Bank of Cyprus Group

Announcement

Preliminary Group Financial Results for the year ended 31 December 2015

Nicosia, 25 February 2016

Key Highlights

- **Good progress in tackling delinquent loans; During FY2015, 90+ DPD were reduced by €1,3 bn or 10% due to restructuring activity and deleveraging**
- **90+ DPD provision coverage boosted by 7 percentage points in 4Q2015 to 48% as at 31 December 2015, due to elevated provision charges following assumption changes in the Bank's provisioning methodology, taking into account the on-going dialogue with the ECB in the context of SREP**
- **Strong capital position with a CET 1 ratio (transitional basis) of 14,0% at 31 December 2015, well above the minimum regulatory requirement of 11,75%; hence no need for the Bank to raise capital**
- **Customer deposits (adjusting for the disposal of the Russian operations) increased by €1,6 bn or 12% during FY2015**
- **Improving funding structure with the Loans to Deposits ratio (L/D) declining by 11 percentage points in 4Q2015 to 121% as at 31 December 2015**
- **ELA has been reduced by €1,4 bn post 30 September 2015 to a current level of €3,5 bn**
- **Profit before provisions of €624 mn for FY2015**
- **Provisions for impairment of customer loans of €630 mn for 4Q2015, with a full year charge of €959 mn**
- **Loss after tax from continuing operations and Loss after tax for FY2015 of €394 mn and €438 mn, respectively**

Statement by John Patrick Hourican, Bank of Cyprus Group CEO:

"The Group continues to make good progress against its strategic objectives.

During the fourth quarter, the Group's operating performance was strong. We made very good progress in reducing the stock of loans with arrears greater than 90 days by €668 mn or 6% during the quarter and we expect to continue this progress into 2016.

Our funding position continues to improve, with customer deposits in Cyprus growing by €533 mn in the fourth quarter and our ELA reliance reduced to a current €3,5 bn, almost €8 bn lower than the peak of €11,4 bn in April 2013.

In the fourth quarter, cognizant of our on-going regulatory dialogue, we made certain changes to the Bank's provisioning methodology. These changes increased the level of provisions against delinquent exposures and brought coverage levels against our stock of 90+ DPD exposures to near 50%. Due to the elevated provisions for the quarter, the Group reported a loss after tax of €438 mn for the year.

Nevertheless, the Group continues to have a strong capital position. The CET1 ratio was 14,0% at 31 December 2015. The Group does not expect to need to raise capital to complete its journey back to strength."

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 135 branches, of which 129 operate in Cyprus, 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 4.605 staff worldwide. At 31 December 2015, the Group's Total Assets amounted to €23,3 bn and Total Equity was €3,1 bn.

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A. Summary of Preliminary Financial Results for the year ended 31 December 2015

Balance Sheet Highlights

- The **Common Equity Tier 1 capital (CET1) ratio (transitional basis)** totalled 14,0% at 31 December 2015, compared to 15,6% at 30 September 2015. The reduction in the CET1 ratio reflects the losses incurred during 4Q2015 due to the elevated provisions for impairment of customer loans following assumption changes in the Bank's provisioning methodology in relation to the on-going regulatory dialogue with the ECB regarding the SREP[1].
- The Bank's **funding structure is improving**, with customer deposits increasing by €572 mn or 4% in 4Q2015. The L/D ratio improved to 121% at 31 December 2015, compared to 132% at 30 September 2015, and customer deposits increased to 61% of total assets at 31 December 2015, compared to 56% at 30 September 2015.
- During 4Q2015, **Emergency Liquidity Assistance (ELA)** was reduced by €1,1 bn to €3,8 bn at 31 December 2015. Post quarter-end, ELA was reduced further by €300 mn to a current level of €3,5 bn.
- **Loans in arrears for more than 90 days (90+ DPD)**[2] were reduced by €668 mn or 6% during 4Q2015 and totalled €11.329 mn at 31 December 2015, accounting for 50% of gross loans[3] (90+ DPD ratio). The 90+ DPD provisioning coverage ratio improved to 48%[4] at 31 December 2015, up from 41% at 30 September 2015.

Income Statement Highlights[5]

- **Net interest income (NII)** for FY2015 totalled €842 mn and **net interest margin (NIM)** was 3,79%. NII for 4Q2015 was €198 mn, compared to €205 mn for 3Q2015, with the reduction reflecting a lower yield on loans partly due to loans restructuring and deleveraging actions. The NIM for 4Q2015 was 3,69%, compared to 3,70% for 3Q2015[6].
- **Non-interest income** for FY2015 was €198 mn, with recurring income comprising net fee and commission income of €154 mn and net insurance income of €48 mn. Non-interest income for 4Q2015 was €55 mn (compared to €46 mn for 3Q2015), with net fee and commission income and net insurance income totalling €38 mn and €16 mn, respectively.
- **Total income** for FY2015 was €1.040 mn. Total income for 4Q2015 was €253 mn, compared to €251 mn for 3Q2015.
- **Total expenses** for FY2015 were €416 mn, and the cost to income ratio was 40%. Total expenses for 4Q2015 were €119 mn, compared to €102 mn for 3Q2015, with the increase primarily relating to higher non-recurring advisory and professional expenses and increased provisions for litigations and legal settlements.
- **Profit before provisions and impairments[7], restructuring costs and discontinued operations** for FY2015 was €624 mn. Profit before provisions and impairments, restructuring costs and discontinued operations for 4Q2015 was €134 mn, compared to €149 mn for 3Q2015.
- **Provisions for impairment of customer loans (continuing operations) net of gains on derecognition and changes in expected cash flows on acquired loans** for FY2015 totalled €959 mn[8]. Provisions for impairment of customer loans (continuing operations) net of gains on derecognition and changes in

[1] Supervisory Review Evaluation Process.
[2] Loans in arrears for more than 90 days (90+ DPD) are defined as loans with a specific provision and loans past-due for more than 90 days.
[3] 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 €1.207 mn at 31 December 2015 (compared to €1.266 mn at 30 September 2015).
[4] 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.
[5] As from 4Q2014, the Group's operations in Russia are treated as disposal group held for sale and results have been presented accordingly as discontinued operations according to IFRS 5. In September 2015, the Bank completed the sale of the majority of its Russian operations. The part of the operations not disposed of has ceased to be classified as held for sale and its results are presented as part of the continuing operations. In addition, comparatives have been reclassified to reflect the change in presentation of impairment losses of other financial and non-financial instruments and results from revaluation and disposal of investment properties within the consolidated income statement. The presentation of "Gains on derecognition and changes in expected cash flows on acquired loans" has been changed in order to present this adjoining to the "Provisions for impairment of customer loans" in the consolidated income statement. The Group considers this presentation to be more relevant as it considers such gains and changes in expected cash flows (mainly arising from the fair value adjustment on initial recognition for acquired loans) to be credit risk related. This change in presentation did not have an impact on the results for the period.
[6] Excluding the interest income from the Laiki Recapitalisation bond, the NIM for 4Q2015 and for FY2015 were 3,55% and 3,51%, respectively.
[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 and gains on derecognition and changes in expected cash flows on acquired loans were €1.002 mn for FY2015 and €630 mn for 4Q2015, when including provisions for impairments of discontinued operations.

expected cash flows on acquired loans for 4Q2015 were €630 mn, compared to €96 mn for 3Q2015. The elevated provisioning charge for 4Q2015 resulted from the changes in the assumptions in the Bank's provisioning methodology, in relation to the on-going regulatory dialogue with the ECB regarding the SREP. The provisioning charge for FY2015 accounted for 4,3%[9] of gross loans, compared to an annualised provisioning charge 2,1% for 9M2015.

- **Impairments of other financial and non-financial assets** for FY2015 totalled €62 mn and primarily relate to impairments of overseas non-core assets as part of the Bank's de-risking efforts and to a change in measurement basis of real estate assets acquired from customers.
- **Loss after tax for continuing operations**[10] for FY2015 totalled €394 mn. Loss after tax for continuing operations for 4Q2015 totalled €509 mn, compared to a profit of €45 mn for 3Q2015.
- **Restructuring costs** for FY2015 totalled €43 mn, comprising consultancy and professional expenses.
- **Loss from disposal groups held for sale/discontinued operations** for FY2015 was €38 mn and mainly relates to the disposal of the majority of the Russian operations.
- **Net profit on disposal of non-core assets** for FY2015 was €37 mn. Net profit on disposal of non-core assets relates to deleverage actions undertaken during the year including the repayment of a bond by the Republic of Cyprus in June 2015 and December 2015.
- **Loss after tax attributable to the owners of the Bank** for FY2015 was €438 mn. Loss after tax attributable to the owners of the Bank for 4Q2015 was €512 mn, compared to a profit of €13 mn for 3Q2015.

B. Analysis of Preliminary Financial Results for the year ended 31 December 2015

B.1 Balance Sheet Analysis

B.1.1 Capital Base

Shareholders' equity totalled €3.055 mn at 31 December 2015. The **CET1 ratio (transitional basis)** totalled 14,0% at 31 December 2015, compared to 15,6% at 30 September 2015 and 14,0% at 31 December 2014. Adjusting for Deferred Tax Assets[11], the **CET1 ratio on a fully-loaded basis** totalled 13,1% at 31 December 2015.

The Bank's CET1 ratio remains higher than the minimum required ratio of 11,75% relating to the Pillar II capital requirement, confirming that **there is no need for the Group to raise any capital**.

Following the on-going regulatory dialogue with the ECB regarding the SREP, the Bank decided to reassess its provisioning assumptions, estimates and methodologies, within the parameters of International Financial Reporting Standards (IFRS). Consequently, the Bank proceeded with certain amendments to the assumptions in its provisioning methodologies. These changes relate to extending significantly the recovery periods and applying additional realisation discounts on the most stressed non performing portfolios, with both changes being a function of the Bank's strategy for recovering delinquent exposures. In changing its provisioning assumptions, the Bank has considered its strategy for managing problem loans, as well as other available evidence, reflecting an increased level of conservatism within an acceptable range. This resulted in an elevated provisioning charge for 4Q2015, with the full-year charge totalling €959 mn. The Bank considers that the assumption amendments significantly bridged the regulatory dialogue with the ECB and boosted the Bank's 90+ DPD provisioning coverage to 48% at 31 December 2015.

B.1.2 Customer Deposits and Loans

Group customer deposits totalled €14.181 mn at 31 December 2015, compared to €13.608 mn at 30 September 2015 and €13.169 mn at 31 December 2014. Adjusting for the disposal of the Russian operations,

[9] The provisioning charge ratio is calculated as the provisions for impairment of customer loans, including provisions of discontinued operations (totalling €1.307 mn), net of gains on derecognition and changes in expected cash flows on acquired loans (totalling €305 mn) over average gross loans (as defined in Note 3).
[10] Defined as Profit after tax excluding restructuring costs, discontinued operations and net profit on disposal of non-core assets.
[11] The DTA adjustments relate to Deferred Tax Assets totalling €457 mn and recognised on tax losses totalling €3,6 bn and can be set off against future profits of the Bank for a period of 15 years at a tax rate of 12,5%. Furthermore, there are tax losses of approximately €8,5 bn for which no deferred tax asset has been recognised. Recognition of deferred tax asset is supported by management's business forecasts and takes into account the recoverability of the deferred tax assets within their expiry period.

Group customer deposits increased by €1.557 mn or 12% during FY2015. Customer deposits in Cyprus increased by €533 mn in 4Q2015 and stood at €12.691 mn at 31 December 2015, accounting for 89% of Group customer deposits. The Bank's deposit market share[12] in Cyprus reached 28,2% at 31 December 2015, compared to a low of 24,6% at 30 November 2014.

Customer deposits are the Group's primary source of funding, with their contribution towards the Group's overall funding gradually increasing. Customer deposits accounted for 61% of total assets at 31 December 2015, compared to 56% at 30 September 2015 and a low of 48% at 31 March 2014. The L/D ratio improved to 121% at 31 December 2015, compared to 132% at 30 September 2015 and a high of 151% at 31 March 2014.

Group gross loans[13] totalled €22.592 mn at 31 December 2015, compared to €22.863 mn at 30 September 2015 and €23.772 mn at 31 December 2014. Gross loans in Cyprus totalled €20.661 mn at 31 December 2015, and accounted for 91% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a 37,9% loan market share at 31 December 2015, compared to 39,3% at 30 September 2015. Loans in the UK operations (€1.207 mn) accounted for 5% of total loans.

B.1.3 Eurosystem Funding

At 31 December 2015, the Bank's Eurosystem funding totalled €4,5 bn, comprising ELA of €3,8 bn and European Central Bank (ECB) funding of €650 mn. In October 2015, the restructuring of retained mortgage covered bonds resulted in a rating upgrade to Baa3 from B1. Following the upgrade to an investment grade rating, the covered bonds have become eligible collateral for the Eurosystem credit operations and, therefore, have been placed as collateral for accessing funding from the ECB. Through this transaction, the Bank has raised €550 mn of ECB funding for the repayment of ELA. During 4Q2015 the Republic of Cyprus repaid a bond[14] held by the Bank of an amount of €340 mn. Through the covered bond transaction, the bond repayment and the deposit inflows experienced during 4Q2015 and early 2016, about €1,4 bn of ELA was repaid post 30 September 2015, reducing ELA to a current level of €3,5 bn. In total, ELA has been reduced by €7,9 bn or 69% since its peak of €11,4 bn in April 2013.

B.1.4 Loan portfolio quality

Addressing the Group's asset quality remains the Group's key priority. The adoption of the foreclosure legislation and insolvency framework for the effective management of problem loans, the intensive restructuring and workout activity by the Bank's Restructuring and Recoveries Division (RRD), the Bank's more effective interaction with borrowers and the improving fundamentals of the Cypriot economy, are playing a significant role in helping the Bank to arrest and reverse the trend in problem loans.

Loans in arrears for more than 90 days (90+ DPD)[15] were reduced by €668 mn during 4Q2015 (6% reduction qoq), €647 mn of which relates to the Cyprus operations. 90+ DPD stood at €11.329 mn at 31 December 2015, accounting for 50% of gross loans (90+ DPD ratio), compared to €11.998 mn a quarter earlier. The provisioning coverage ratio of 90+ DPD[16] improved to 48% at 31 December 2015, compared to 41% at 30 September 2015. 90+ DPD are fully covered, when taking into account tangible collateral at fair value. The provisioning coverage ratio of 90+ DPD, calculated in line with local peers, with reference to the contractual balances of the customer, totalled 58%[17] at 31 December 2015, compared to 52% at 30 September 2015.

	31.12.2015		30.09.2015	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
90+ DPD	**11.329**	**50,1%**	**11.998**	**52,5%**
Of which:				
impaired with no arrears	875	3,9%	848	3,7%
impaired with arrears less than 90 days	103	0,5%	126	0,6%

[12] Based on data from the Central Bank of Cyprus.
[13] See Note 3.
[14] The bond was issued on 1 July 2015 to replace the outstanding amount of the recapitalisation bond of Laiki Bank that was transferred to the Bank in March 2013, following the acquisition of certain assets and liabilities of Laiki Bank.
[15] See Note 2.
[16] See Note 4.
[17] This ratio is calculated by adjusting both the provisions stock and the customer balances to include any unrecognised interest income due on contractual balances.

Non-performing exposures[18] **(NPEs) as defined by the European Banking Authority (EBA)** declined by €257 mn or 2% during 4Q2015 to €13.968 mn at 31 December 2015 and accounted for 62% of gross loans. €235 mn of the reduction relates to Cyprus operations. The provisioning coverage ratio of NPEs improved to 39% at 31 December 2015, up from 35% at 30 September 2015. The provisioning coverage ratio of NPEs, calculated in line with local peers, with reference to the contractual balances of the customer, totalled 49%[19] at 31 December 2015, compared to 44% at 30 September 2015.

	31.12.2015		30.09.2015	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**13.968**	**61,8%**	**14.225**	**62,2%**
Of which:				
NPEs with forbearance measures, no impairments and no arrears	1.862	8,2%	1.462	6,4%
NPEs with forbearance measures, no impairments and arrears <90 days	551	2,4%	537	2,3%

B.1.5 Update on non-core 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. During 2015 the Bank has completed the disposals of all banking subsidiaries identified for sale.

The remaining non-core overseas exposures at 31 December 2015 are as follows:

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €22 mn (compared to €49 mn at 30 September 2015), (b) 641 foreclosed properties with a book value of €173 mn (compared to 637 foreclosed properties with a book value of €192 mn at 30 September 2015), (c) off-balance sheet exposures totalling €131 mn (compared to €132 mn at 30 September 2015) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €81 mn (compared to €71 mn at 30 September 2015) and lending exposures in Cyprus with collaterals in Greece totalling €70 mn (compared to €68 mn at 30 September 2015).
- Romania: The overall net exposure is €312 mn (compared to €354 mn at 30 September 2015).
- Russia: The remaining net exposure (on and off balance sheet) in Russia is €114 mn, (compared to €120 mn at 30 September 2015), and is expected to be reduced over time.

B.2 Income Statement[20] Analysis

The Group's net interest income (NII) and net interest margin (NIM) for FY2015 amounted to €842 mn and 3,79% respectively. NII for 4Q2015 was €198 mn, down 4% compared to €205 mn for 3Q2015. The decrease reflects a lower yield on restructured loans partly due to the restructurings made during the 4Q2015 and deleveraging actions.

Non-interest income for FY2015 was €198 mn, with recurring income comprising net fee and commission income of €154 mn and net insurance income of €48 mn. Non-interest income for 4Q2015 was €55 mn (compared to €46 mn for 3Q2015), with recurring income comprising net fee and commission income of €38 mn and net insurance income of €16 mn. The remaining component of non-interest income (comprising net foreign exchange gains/(losses), net gains/(losses) on other financial instruments, (losses)/gains from revaluation and disposal of investment properties and other income) for 4Q2015 was €1 mn, compared to a net loss of €2 mn for 3Q2015. **Total income** for FY2015 was €1.040 mn. Total income for 4Q2015 was €253 mn, compared to €251 mn for 3Q2015.

Total expenses for FY2015 were €416 mn, of which 56% related to staff costs (€234 mn) and 44% to other operating expenses (€182 mn). The cost to income ratio for FY2015 was 40%. Total expenses for 4Q2015 were €119 mn, compared to €102 mn for 3Q2015, with the increase primarily relating to higher non-recurring

[18] 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.
[19] See Note 16.
[20] See Note 6.

advisory and professional expenses and increased provisions for litigations and legal settlements during 4Q2015. The cost to income ratio for 4Q2015 was 47%, compared to 41% for 3Q2015, with the increase in the ratio reflecting primarily a 17% increase in total expenses.

Provisions for impairment of customer loans (continuing operations) net of gains on derecognition and changes in expected cash flows on acquired loans for FY2015 totalled €959 mn[21]. Provisions for impairment of customer loans (continuing operations) net of gains on derecognition and changes in expected cash flows on acquired loans for 4Q2015 were €630 mn, compared to €96 mn for 3Q2015. The increase in provisioning levels reflects the assumption changes in the Bank's provisioning methodology taking into account the continuing regulatory dialogue with the ECB. The provisioning charge for FY2015 accounted for 4,3%[22] of gross loans, compared to an annualised provisioning charge 2,1% for 9M2015. At 31 December 2015, accumulated provisions, including fair value adjustment on initial recognition[23], reached €5.445 mn (compared to €4.933 mn at 30 September 2015 and to €5.140 mn at 31 December 2014) and accounted for 24,1% of gross loans (compared to 21,6% at 30 September 2015 and 21,6% at 31 December 2014).

Impairments of other financial and non-financial assets for FY2015 totalled €62 mn and primarily relate to further impairments of overseas non-core assets as part of the Bank's de-risking efforts and a change in measurement basis of real estate assets acquired from customers. Impairments of other non-financial assets for FY2015 amounted to €18 mn and primarily relate to impairment losses on real estate assets acquired from customers as part of the Group's efforts to provide solutions to distressed borrowers. These losses arose from the fact that as from 4Q2015, the Group has set up a Real Estate Management Unit (REMU) to manage these assets with an intention to sell them and this has led to a change in the measurement basis of these properties from fair value to the lower of cost and net realisable value.

Loss after tax for continuing operations for FY2015 totalled €394 mn. Loss after tax for continuing operations for 4Q2015 totalled €509 mn, compared to a profit of €45 mn for 3Q2015.

Restructuring costs for FY2015 totalled €43 mn, due to higher legal and other advisors' provisions relating to restructuring of loans. **Loss from disposal groups held for sale/discontinued operations** for FY2015 was €38 mn and mainly relates to the disposal of the majority of the Russian operations. **Net profit on disposal of non-core assets** for FY2015 was €37 mn. Net profit on disposal of non-core assets relates to deleverage actions undertaken during the year including the repayment of a bond by the Republic of Cyprus in June 2015 and December 2015.

Loss after tax attributable to the owners of the Bank for FY2015 was €438 mn. Loss after tax attributable to the owners of the Bank for 4Q2015 was €512 mn, compared to a profit of €13 mn for 3Q2015.

[21] See Note 8.
[22] See Note 9.
[23] 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.

C. Outlook

The Group continues to focus on implementing its strategic objectives aiming to become **a stronger, safer and 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:

- **Materially reduce** the level of delinquent loans.
- **Normalise the funding structure and fully repay the ELA**.
- Focus on the **core Cyprus market** by providing credit to promising sectors and exit non-core markets.
- **Achieve a lean operating model.**
- **Maintain an appropriate capital position** 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 91% and 89% of gross loans and customer deposits respectively, the **Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus** and will consequently benefit from the country's recovery. According to the flash estimate[24] published on 12 February 2016, real GDP increased by 2,7% yoy in the fourth quarter of 2015 (when seasonally adjusted), bringing the yearly average growth to 1,6%. Based on detailed national accounts statistics for the first three quarters of 2015, growth was driven by domestic demand and particularly fixed investment on the expenditure side. On the supply side, economic activity was pervasive with most sectors contributing positively, particularly tourism, business services, information and communication and financial services. Construction activity continued to decline but at a slowing pace. Likewise property prices dropped further but at a slowing pace. Consumer prices also declined further in the year, reflecting mostly lower energy prices and the continued internal devaluation of the economy. In 2015 the Republic of Cyprus tapped international capital markets twice raising a total of €2 billion of funding and is expected to be successfully exiting the economic adjustment programme at the end of March 2016. The outlook for 2016 remains positive as confidence strengthens and sentiment improves. Downside risks to growth projections relate to the high level of non-performing loans, more delays in the implementation of structural reforms and a worsening of the external environment.

Tackling the Bank's loan portfolio quality is of utmost importance and a top priority for management. The RRD is making strides in arresting and reversing the trend in problems loans, as evidenced by the reduction in the 90+ DPD during the last couple of quarters and the completion of the restructuring of a number of large lending exposures. The Bank is intensifying its restructuring and workout activities of delinquent borrowers, increasing the pace of restructurings and focusing on more complex and older cases. The Bank has also set up a **Real Estate Management Unit (REMU)** in order to take control and ownership of real estate in settlement of certain customer obligations. The main objectives of the REMU are to provide solutions for distressed borrowers, to accelerate the recovery process for both the Bank and the local real estate market, to strengthen the Bank's balance sheet and to manage and monetise such assets, as appropriate.

In order to normalise its funding structure and to fully repay ELA, the Bank is **stepping up its marketing efforts to attract deposits**, leveraging on increasing customer confidence towards the Bank and improving macroeconomic conditions. The Bank's strong capital position and overall improvement in its financial position **enhance its funding options and will facilitate access to the debt capital markets to raise wholesale funding,** subject to market conditions and investor appetite.

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**. 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. Finally, the

[24] Based on the Statistical Service of the Republic of Cyprus

Bank is aiming at reducing its operating expenses and maintaining a lean operating cost structure, through targeted non-personnel cost reductions and through a voluntary retirement scheme.

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 Bank's remaining non-core operations in Russia are expected to be reduced over time. Finally, the Bank is actively running down its loan and real estate portfolio in Romania and continues its efforts to dispose of its real estate assets in Greece.

The Bank's capital position is increasing the confidence of customers and other stakeholders in the Bank, as evidenced by the customer deposit inflows experienced in the last few quarters and the Bank's increasing deposit market share. Going forward, the Bank will continue to strive to **ensure that appropriate capital levels are maintained** taking into account its risk profile, its high level of problem loans, its declining overseas non-core exposures, the challenges faced and the economic and regulatory environment.

Finally, the Bank continues to review the appropriateness of its current stock exchange listings and to assess other appropriate listing venues. As previously stated, the Bank aims to list its securities on a major, liquid, index-driven, European stock exchange in order to improve over time the liquidity and attractiveness of the stock. The review is on-going and no specific decision has yet been taken. Relevant announcements will be made in due course.

D. Key Performance Indicators – New Medium Term Targets

The below table shows the Group's performance vis-à-vis the 2017 targets and a new set of Medium Term Targets, including new targets relating to 90+ DPD ratio, ELA, Loans to Deposit ratio and Total Assets.

Group Key Performance Indicators		**Actual Dec-2014**	**Actual Dec-2015**	**Targets 2017**	**New Medium-Term Targets**
Asset Quality	90+ Days Past Due ratio	53%	50%		**<30%**
	90+ Days Past Due coverage	41%	48%	**40%-50%**	**>50%**
	Provisioning charge[25] (Cost of Risk)	3,6%	4,3%[26]	**<1,0%**	**<1,0%**
Funding	ELA % Assets; € bn	28% €7,4 bn	16% €3,8 bn		**Fully Repay**
	Net Loans % Deposits	141%	121%		**100%-120%**
Capital	CET 1 (transitional)	14,0%	14,0%	**>12%**	**>15%**
Efficiency	Net Interest margin	3,9%	3,8%	**~3,25%**	**~3,00%**
	Fee and Commission income / total income	13%	15%	**Increase**	**>20%**
	Cost to Income ratio	37%	40%	**40%-45%**	**40%-45%**
Balance Sheet	Total assets € bn	€26,8 bn	€23,3 bn		**>€25 bn**

[25] 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.
[26] See Note 9.

E. Appendix

Consolidated Income Statement						
€ mn	**FY2015**	**FY2014** (represented)[27]	**yoy ±%**	**4Q2015**	**3Q2015**	**qoq ±%**
Net interest income	842	969	-13%	198	205	-4%
Net fee and commission income	154	152	1%	38	36	7%
Net foreign exchange gains/(losses) and net gains/(losses) on other financial instruments	31	1	-	13	7	76%
Insurance income net of insurance claims	48	46	5%	16	12	39%
Losses from revaluation and disposal of investment properties	(53)	(12)	342%	(17)	(13)	33%
Other income	18	12	46%	5	4	36%
Total income	**1.040**	**1.168**	**-11%**	**253**	**251**	**1%**
Staff costs	(234)	(234)	0%	(57)	(59)	-3%
Other operating expenses	(182)	(193)	-6%	(62)	(43)	42%
Total expenses	**(416)**	**(427)**	**-3%**	**(119)**	**(102)**	**16%**
Profit before provisions and impairments, gains on derecognition and changes in expected cash flows on acquired loans, restructuring costs and discontinued operations	**624**	**741**	**-16%**	**134**	**149**	**-10%**
Provisions for impairment of customer loans net of gains on loan derecognition and changes in expected cash flows on acquired loans	**(959)**	**(770)**	**25%**	**(630)**	**(96)**	**560%**
Impairments of other financial and non-financial assets	(62)	(90)	-31%	(24)	(6)	313%
Share of profit from associates and joint ventures	6	5	22%	2	1	-
(Loss)/profit before tax, restructuring costs and discontinued operations	**(391)**	**(114)**	**244%**	**(518)**	**48**	-
Tax	(9)	(11)	-15%	8	(8)	-
Loss attributable to non-controlling interests	6	19	-64%	1	5	-
(Loss)/profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**(394)**	**(106)**	**271%**	**(509)**	**45**	**-**
Restructuring costs	(43)	(36)	20%	(16)	(5)	205%
Loss from disposal groups held for sale/discontinued operations	(38)	(166)	-77%	(0)	(9)	-100%
Net profit/(loss) on disposal of non-core assets	37	47	-22%	13	(18)	-
(Loss)/profit after tax	**(438)**	**(261)**	**68%**	**(512)**	**13**	**-**

[27] See note 5.

Condensed Consolidated Balance Sheet			
€ mn	**31.12.2015**	**31.12.2014** (represented)[28]	**±%**
Cash and balances with Central Banks	1.423	1.139	25%
Placements with banks	1.314	1.647	-20%
Debt securities, treasury bills and equity investments	1.009	2.541	-60%
Net loans and advances to customers	17.192	18.168	-5%
Other assets	2.284	2.378	-4%
Non-current assets and disposal groups classified as held for sale	49	916	-95%
Total assets	**23.271**	**26.789**	**-13%**
Amounts due to banks	242	162	49%
Funding from Central Banks	4.453	8.284	-46%
Repurchase agreements	368	580	-36%
Customer deposits	14.181	12.624	12%
Debt securities in issue	1	1	2%
Other liabilities	948	1.046	-9%
Non-current liabilities and disposal groups classified as held for sale	0	611	-100%
Total liabilities	**20.193**	**23.308**	**-13%**
Share capital	892	892	0%
Capital reduction reserve and share premium	2.505	2.505	0%
Revaluation and other reserves	259	147	76%
Accumulated losses	(601)	(79)	661%
Shareholders' equity	**3.055**	**3.465**	**-12%**
Non-controlling interests	23	16	44%
Total equity	**3.078**	**3.481**	**-12%**
Total liabilities and equity	**23.271**	**26.789**	**-13%**

[28] See note 5.

Key Balance Sheet figures and ratios			
	31.12.2015	**31.12.2014**	**+%**
Gross loans (€ mn)	22.592	23.772	-5%
Customer deposits (€ mn)	14.181	13.169	+8%
Loans to deposits ratio (net)	121%	141%	-20 p.p.*
90+ DPD ratio	50%	53%	-3 p.p *
90+ DPD provisioning coverage ratio[29]	48%	41%	+ 7 p.p*

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

Capital	**31.12.2015**	**31.12.2014**	**+%**
Common Equity Tier 1 capital ratio (CET1) (transitional)	14,0%	14,0%	-
Total capital ratio	14,1%	14,2%	-0,1 p.p.*
Risk weighted assets (€ mn)	19.666	22.715	-13%

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

Key performance ratios						
	FY2015	**FY2014**	**yoy +%**	**4Q2015**	**3Q2015**	**qoq +%**
Net Interest Margin	3,79%	3,94%	-15 bps	3,69%	3,70%	-1 bps
Cost to income ratio	40%	37%	+3 p.p*	47%	41%	+6 p.p*
Return on average assets	-1,7%	-0,9%	-0,8 p.p*	-8,6%	0,2%	-8,8 p.p*
Return on average equity	-12,9%	-8,5%	-4,4 p.p*	-62,3%	1,5%	-63,8 p.p*
Basic (losses) / earnings per share (€ cent)	(4,92)	(4,41)	-0,51	(5,74)	0,15	-5,89

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

Notes to the Preliminary Financial Results of the Group for the year ended 31 December 2015:

The Preliminary Financial Results of the Group for the year ended 31 December 2015 have not been audited by the Group's external auditors.

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

The announcement and the presentation of the Preliminary Financial Results of the Group for the year ended 31 December 2015 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

[29] See Note 4.