Bank of Cyprus Group

Announcement

Group Financial Results for the six months ended 30 June 2015

Nicosia, 26 August 2015

Key Highlights

- **Improving funding structure; loans to deposits ratio (L/D) declined to 136% (138% at 31 March 2015) and customer deposits accounting for 54% of total assets (51% at 31 March 2015)**
- **ELA reduced by €1 bn during 2Q2015 to €5,9 bn and by a further €500 mn post quarter-end to a current level of €5,4 bn; overall, ELA funding has been reduced by €6,0 bn from its peak of €11,4 bn in April 2013**
- **Strengthened capital position; Common Equity Tier 1 capital (CET1) ratio (transitional) increased by 100 basis points during 2Q2015 to 14,9% due to RWA reduction and organic capital generation**
- **Profit after tax from continuing operations and Profit after tax of €73 mn and €60 mn for 1H2015, respectively**

Bank of Cyprus Group CEO Statement:

The second quarter results demonstrate that we are continuing to make good progress against our strategic objectives and we are progressively improving our key financial metrics.

We have strengthened our capital position, with the CET1 ratio increasing by 100 basis points to 14,9%, on the back of reduced risk weighted assets (RWAs) reflecting our on-going efforts for improving credit risk management and optimising RWAs management, deleveraging and the reduction of problem loans. Our funding structure has improved, with the loan-to-deposits ratio declining to 136%. The continuation of positive customer flows and the deleveraging allowed us to repay €1 bn of ELA during the second quarter and another €500 mn post quarter-end, reducing ELA to a current level of €5,4 bn. Addressing the Group's asset quality problem remains the key priority. Loan quality shows further signs of stabilisation, with the level of problem loans decreasing and the provisioning coverage gradually increasing. Finally, profit before provisions and impairments and profit after tax for the second quarter were €169 mn and €31 mn, respectively.

The Bank's strengthened capital position and overall improvement in its financial position enhance its funding options and will facilitate access to the capital markets for wholesale funding, subject to market conditions and investor appetite, allowing the Bank to further normalise its funding structure. The adoption of the foreclosure legislation and insolvency framework, coupled with the improved fundamentals of the Cypriot economy, are significant steps in enabling the Bank to tackle its delinquent loans and to improve its asset quality.

Post quarter-end, we have reached an agreement for the sale of the majority of our Russian operations. The sale allows the further de-risking of the balance sheet, the elimination of future potential risks relating to the Russian operations, the release of risk weighted assets and, therefore, the improvement of the Group's regulatory capital position.

The Cyprus economy is showing further signs of stabilisation amidst a relatively unfavourable external environment. 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 257 branches, of which 129 operate in Cyprus, 122 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 6.668 staff worldwide. At 30 June 2015, the Group's Total Assets amounted to €25,4 bn and Total Equity was €3,5 bn.

A. Summary of Financial Results for the six months ended 30 June 2015

Balance Sheet Highlights

- The **CET1 ratio (transitional basis)** increased to 14,9%[1] at 30 June 2015, from 13,9% at 31 March 2015, primarily due to the reduction of risk weighted assets and organic capital generation. The **fully loaded CET1 ratio** totalled 14,4% at 30 June 2015, compared to 13,4% at 31 March 2015.
- The Bank's **funding structure is improving**, with the L/D ratio[2] declining to 136% from 138% at 31 March 2015 and customer deposits increasing to 54% of total assets, compared to 51% at 31 March 2015.
- During 2Q2015, the **Emergency Liquidity Assistance (ELA)** was reduced by €1 bn to €5,9 bn at 30 June 2015. Post quarter-end, ELA was reduced further by €500 mn to €5,4 bn as at 26 August 2015. Overall, ELA funding has been reduced by €2,0 bn year-to-date and by €6,0 bn from its peak of €11,4 bn in April 2013.
- During 2Q2015 the balance sheet was **deleveraged** by a further €1,3 bn; overall balance sheet was deleveraged by €7,6 bn since 30 June 2013, representing a reduction of 23%.
- **Loans in arrears for more than 90 days** (**90+ DPD)[3]** were reduced by €143 mn during 2Q2015 and totalled €12.646 mn at 30 June 2015, accounting for 53% of gross loans[4] (90+ DPD ratio). The 90+ DPD provisioning coverage ratio improved to 43%[5] at 30 June 2015, while taking into account the unrecognised interest income on nominal customer balances, the provisioning coverage rises to 53%.

Income Statement Highlights[6]

- **Net Interest income (NII)** for 1H2015 totalled €439 mn and **Net Interest Margin (NIM)** was 3,88%. NII for 2Q2015 was €214 mn, compared to €225 mn for 1Q2015, reflecting the partial repayment of a bond by the Republic of Cyprus in early June 2015 and the reduction of lending rates in March 2015. The NIM for 2Q2015 was 3,79%, compared to 3,94% for 1Q2015.
- **Total Income** for 1H2015 was €533 mn. Total Income for 2Q2015 was €261 mn, compared to €272 mn for 1Q2015.
- **Total expenses** for 1H2015 were €194 mn, and the cost to income ratio was 36%. Total expenses for 2Q2015 were €92 mn, compared to €102 mn for 1Q2015, with the one-off reduction reflecting lower marketing, consultancy and professional expenses. The cost to income ratio for 2Q2015 was 35%, compared to 38% for 1Q2015.
- **Profit before provisions and impairments[7], restructuring costs and discontinued operations** for 1H2015 was €339 mn. Profit before provisions and impairments, restructuring costs and discontinued operations for 2Q2015 was €169 mn, compared to €170 mn for 1Q2015.
- **Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans** for 1H2015 totalled €227 mn[8]. Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans for 2Q2015 were €122 mn, compared to €105 mn for 1Q2015.
- **Profit after tax from continuing operations[9]** for 1H2015 totalled €73 mn. Profit after tax from continuing operations for 2Q2015 was €16 mn, compared to €57 mn for 1Q2015.

---

[1] Includes independently verified profits for the half-year to 30 June 2015.
[2] 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 139% at 30 June 2015, compared to 140% at 31 March 2015.
[3] 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.
[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 €1.351 mn at 30 June 2015 (compared to €1.545 mn at 31 March 2015) and include loans of discontinued operations/disposal group held for sale.
[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 and gains on derecognition and changes in expected cash flows on acquired loans were €263 mn for 1H2015 and €135 mn for 2Q2015, when including provisions for impairments of discontinued operations.
[9] Defined as Profit after tax excluding restructuring costs, discontinued operations and net profit on disposal of non-core assets.

- **Loss from disposal groups held for sale/discontinued operations** for 1H2015 was €33 mn, mainly due to the Russian operations. **Net profit on disposal of non-core assets** for 1H2015 was €41 mn, which related to the disposal of the investment in Marfin Diversified Strategy Fund Plc (MDSF) and the partial repayment of a bond by the Republic of Cyprus during 2Q2015.
- **Profit after tax attributable to the owners of the Bank** for 1H2015 was €60 mn. Profit after tax attributable to the owners of the Bank for 2Q2015 was €31 mn, compared to €29 mn for 1Q2015.

B. Analysis of Financial Results for the six months ended 30 June 2015

B.1 Balance Sheet Analysis

B.1.1 Capital Base

Group shareholders' equity totalled €3.519 mn at 30 June 2015. The **CET1 ratio (transitional basis)** totalled 14,9% at 30 June 2015, compared to 13,9% at 31 March 2015 and 14,0% at 31 December 2014. Adjusting for Deferred Tax Assets[10], the **CET1 ratio on a fully-loaded basis** totalled 14,4% at 30 June 2015, compared to 13,4% at 31 March 2015. The increase in the CET1 ratio was primarily due to the reduction of risk weighted assets by approximately €1,4 bn.

The Bank, as part of its on-going efforts to optimise credit risk management and the allocation of capital to exposures, has initiated a programme with the support of external advisors in order to address the very high level of risk weighted asset (RWAs) intensity in the Bank's balance sheet. The work completed to date included the reassessment of certain exposures classified as high regulatory risk across the Group and a very granular examination and classification of various credit exposures. Along with the in-quarter positive effects of NPEs reduction and balance sheet deleveraging, there was a reduction of RWAs of €1,4 bn. Together with organic capital generation, there was an improvement in the CET1 ratio (transitional basis) by 100 basis points to 14,9%. The Bank's strategy is to intensify the effort of RWAs optimisation.

Post 30 June 2015, the Bank has reached an agreement to sell the majority of its Russian operations, including Uniastrum Bank[11]. The sale is subject to regulatory approvals and is expected to be completed by the end of 3Q2015. The transaction, based on 1H2015 figures, results in an accounting loss of €20 mn, comprising a loss of €28 mn, caused by the technical unwinding of a foreign currency translation reserve, and a profit of €8 mn against the net book value of the assets. The sale allows the Group to de-risk its balance sheet by approximately €600 mn[12] and allows the release of risk weighted assets of approximately €600 mn[13]. The sale improves the Group's regulatory capital position, with a positive impact of approximately 33 basis points[14] on the CET1 ratio.

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 €13.629 mn at 30 June 2015, compared to €13.611 mn at 31 March 2015 and €13.169 mn at 31 December 2014. Despite the full abolition of capital controls in April 2015, customer deposits in Cyprus remained relatively stable and stood at €11.631 mn at 30 June 2015. Positive customer

[10] The DTA adjustments relate to Deferred Tax Assets totalling €449 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 €8,1 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.
[11] See relevant announcement dated 17 July 2015, http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20150717AgreementSaleofBOCRENG_Final.pdf
[12] Based on the Group financial results for the six months ended 30 June 2015.
[13] See Note 12.
[14] See Note 12.

flows[15] were recorded post quarter end to date, despite the turbulence in Greece, underlining the decoupling of the Cypriot banking system and economy.

At 30 June 2015, customer deposits in Cyprus accounted for 85% of Group customer deposits, the United Kingdom for 10% and Russia for 4%. The Bank's deposit market share[16] in Cyprus reached 25,7% at 30 June 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 54% of total assets at 30 June 2015, compared to 51% at 31 March 2015 and a low of 48% at 31 March 2014. The L/D ratio[17] improved to 136% at 30 June 2015, compared to 138% at 31 March 2015 and a high of 151% at 31 March 2014.

Group gross loans[18] totalled €23.926 mn at 30 June 2015, compared to €24.085 mn at 31 March 2015 and €23.772 mn at 31 December 2014. Gross loans in Cyprus totalled €21.191 mn at 30 June 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 38,5% loan market share at 30 June 2015, compared to 37,7% at 31 March 2015. Loans in Russia (€1.033 mn) and the UK operations (€1.132 mn) accounted for 9% of total loans.

B.1.3 Eurosystem Funding

The Bank's Eurosystem funding totalled €6,4 bn at 30 June 2015, comprising ELA of €5,9 bn and European Central Bank (ECB) funding of €500 mn. Customer inflows and the proceeds from deleveraging[19] were used to reduce Eurosystem funding by €1,9 bn during 1H2015. During 2Q2015, ELA was reduced by €1 bn to €5,9 bn at 30 June 2015 and ECB funding was reduced by €300 mn to €500 mn. Post 30 June 2015, ELA funding was reduced further by €500 mn to €5,4 bn as at 26 August 2015. In total, ELA has been reduced by €6,0 bn 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 recent adoption of the foreclosure law and insolvency framework, coupled with the improved fundamentals of the Cypriot economy, 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)[20] stood at €12.646 mn at 30 June 2015 and accounted for 53% of gross loans (90+ DPD ratio), compared to €12.789 mn a quarter earlier. The provisioning coverage ratio of 90+ DPD[21] has been steadily rising and stood at 43% at 30 June 2015, compared to 42% at 31 March 2015. 90+ DPD are fully covered, when taking into account tangible collateral at fair value. The provisioning coverage ratio of 90+ DPD, taking into account the unrecognised interest income on nominal customer balances, the calculation of which is in line with local peers, totalled 53% at 30 June 2015, compared to 52% at 31 March 2015.

	30.06.2015		**31.03.2015**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
90+ DPD (as per financial statements definition)	**12.646**	**53%**	**12.789**	**53%**
Of which:				
impaired with no arrears	969	4%	1.006	4%
impaired with arrears less than 90 days	212	1%	343	1%

[15] Customer flows are defined as the difference between changes in the stock of customer deposits and changes in the stock of gross customer loans.
[16] Based on data from the Central Bank of Cyprus.
[17] See Note 2.
[18] See Note 4.
[19] Includes the disposal of the investment in Marfin Diversified Strategy Fund Plc in April 2015, the early partial repayment of a bond held by the Bank by an amount of €750 mn in early June 2015 and the repayment of loans.
[20] See Note 3.
[21] See Note 5.

Non-performing exposures[22] **(NPEs) as defined by the European Banking Authority (EBA)** declined by €366 mn (2% qoq reduction) to €14.809 mn at 30 June 2015 and accounted for 62% of gross loans (compared to 63% a quarter earlier). The provisioning coverage ratio of NPEs (as defined by EBA) totalled 36% at 30 June 2015, compared to 35% at 31 March 2015.

	30.06.2015		31.03.2015	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**14.809**	**62%**	**15.175**	**63%**
Of which:				
NPEs with forbearance measures, no impairments and no arrears	1.338	6%	1.466	6%
NPEs with forbearance measures, no impairments and arrears less than 90 days	527	2%	565	2%

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. During 2Q2015 the Bank disposed of its investment in MDSF[23]. Post 30 June 2015, the Bank has reached an agreement to sell the majority of its Russian operations[24]. The sale follows a similar disposal in Ukraine and completes the disposal of the Group's overseas banking subsidiaries identified for sale.

The non-core overseas operations at 30 June 2015 are as follows:

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €56 mn (compared to €76 mn at 31 March 2015), (b) 637 foreclosed properties with a book value of €199 mn (compared to 619 foreclosed properties with a book value of €200 mn at 31 March 2015), (c) off-balance sheet exposures totalling €133 mn (compared to €154 mn at 31 March 2015) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €74 mn (compared to €89 mn at 31 March 2015) and lending exposures in Cyprus with collaterals in Greece totalling €66 mn, at the same level as the previous quarter end.

- Romania: The overall net exposure is €368 mn (compared to €439 mn at 31 March 2015).

- Russia: The overall net exposure is €103 mn (compared to €121 mn at 31 March 2015).

B.2 Income Statement[25] Analysis

The Group's net interest income (NII) and net interest margin (NIM) for 1H2015 amounted to €439 mn and 3,88% 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 25% of the Group's balance sheet funded by the Eurosystem (ECB funding and ELA) at 30 June 2015 (compared to 29% at 31 March 2015).

NII for 2Q2015 was €214 mn and was 5% lower, compared to €225 mn for 1Q2015. The decrease reflects the partial repayment of a bond by the Republic of Cyprus in early June 2015, and the reduction of lending rates in March 2015[26]. The NII going forward will be negatively affected by the early repayment of the bond,

[22] 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.
[23] See relevant announcement dated 30 April 2015,
http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20150429SaleOfMDSF_ENG_Final.pdf
[24] See Note 11.
[25] See Note 6.
[26] Following the decision of the Central Bank of Cyprus (CBC) in February 2015 to reduce the deposit 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. See relevant announcement dated 16 February 2015,
http://www.centralbank.gov.cy/nqcontent.cfm?a_id=14653&lang=en

primarily driven by the upfront recognition of the accounting gain. The impact of the reduction in lending rates is expected to be largely offset over time upon the repricing of deposits at a lower cost.

Non-interest income for 1H2015 was €94 mn, with recurring income comprising net fee and commission income of €79 mn and net insurance income of €21 mn. Non-interest income for 2Q2015 was €47 mn (in line with 1Q2015), with recurring income comprising net fee and commission income of €36 mn and net insurance income of €9 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 2Q2015 was a net profit of €2 mn, compared to a net loss of €8 mn for 1Q2015. The losses from revaluation and disposal of investment properties for 2Q2015 of €16 mn mainly relate to the revaluation of investment properties held by the Group in Cyprus and in Greece. **Total income** for 2Q2015 amounted to €261 mn, compared to €272 mn for 1Q2015.

Total expenses for 1H2015 were €194 mn, of which 61% related to staff costs (€118 mn) and 39% to other operating expenses (€76 mn). The cost to income ratio for 1H2015 was 36%. Total expenses for 2Q2015 were €92 mn, compared to €102 mn for 1Q2015, with the reduction reflecting lower marketing, consultancy and professional expenses. Hence, the cost to income ratio for 2Q2015 was 35%, compared to 38% for 1Q2015.

Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans for 1H2015 totalled €227 mn[27]. Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans for 2Q2015 were €122 mn, compared to €105 mn for 1Q2015. These gains on derecognition and changes in expected cash flows relate to a part-reversal of the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank. The reversal is the result of revised expectations of future cash flows compared to the cash flows expected at the time of acquisition. For credit risk monitoring purposes, the fair value adjustment is considered as part of provisions and the Group reviews both of them as a single item.

The annualised provisioning charge for 1H2015 accounted for 2,2%[28] of gross loans, compared to 2,1% for 1Q2015. At 30 June 2015, accumulated provisions, including fair value adjustment on initial recognition[29], reached €5.381 mn (compared to €5.354 mn at 31 March 2015 and to €5.140 mn at 31 December 2014) and accounted for 22,5% of gross loans (compared to 22,2% at 31 March 2015 and to 21,6% at 31 December 2014).

Impairments of other financial and non-financial assets for 1H2015 totalled €31 mn and primarily relate to further impairments of overseas non-core assets as part of the Bank's de-risking efforts.

Profit after tax for continuing operations for 1H2015 totalled €73 mn. Profit after tax for continuing operations for 2Q2015 totalled €16 mn, compared to a profit of €57 mn for 1Q2015.

Restructuring costs for 1H2015 totalled €21 mn, of which €14 mn related to 2Q2015, mainly due to increased professional and consultancy fees relating to restructuring activity and disposal of non-core assets.

Loss from disposal groups held for sale/discontinued operations for 1H2015 was €33 mn and mainly related to the Russian operations. **Net profit on disposal of non-core assets** (namely the investment in MDSF and the partial repayment of a bond by the Republic of Cyprus) for 2Q2015 was €41 mn.

Profit after tax attributable to the owners of the Bank for 1H2015 was €60 mn. Profit after tax attributable to the owners of the Bank for 2Q2015 was €31 mn, compared to a profit of €29 mn for 1Q2015.

[27] See Note 8.
[28] The provisioning charge ratio is calculated as the provisions for impairment of customer loans, including provisions of discontinued operations (totalling €493 mn), net of gains on derecognition and changes in expected cash flows on acquired loans (totalling €230 mn) over average gross loans (as defined in Note 4).
[29] 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 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 92% and 89% of the Group's loans and customer deposits respectively, after adjusting for the agreement for the disposal of the majority of the Group's Russian operations, 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. According to the flash estimate[30] published on 14 August 2015, real GDP in the second quarter of 2015 increased by 0,9% over the corresponding quarter of 2014, on a seasonally adjusted basis. This was the second consecutive quarterly increase after fourteen quarters of continuous decline. The European Commission in its sixth review published in July 2015, forecasts real GDP growth for the full year 2015 to be at 0,4%. The Economic Sentiment Indicator increased further in 2Q2015, as a result of confidence improving in all sectors. Tourist arrivals for the first seven months of 2015 reached 1,5 mn, recording an increase of 6,5% compared to a similar period the year before, with the drop in arrivals from Russia being compensated by an increase in arrivals from the UK and other northern European countries.

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 programme 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. The authorities should make all necessary efforts to effectively implement the newly adopted insolvency and foreclosure legal frameworks, while steering public spending toward growth-enhancing activities. 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 in applying the foreclosure legislation and insolvency framework, and a further deterioration in the Russian economy. On the upside, following the positive review by the Troika, Cyprus has been granted eligibility for the Quantitative Easing program (QE), the participation in which is expected to positively impact the liquidity conditions in the country. 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.

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

In order to normalise its funding structure, the Bank is **stepping up its marketing efforts to attract deposits**. At the same time, 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**. 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 a significant liquidity buffer in cognizant of the events related to Greece and the economic challenges in Russia. Once market conditions are normalised, the Bank is expected to 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**. 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. Post 30 June 2015, the Bank has reached an agreement for the sale of Uniastrum Bank and certain other Russian assets. Based on 1H2015 figures, the sale results in an improvement in the Common Equity Tier 1 capital ratio of approximately 33 basis points, due to the reduction of approximately €600 mn risk weighted assets, and reduces the Group's overall net exposure in Russia to €103 mn, expected to be reduced over time. The sale follows a similar disposal in Ukraine and completes the disposal of the Group's overseas banking subsidiaries identified for sale. The sale is subject to regulatory approvals and is expected to be completed by the end of 3Q2015. Finally, 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 in October 2014 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.

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[31] 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 Jun-2015**	**Medium-Term Target Dec-2017**
Asset Quality	90+ Days Past Due provision coverage	41%	43%	>50%
	Provisioning charge (Cost of Risk) (ytd)	3,6%	2,2%[32]	<1,5%
	90+ Days Past Due (€ mn)	12.653	12.646	<10.000
Funding	Loans to Deposits ratio (net)	141%	136%	<150%
Capital	Common Equity Tier 1 capital ratio (transitional)	14,0%	14,9%	>10%
	Leverage ratio (Assets/Equity)	7,7x	7,2x	<12x
Efficiency	Cost-to-Income ratio (ytd)	36%	36%	<45%
	Net Interest Margin (ytd)	3,94%	3,88%	>2,5%
	Number of Branches in Cyprus	130	129	125
	Group Employees in Cyprus	4.334	4.335	<4.100

D.1 Commentary about the evolution of Key Performance Indicators

Asset quality
The provisioning coverage of 90+ DPD totalled 43% at 30 June 2015, compared to 41% at 31 December 2014, with the provisioning charge accounting for an annualised 2,2%[33] of gross loans for 1H2015, compared to 3,6% for FY2014.

Funding
The Loans to Deposits ratio (net) totalled 136% at 30 June 2015, compared to 141% at 31 December 2014.

Capital
The Common Equity Tier 1 capital ratio (on a transitional basis) totalled 14,9% at 30 June 2015, compared to 14,0% at 31 December 2014. The Leverage ratio has slightly improved to 7,2x at 30 June 2015, compared to 7,7x at 31 December 2014.

Efficiency
The cost to income ratio for 1H2015 was 36%, remaining at the same level compared to FY2014. The net interest margin for 1H2015 was 3,88%, compared to 3,94% for FY2014. The number of Group employees in Cyprus totalled 4.335 at 30 June 2015, compared to 4.334 employees at 31 December 2014.

[31] 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.
[32] See Note 28.
[33] See Note 28.

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

Restructuring and Recoveries Division (RRD)

The RRD is responsible for the managing of €11,6 bn of large or delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Over the last year and a half, the Bank has been enhancing its actions through a clear strategy and restructuring processes, and via a number of focused campaigns to tackle specific portfolio segments. Customised approaches and targeted campaigns for each segment have been implemented along with customised products based on their needs. Adoption of the foreclosure legislation and the insolvency framework will remove the uncertainty of previous months and will increase willingness of clients to co-operate. The actions undertaken by the RRD have been intensifying the Bank's efforts to address 90+ DPD balances.

Further progress has been achieved on rescheduling activity, with rescheduled loans totalling €9,0 bn[34] at 30 June 2015, compared to €8,1 bn at 31 March 2015. So far, rescheduling activity has been higher in corporate lending, where 41%[35] of total corporate loans at 30 June 2015 have been rescheduled. In SME and Retail-Housing lending, rescheduled loans account for 36% and 39% respectively of total loans per each customer sector. In terms of performance, 39% of rescheduled loans at 30 June 2015 have no arrears following rescheduling. Taking into account only the loans restructured post 31 March 2014, the percentage of rescheduled loans with no arrears increases to 70%.

Deleverage

The Group has disposed of its investment in MDSF recording a small positive impact to its capital position. 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 30 June 2015, the Bank has reached an agreement to sell the majority of its Russian operations, comprising (i) its holding of 80% in its Russian banking subsidiary, CB Uniastrum Bank LLC, and its holding of 80% in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC, and (ii) certain other Russian loan exposures. Based on 1H2015 figures, this sale allows the Group to de-risk its balance sheet by approximately €600 mn and allows the release of risk weighted assets of approximately €600 mn. The sale improves its regulatory capital position, with a positive impact of around 33 basis points on the Group's Common Equity Tier 1 capital ratio. The sale is subject to regulatory approvals, is expected to be completed by the end of 3Q2015 and is in line with the Group's strategy on focusing on core businesses and markets, and disposing of operations that are considered as non-core.

[34] 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 €611 mn for rescheduled loans at 30 June 2015 (compared to €689 mn for rescheduled loans at 31 March 2015) and include loans of discontinued operations/disposal group held for sale.

[35] 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 €1.351 mn for gross loans and to €611 mn for rescheduled loans at 30 June 2015 (compared to €1.545 mn for gross loans and to €689 mn for rescheduled loans at 31 March 2015) 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 represented. 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	1H2015	1H2014 (represented)[36]	yoy +%	2Q2015	1Q2015	qoq +%
Net interest income	439	514	-14%	214	225	-5%
Net fee and commission income	79	78	1%	36	43	-17%
Net foreign exchange gains/(losses) and net gains/(losses) on other financial instruments	8	5	53%	12	(4)	-
Insurance income net of insurance claims	21	25	-19%	9	12	-29%
(Losses)/gains from revaluation and disposal of investment properties	(23)	1	-	(16)	(7)	108%
Other income	9	6	55%	6	3	114%
Total income	**533**	**629**	**-15%**	**261**	**272**	**-4%**
Staff costs	(118)	(117)	1%	(59)	(59)	-
Other operating expenses	(76)	(91)	-17%	(33)	(43)	-23%
Total expenses	**(194)**	**(208)**	**-7%**	**(92)**	**(102)**	**-10%**
Profit before provisions and impairments, gains on derecognition and changes in expected cash flows on acquired loans, restructuring costs and discontinued operations	**339**	**421**	**-19%**	**169**	**170**	**0%**
Provisions for impairment of customer loans	(457)	(289)	58%	(309)	(148)	109%
Gains on derecognition and changes in expected cash flows on acquired loans	230	11	-	187	43	335%
Impairments of other financial and non-financial assets	(31)	(34)	-8%	(30)	(1)	-
Share of profit from associates and joint ventures	3	4	-16%	1	2	-
Profit before tax, restructuring costs and discontinued operations	**84**	**113**	**-26%**	**18**	**66**	**-72%**
Tax	(11)	(5)	132%	(2)	(9)	-69%
Loss attributable to non-controlling interests	(0)	(0)	-	(0)	(0)	-
Profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**73**	**108**	**-32%**	**16**	**57**	**-72%**
Restructuring costs	(21)	(21)	3%	(14)	(7)	61%
Loss from disposal groups held for sale/discontinued operations	(33)	(66)	-51%	(12)	(21)	-43%
Net profit on disposal of non-core assets	41	60	-32%	41	-	-
Profit after tax	**60**	**81**	**-26%**	**31**	**29**	**11%**

[36] See Note 4.2 to the Mid-year Financial Report for the six months ended 30 June 2015, Comparative information.

Condensed Consolidated Balance Sheet			
€ mn	**30.06.2015**	**31.12.2014** (represented)[37]	**±%**
Cash and balances with Central Banks	1.011	1.139	-11%
Placements with banks	1.425	1.647	-13%
Debt securities, treasury bills and equity investments	1.631	2.541	-36%
Net loans and advances to customers	18.136	18.168	-
Other assets	2.374	2.378	-
Non-current assets and disposal groups classified as held for sale	805	916	-12%
Total assets	**25.382**	**26.789**	**-5%**
Amounts due to banks	201	162	24%
Funding from Central Banks	6.403	8.284	-23%
Repurchase agreements	576	580	-1%
Customer deposits	13.027	12.624	3%
Debt securities in issue	1	1	-
Other liabilities	986	1.046	-6%
Non-current liabilities and disposal groups classified as held for sale	669	611	9%
Total liabilities	**21.863**	**23.308**	**-6%**
Share capital	892	892	-
Capital reduction reserve and share premium	2.505	2.505	-
Revaluation and other reserves	178	147	21%
Accumulated losses	(69)	(79)	-12%
Shareholders' equity	**3.506**	**3.465**	**1%**
Non-controlling interests	13	16	**-17%**
Total equity	**3.519**	**3.481**	**1%**
Total liabilities and equity	**25.382**	**26.789**	**-5%**

[37] See Note 36.

Key Balance Sheet figures and ratios - pre classification of Russian operations as a disposal group held for sale			
	30.06.2015	**31.12.2014**	**±%**
Gross loans (€ mn)	23.926	23.772	1%
Customer deposits (€ mn)	13.629	13.169	3%
Loans to deposits ratio (net)	136%	141%	-5 p.p.*
90+ DPD ratio	53%	53%	-
90+ DPD provisioning coverage ratio[38]	43%	41%	+2 p.p.*

* 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			
	30.06.2015	**31.12.2014**	**±%**
Gross loans (€ mn)	22.997	22.806	1%
Customer deposits (€ mn)	13.027	12.624	3%
Loans to deposits ratio (net)	139%	143%	-4 p.p.*
90+ DPD ratio	53%	53%	-
90+ DPD provisioning coverage ratio[39]	41%	39%	+2 p.p.*

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

Capital	**30.06.2015**	**31.12.2014**	**±%**
Common Equity Tier 1 capital ratio (CET1) (transitional)	14,9%	14,0%	0,9 p.p.*
Total capital ratio (under CRD IV)	15,0%	14,2%	0,8 p.p.*
Risk weighted assets (under CRD IV) (€ mn)	21.527	22.715	-5%

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

Key performance ratios				
	2Q2015	**1Q2015**	**qoq ±%**	**4Q2014**
Net interest margin	3,79%	3,94%	-0,15 p.p.*	3,81%
Cost to income ratio	35%	38%	-3 p.p.*	41%
Return on average assets	0,5%	0,4%	0,10 p.p.*	-5,0%
Return on average equity	3,6%	3,3%	0,30 p.p.*	-37,5%
Basic earnings/(losses) per share (€ cent)	0,36	0,32	0,04	(4,15)

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

Notes to the Financial Results of the Group for the six months ended 30 June 2015:

The Mid-year Financial Report for the six months ended 30 June 2015 is 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 Mid-year Financial Report for the six months ended 30 June 2015 has been reviewed, but not audited by the Bank's external auditors.

The announcement and the presentation of the financial results for the six months ended 30 June 2015 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

[38] See Note 5.
[39] See Note 5.