 31 December 2014).
- Russia: The overall net exposure is €121 mn (compared to €130 mn at 31 December 2014). As from 4Q2014 the Group's operations in Russia are treated as a disposal group held for sale and results have been presented accordingly as discontinued operations.

B.2 Income Statement[20] Analysis

The Group's net interest income (NII) and net interest margin (NIM) for 1Q2015 amounted to €225 mn and 3,94% respectively. Both NII and NIM continue to reflect the current market conditions in the Cypriot banking system and the composition of the Group's funding, with 29% of the Group's balance sheet funded by the Eurosystem (ECB funding and ELA) at 31 March 2015 (compared to 31% at 31 December 2014). NII was stable when compared to the previous quarter and 9% lower yoy, mainly due to deleveraging actions[21] and the early partial repayment of a Cyprus Government Bond by the Republic of Cyprus in July 2014. NIM was improved when compared to 4Q2014 (3,81%), but remained at the same level when compared yoy (3,90%). The decision of the Central Bank of Cyprus (CBC) dated 16 February 2015 to reduce the interest rate ceiling from 3% to 2% above Euribor across the rate curve, as determined by the formula for the calculation of additional capital requirements of banks[22], led to a reduction in lending rates for base rate linked loans of 1%.

Non-interest income for 1Q2015 was €47 mn (compared to €56 mn for 4Q2014), with the recurring income comprising net fee and commission income of €43 mn and net insurance income of €12 mn. The remaining component of non-interest income (comprising net foreign exchange losses, net gains on other financial instruments and other income) was a net loss of €8 mn, compared to a net gain of €9 mn for 4Q2014. **Total income** for 1Q2015 amounted to €272 mn, compared to €281 mn for 4Q2014 (3% reduction qoq) and €309 mn for 1Q2014 (12% reduction yoy).

Total expenses for 1Q2015 amounted to €102 mn, of which 58% related to staff costs (€59 mn) and 42% to other operating expenses (€43 mn). Total expenses remained relatively stable yoy, but decreased by 11% from €114 mn for 4Q2014, when expenses were elevated due to non-recurring expenses, such as advertising, regulatory and ECB Comprehensive Assessment related costs, listing costs and other advisory fees. The cost to income ratio for 1Q2015 improved to 38%, compared to 41% for 4Q2014.

The provision charge for 1Q2015 (continuing operations) was €148 mn[23] and accounted for an annualised 2,1%[24] of gross loans, compared to 3,6% for FY2014. Provisions for impairment of customer loans (continuing operations) for 1Q2015 were 15% higher yoy (€130 mn for 1Q2014) and 40% lower qoq (€248 mn for 4Q2014), with the elevated provisioning charge for 4Q2014 including the methodological alignments and changes in certain estimates, following the completion of the review of the AQR results. At 31 March 2015, accumulated provisions, including fair value adjustment on initial recognition[25], reached €5.354 mn (compared to €5.140 mn at 31 December 2014) and accounted for 22,2% of gross loans (compared to 21,6% at 31 December 2014).

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[18] See Note 9.
[19] In addition to the above, in the normal course of business in Cyprus, the Bank has lending exposures to Greek entities amounting to €89 mn.
[20] See Note 6.
[21] Relates to the disposal of the Ukrainian operations, the disposal of the stake in Banca Transilvania, the disposal of the loans in Serbia and the disposal of the majority of the Laiki UK loan portfolio.
[22] See relevant announcement dated 16 February 2015, http://www.centralbank.gov.cy/nqcontent.cfm?a_id=14653&lang=en
[23] See Note 8.
[24] The provisioning charge ratio is calculated as the provisions for impairment of customer loans, including provisions of discontinued operations (totalling €171 mn), net of gains on derecognition and changes in expected cash flows on acquired loans (totalling €43 mn) over average gross loans (as defined in Note 1).
[25] 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.

Gains on derecognition and changes in expected cash flows on acquired loans for 1Q2015 totalled €43 mn, compared to €29 mn for 4Q2014. **Impairments of other financial and non-financial assets** for 1Q2015 totalled €1 mn, compared to €57 mn for 4Q2014. This marked decrease is mainly due to the one-off high level of impairments of non-core assets classified as held for sale charged in 4Q2014.

Profit after tax for continuing operations (profit after tax excluding restructuring costs, discontinued operations and net loss on disposal of non-core assets) for 1Q2015 totalled €57 mn, compared to a loss of €107 mn for 4Q2014.

Restructuring costs for 1Q2015 totalled €7 mn and primarily relate to external advisors' fees and other expenses, relating to the Group's restructuring.

Loss from disposal groups held for sale / discontinued operations for 1Q2015 was €21 mn, of which a loss of €20 mn related to the Russian operations (compared to a net loss of €214 mn for 4Q2014, of which a loss of €246 mn related to the Russian operations).

Profit after tax attributable to the owners of the Bank for 1Q2015 totalled €29 mn, compared to a loss of €337 mn for 4Q2014.

C. Outlook

The Group continues to focus on implementing its restructuring and its strategic objectives aiming to become **a stronger, more focused institution capable of supporting the recovery of the Cypriot economy** and to deliver appropriate shareholder returns in the medium term**.**

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

- **Arrest and reverse the trend** in delinquent loans.
- **Further reduce ELA and normalise the funding structure** of the Group.
- Focus on **core markets in Cyprus** by providing credit to promising sectors and exit from non-core markets.
- **Achieve a lean operating model**, by focusing on enhancing distribution channels in order to reduce operating costs.
- **Maintain the capital adequacy** of the Group by internally generating capital through profitability, deleveraging and disposing of non-core assets.
- **Deliver value** to shareholders and other stakeholders

With the Cypriot operations accounting for 89% and 86% of the Group's loans and customer deposits respectively, the **Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus**. The Cyprus economy is showing further signs of stabilisation amidst a relatively unfavourable external environment. According to initial estimates[26], real GDP for 1Q2015 is estimated to have increased by 0,2% compared to the corresponding quarter of 2014. It is noteworthy that this is the first quarter with positive economic growth following fourteen consecutive quarters of negative economic growth. Although still early to consider this as a sustainable trend, the positive economic growth was driven by the improving performance of trade, tourism and international business services, while sectors such as construction continue to be subdued.

Going forward, economic performance will be driven by the flexibility of the economy as shown by declining prices and wages, the resilience of specific sectors of the economy (such as tourism and international business services), the strengthening of confidence in the domestic economy and the stabilisation tendencies in the banking sector. Furthermore, the continuing progress of the Cypriot authorities in implementing the economic reform program agreed with the Troika, including the strong improvement in public finances and the recent adoption of the foreclosure legislation and insolvency framework, are expected to have further positive impact on the domestic economy. Uncertainty about the European economic recovery, the economic crisis in Russia and the political and economic uncertainty in Greece weigh negatively on the 2015 economic outlook. Downside risks relate to the high level of non-performing loans in the banking sector, any unforeseen problems or delays in applying the foreclosure legislation and insolvency framework, any weakening commitment to the implementation of the economic adjustment programme, and a further deterioration in the Russian economy. On the upside, the Quantitative Easing (QE) program in the Eurozone could improve liquidity conditions and strengthen demand in the euro area. Robust economic growth in the UK and a weakening of the euro against the British Pound could benefit tourism in Cyprus. Reduction in interest rates in Cyprus could support private sector consumption and could stimulate the domestic economy.

Tackling the Bank's loan portfolio quality is of utmost importance and a top priority for the management. The **Restructuring and Recoveries Division (RRD)** is making progress in managing its delinquent portfolio, despite the lack of the appropriate legislative tools. Following the recently introduced foreclosure legislation and insolvency framework, and subject to no unexpected problems in the implementation of this legislation and the relevant regulations, the RRD is expected to proceed more swiftly in managing the Bank's delinquent loan portfolio. The sooner the Cypriot banks address the high level of problem loans, the faster they will be in a position to finance households and businesses in Cyprus, thus helping to ease domestic credit conditions, supporting the economic recovery. The **provisions for impairment of customer loans** will be driven by the default rate of borrowers and by any further reductions in collateral values. With the Cypriot economy performing below par and with certain sectors of the economy, such as construction and real estate development, continuing to be subdued, the performance of borrowers will continue to be challenged, exerting pressure on the quality of the loan portfolio.

The Bank is **stepping up its marketing efforts to attract deposits and to normalise its funding structure**. The Bank's significantly strengthened capital position and overall improvement in its financial position

[26] Based on the Statistical Service of the Republic of Cyprus.

enhance its funding options and will facilitate access to the capital markets, especially following the recent successful debt raising by the Republic of Cyprus. Depending on market conditions and investor appetite, the Bank will assess the possibility of raising wholesale funding, with the proceeds of such funding used to reduce ELA. Options to be considered are the market placement of a covered bond (currently in issue but retained and pledged as collateral for ELA purposes) and/or the issue of senior debt. Finally, for prudency, the Bank is currently maintaining an increased liquidity buffer in cognizant of the events related to Greece, the economic challenges in Russia and the recent full abolition of capital controls. Once market conditions are normalised, the Bank will use part of its liquidity buffer to further reduce ELA.

Despite the events of March 2013 and their impact on its franchise, the Bank remains the leading financial institution in Cyprus. The significant improvements in its financial and operational position achieved during the last two years allow the Bank to **solidify its leading position in the Cypriot banking system and to be a key player in the recovery of the Cypriot economy**. The Bank's strengthened capital position and its improving liquidity underline its efforts to **provide credit to promising sectors of the domestic economy that will support and diversify further economic activity**. In order to support the recovery of the Cypriot economy, the Bank has renewed its partnership with the European Investment Bank (EIB) and the European Regional Development Fund (ERDF), and continues to provide joint financed schemes aimed at supporting local businesses. Furthermore, the Bank has introduced new credit facilities aimed at boosting foreign trade activities through guarantees offered by the EIB. The Bank is focusing on diversifying its income streams by further developing its fee-generating activities, such as the international business services and wealth management. Furthermore, the Bank is the leading player in the insurance business in Cyprus, with such businesses providing a recurring income, further diversifying the Bank's income streams.

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 through the disposal of operations that are considered as non-core. In April 2015, the Bank disposed of its holding in Marfin Diversified Strategy Fund Plc[27] (MDSF) for a sale consideration of $92 mn (approx. €84 mn), with the sale enhancing the Bank's liquidity and its Common Equity Tier 1 capital ratio by approximately 0,1 percentage points. Currently, the Bank is running a process to dispose of its operations in Russia, which are classified as a disposal group held for sale. Furthermore, the Bank is actively running down its loan and real estate portfolio in Romania. In addition, the Bank continues its efforts to dispose of its real estate assets in Greece and Cyprus.

The Bank's strengthened capital position and the passing of the ECB Comprehensive Assessment are boosting the confidence of customers and other stakeholders towards the Bank, as evidenced by the customer inflows experienced in the last few quarters. Going forward, the Bank will continue to **ensure that appropriate capital levels are maintained** taking into account its risk profile, its high level of problem loans, its overseas non-core exposures, the challenges being faced with and the economic and regulatory environment. Furthermore, capital considerations, as well as risk mitigation, will be taken into account for any disposal of non-core assets.

[27] See Note 9.

D. Key Performance Indicators and Restructuring Plan progress report

Following consultation between the Bank and the Central Bank of Cyprus (CBC), the following **Key Performance Indicators (KPIs)**, including medium-term targets, have been selected reflecting the priorities of the Group: Asset quality, Funding, Capital and Efficiency. These will be published on a quarterly basis in order for the public to assess the progress against the Restructuring Plan[28] and the financial performance of the Group.

The below table shows the said KPIs, the medium-term target per KPI (set at December 2017, which is the end of the Restructuring Plan period) and the latest statistics per KPI.

Group Key Performance Indicators as agreed with the CBC under the Bank's Restructuring Plan		**Actual Dec-2014**	**Actual March-2015**	**Medium-Term Target Dec-2017**
Asset Quality	90+ Days Past Due provision coverage	41%	42%	>50%
	Provisioning charge (Cost of Risk) (ytd)	3,6%	2,1%[29]	<1,5%
	90+ Days Past Due (€ mn)	12.653	12.789	<10.000
Funding	Loans to Deposits ratio (net)	141%	138%	<150%
Capital	Common Equity Tier 1 capital ratio (transitional)	14,0%	13,9%	>10%
	Leverage ratio (Assets/Equity)	7,7x	7,6x	<12x
Efficiency	Cost-to-Income ratio (ytd)	36%	38%	<45%
	Net Interest Margin (ytd)	3,94%	3,94%	>2,5%
	Number of Branches in Cyprus	130	130	125
	Group Employees in Cyprus	4.334	4.336	<4.100

D.1 Commentary about the evolution of Key Performance Indicators

Asset quality
The provisioning coverage of 90+ DPD totalled 42% at 31 March 2015, compared to 41% as at 31 December 2014, with the provisioning charge accounting for an annualised 2,1%[30] of gross loans, compared to 3,6% for FY2014.

Funding
The Loans to Deposits ratio (net) totalled 138% at 31 March 2015, compared to 141% at 31 December 2014.

Capital
The Common Equity Tier 1 capital ratio (on a transitional basis) totalled 13,9% at 31 March 2015, compared to 14,0% at 31 December 2014. The Leverage ratio has slightly improved to 7,6x at 31 March 2015, compared to 7,7x at 31 December 2014.

Efficiency
The cost to income ratio for 1Q2015 was 38%, compared to a ratio of 36% for FY2014. The net interest margin for 1Q2015 was 3,94%, remaining at the same level when compared to FY2014. Branches in Cyprus have remained stable at 130 units. The number of Group employees in Cyprus totalled 4.336 at 31 March 2015, compared to 4.334 employees at 31 December 2014.

[28]Exogenous factors such as the failure to implement the policy reforms requested by Troika that could affect and/or delay the disbursement of the financial assistance to Cyprus, a deeper and prolonged economic recession, further significant increase in unemployment, a sharper reduction in real estate prices, as well as factors that could dent the fragile confidence of customers and delay the return of confidence to the Cyprus banking system, could derail and affect the execution of the Restructuring Plan.
[29]See Note 24.
[30]See Note 24.

D.2 Commentary about the operational progress of the Restructuring Plan

Restructuring and Recoveries Division (RRD)
The RRD is responsible for the managing of €11,7 bn of large or delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Since its set up the RRD has put all the mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. Retail loans are addressed via the Collections Call Centre which applies specific contact strategies and the Retail Arrears Management Unit and branches which provide restructuring solutions to viable customers. Business Support Centres have been set up throughout the country to help address SME delinquent clients, whereas the Corporate Management Unit is focused entirely on the corporate customers.

In terms of loan rescheduling activity, rescheduled loans totalled €8,1 bn[31] at 31 March 2015, compared to €7,7 bn at 31 December 2014. So far, rescheduling activity has been higher in corporate lending, where 41%[32] of total corporate loans at 31 March 2015 have been rescheduled. In SME and Retail - Housing lending, rescheduled loans account for 35% of total loans per each customer sector. In terms of performance, 36% of rescheduled loans at 31 March 2015 have no arrears following rescheduling.

Restoring trust and strengthening of deposit base
Regarding deposits retention, a monitoring mechanism has been set up. New deposit campaigns have been launched. Marketing/communication plans across all business lines are being implemented. The Bank's efforts are underpinned by the positive impact of the Bank's strengthened capital position and successful passing of the ECB Comprehensive Assessment on the confidence of customers and other stakeholders towards the Bank.

Deleverage
Currently, the Bank is running a process to dispose of its operations in Russia. Furthermore, the Bank is actively running down its loan and real estate portfolio in Romania. In addition, the Bank continues its efforts to dispose of its real estate assets in Greece and Cyprus. Post 31 March 2015, the Bank disposed of its investment in Marfin Diversified Strategy Fund Plc, in line with the Group's strategy on focusing on core businesses and markets, and disposing of operations that are considered as non-core.

[31] Rescheduled loans are reported after 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 €689 mn for rescheduled loans at 31 March 2015 (compared to €658 mn for rescheduled loans at 31 December 2014) and include loans of discontinued operations/disposal group held for sale.
[32] 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 €1.545 mn for gross loans and to €689 mn for rescheduled loans at 31 March 2015 (compared to €1.566 mn for gross loans and to €658 mn for rescheduled loans at 31 December 2014) and include loans of discontinued operations/disposal group held for sale.

E. Appendix

As from 4Q2014, the Group's operations in Russia are treated as a disposal group held for sale and results have been presented accordingly as discontinued operations. Hence comparatives have been re-presented. In addition, comparatives for impairment of other financial and non-financial assets and gains on derecognition and changes in expected cash flows on acquired loans have been reclassified to conform with changes in the presentation of the current period.

Consolidated Income Statement					
€ mn	**1Q2015**	**4Q2014**	**qoq ±%**	**1Q2014** (represented)[33]	**yoy ±%**
Net interest income	225	225	0%	248	-9%
Net fee and commission income	43	37	16%	42	5%
Net foreign exchange gains/(losses) and net profits/(losses) on other financial instruments	(4)	14	-	6	-
Insurance income net of insurance claims	12	10	17%	13	-9%
Other income/(expenses)	(4)	(5)	2%	0	-
Total income	**272**	**281**	-3%	**309**	**-12%**
Staff costs	(59)	(58)	2%	(58)	2%
Other operating expenses	(43)	(56)	-24%	(47)	-9%
Total expenses	**(102)**	**(114)**	-11%	**(105)**	**-3%**
Profit before provisions and impairments, gains on derecognition and changes in expected cash flows on acquired loans, restructuring costs and discontinued operations	**170**	**167**	2%	**204**	**-17%**
Provisions for impairment of customer loans	(148)	(248)	-40%	(130)	15%
Gains on derecognition and changes in expected cash flows on acquired loans	43	29	45%	8	-
Impairments of other financial and non-financial assets	(1)	(57)	-99%	(0)	-
Share of profit from associates and joint ventures	2	3	-43%	2	-14%
Profit/(loss) before tax, restructuring costs and discontinued operations	**66**	**(106)**	-	**84**	**-22%**
Tax	(9)	(1)	-	(2)	-
(Loss)/profit attributable to non-controlling interests	(0)	0	-	(0)	-
Profit /(loss) after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**57**	**(107)**	-	**82**	**-30%**
Restructuring costs	(7)	(3)	102%	(5)	79%
Loss from disposal groups held for sale/discontinued operations	(21)	(214)	-90%	(46)	-55%
Net loss on disposal of non-core assets	-	(13)	-	-	-
Profit/(loss) after tax	**29**	**(337)**	-	**31**	**-9%**

[33] See Note 4.2 to the Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2015, Comparative information.

Condensed Consolidated Balance Sheet			
€ mn	**31.03.2015**	**31.12.2014** (represented)[34]	**±%**
Cash and balances with Central Banks	987	1.139	-13%
Placements with banks	1.614	1.647	-2%
Debt securities, treasury bills and equity investments	2.400	2.541	-6%
Net loans and advances to customers	18.258	18.168	0%
Other assets	2.456	2.378	3%
Non-current assets and disposal groups classified as held for sale	957	916	4%
Total assets	**26.672**	**26.789**	**-0%**
Amounts due to banks	178	162	10%
Funding from Central Banks	7.703	8.284	-7%
Repurchase agreements	595	580	3%
Customer deposits	13.002	12.624	3%
Debt securities in issue	1	1	-
Other liabilities	1.004	1.046	-4%
Non-current liabilities and disposal groups classified as held for sale	681	611	11%
Total liabilities	**23.164**	**23.308**	**-1%**
Share capital	892	892	0%
Capital reduction reserve and share premium	2.506	2.505	0%
Revaluation and other reserves	159	147	8%
Accumulated losses	(55)	(79)	-31%
Shareholders' equity	**3.502**	**3.465**	**1%**
Non-controlling interests	6	16	**-61%**
Total equity	**3.508**	**3.481**	**1%**
Total liabilities and equity	**26.672**	**26.789**	**-0%**

[34] See Note 33.

Key Balance Sheet figures and ratios - pre classification of Russian operations as a disposal group held for sale			
	31.03.2015	**31.12.2014**	**±%**
Gross loans (€ mn)	24.085	23.772	1%
Customer deposits (€ mn)	13.611	13.169	3%
Loans to deposits ratio (net)	138%	141%	-3 p.p.*
90+ DPD ratio	53%	53%	-
90+ DPD provisioning coverage ratio[35]	42%	41%	-

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

Key Balance Sheet figures and ratios - post classification of Russian operations as a disposal group held for sale			
	31.03.2015	**31.12.2014**	**±%**
Gross loans (€ mn)	23.119	22.806	1%
Customer deposits (€ mn)	13.002	12.624	3%
Loans to deposits ratio (net)	140%	143%	-3 p.p.*

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

Capital	**31.03.2015**	**31.12.2014**	**±%**
Common Equity Tier 1 capital ratio (CET1) (transitional)	13,9%	14,0%	-0,1 p.p.*
Total capital ratio (under CRD IV)	14,1%	14,2%	-0,1 p.p.*
Risk weighted assets (under CRD IV) (€ mn)	22.972	22.715	1%

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

Key performance ratios				
	1Q2015	**4Q2014**	**qoq ±%**	**1Q2014**
Net interest margin	3,94%	3,81%	0,13 p.p.*	3,90%
Cost to income ratio	38%	41%	-3 p.p.*	34%
Return on average assets	0,4%	-5,0%	5,4 p.p.*	0,4%
Return on average equity	3,3%	-37,5%	40,8 p.p.*	4,7%
Basic earnings/(losses) per share (cent)	0,32	(4,15)	-	0,66

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

Notes to the Financial Results of the Group for the quarter ended 31 March 2015:

The Interim Condensed Consolidated Financial Statements for the three months ended 31 March 2015 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).

The Interim Condensed Consolidated Financial Statements for the three month ended 31 March 2015 have been reviewed, but not audited by the Bank's external auditors.

The announcement and the presentation of the financial results for the quarter ended 31 March 2015 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

[35] See Note 5.