Bank of Cyprus Group

Announcement

Report and Explanatory Statement:

Preliminary Group Financial Results for the year ended 31 December 2014

Nicosia, 25 February 2015

Bank of Cyprus Group's CEO Statement:

"During the fourth quarter of 2014 we have made further progress in delivering against our strategic objectives. We have sold the majority of the UK loan portfolio acquired from Laiki Bank and the balance sheet was deleveraged by a further €649 mn. Our deposit base continues to stabilise and the Bank's funding structure is steadily normalising. The Bank has been experiencing positive customer flows throughout the fourth quarter of 2014 and during 2015, despite the release of all blocked decree deposits earlier than expected. During the fourth quarter of 2014, our Cyprus deposit base increased for the first time since the events of March 2013. ELA funding has been reduced by €280 mn during the fourth quarter of 2014 and by an additional €200 mn during 2015 to €7,2 bn.

The Restructuring and Recoveries Division (RRD) is making progress in arresting loan quality deterioration, with loan restructuring of viable borrowers progressing well and loans in arrears for more than 90 days reduced by 3% during the fourth quarter of 2014. We have completed the review of the results of the Asset Quality Review (AQR) and methodological alignments as per the Single Supervisory Mechanism observations and have taken additional provisions, in order to better align our policies with best practice. We have significantly reduced our net exposure to Russia through increased provisions, in light of the deteriorating economic conditions in the country.

Our recurring profitability is stabilising with profit before provisions and impairments for the fourth quarter of 2014 totalling €169 mn. The results of the fourth quarter of 2014 were negatively affected by increased provisions relating to the methodological alignments following the completion of the review of the AQR results and to impairments in Russia, as well as the classification of the Russian operations as held for sale. Loss after tax for the fourth quarter of 2014 and for the year ended 31 December 2014 totalled €332 mn and €256 mn, respectively.

With a Common Equity Tier 1 capital ratio of 14,0% as at 31 December 2014, the Bank remains appropriately capitalised for the risks it is faced with.

The Cyprus economy is showing further signs of stabilisation amidst a relatively unfavourable external environment. The reforms momentum needs to be maintained and there should be no further delays in introducing the appropriate legislation to prevent strategic defaults. An improved legal environment will help the Cypriot banks to address their problematic loan portfolios and will allow them to support the recovery of the Cypriot economy through the provision of credit to creditworthy households and businesses. As the leading bank in the country, with a significantly improved financial and operational position, the Bank is well positioned to spearhead the recovery of the Cypriot economy and to benefit from such 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 6.726 staff worldwide. At 31 December 2014, the Group's Total Assets amounted to €26,8 bn and Total Equity was €3,5 bn.

Notes to the Preliminary Financial Results of the Group for the year ended 31 December 2014:

Following the Eurogroup decisions to recapitalise the Bank via a bail-in of depositors, the Bank was placed under resolution from 25 March 2013 until 30 July 2013, a period during which it was recapitalised and restructured in accordance with a number of decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority. As a result of a number of transactions relating to these decrees, figures and financial results of the Group are not comparable with past financial results.

As from the fourth quarter of 2014, the Group's operations in Russia are treated as a disposal group held for sale and results have been presented accordingly as discontinued operations in accordance with IFRS. Hence comparatives for the earlier financial quarters of 2014 and FY2013 have been re-presented.

In order to better reflect its operating results, the Group changed its presentation for impairments of assets and for gains on derecognition and changes in expected cash flows on loans acquired. Specifically, impairments of other financial and non-financial assets and gains on derecognition and changes in expected cash flows on loans acquired from Laiki Bank are presented in line with provisions for impairment of customer loans. Comparatives have been reclassified accordingly to conform with changes in the presentation of the current period.

Furthermore, certain loans and advances in Romania that as at 30 September 2014 were classified as held for sale, no longer meet the classification criteria and therefore are no longer classified as held for sale.

The Preliminary Financial Results of the Group for the year ended 31 December 2014 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 2014 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

A. Summary of Preliminary Financial Results for the year ended 31 December 2014

Balance Sheet

- **The Common Equity Tier 1 capital (CET1) ratio (transitional basis) totalled 14,0% at 31 December 2014 (compared to 15,4% at 30 September 2014), primarily affected by increased provisioning charges for the fourth quarter of 2014.**

- **At 31 December 2014, gross loans [1] and deposits [2] were €23,8 bn and €13,2 bn respectively, with the net loans to deposits ratio improving to 142% from 148% at 30 September 2014. During the fourth quarter of 2014, the Group's deposits in Cyprus increased by €71 mn, the first quarterly increase following the events of March 2013.**

- **Emergency Liquidity Assistance (ELA) has been further reduced to €7,4 bn at 31 December 2014 (compared to €9,6 bn at 31 December 2013 and a high of €11,4 bn in April 2013). ECB funding was reduced to €880 mn at 31 December 2014 from €920 mn at 30 September 2014. Post 31 December 2014, ELA and ECB funding were reduced further by €200 mn and €50 mn, respectively.**

- **Loans in arrears for more than 90 days (90+ DPD)[3] decreased by 3% during the fourth quarter of 2014 and totalled €12.653 mn at 31 December 2014, representing 53% of gross loans (90+ DPD ratio). The provision coverage ratio of 90+ DPD improved to 40%[4] (compared to 38% at 30 September 2014), while taking into account tangible collateral at fair value, the 90+ DPD are fully covered.**

Income Statement[5]

- **Net interest income (NII) for the year ended 31 December 2014 was €967 mn, while the net interest margin (NIM) was 3,94%. NII for the fourth quarter of 2014 declined to €225 mn, compared to €231 mn for the third quarter of 2014, mainly due to deleveraging actions. The NIM for the fourth quarter of 2014 was 3,81% compared to 3,82% for the third quarter of 2014.**

- **Total income for the year ended 31 December 2014 was €1.177 mn. Total income for the fourth quarter of 2014 was €287 mn, compared to €263 mn for the third quarter of 2014.**

- **Total expenses for the year ended 31 December 2014 were €430 mn and the cost to income ratio was 37%. Total expenses for the fourth quarter of 2014 increased to €118 mn (compared to €103 mn for the third quarter of 2014), mainly due to advertising, regulatory and ECB Comprehensive Assessment related costs, listing costs and other advisory fees. The cost to income ratio for the fourth quarter of 2014 was 41% (compared to 39% in the third quarter of 2014).**

---

[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 €1,6 bn (compared to €1,9 bn at 31 December 2013), and include loans of discontinued operations/ disposal group held for sale.
[2] Including deposits of discontinued operations/disposal group held for sale.
[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] Provisioning coverage 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 the fourth quarter of 2014, 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 for the earlier financial quarters of 2014 and FY2013 have been re-presented. 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.

- **Profit before provisions and impairments[6], restructuring costs and discontinued operations for the year ended 31 December 2014 was €747 mn. Profit before provisions and impairments, restructuring costs and discontinued operations for the fourth quarter of 2014 was €169 mn, compared to €160 mn for the third quarter of 2014.**

- **Provisions for impairment of customer loans for the year ended 31 December 2014 were €666 mn[7] (continuing operations), with the provisioning charge accounting for 3,5%[8] of gross loans. Provisions for impairment of customer loans for the fourth quarter of 2014 were €248 mn (continuing operations), compared to €115 mn for the third quarter of 2014, with the increase in provisions relating to the methodological alignment and changes in certain estimates, following the completion of the review of the AQR results.**

- **During the year ended 31 December 2014, there were gains on derecognition and changes in expected cash flows on acquired loans totalling €47 mn. Impairments of other financial and non-financial assets for the year ended 31 December 2014 totalled €81 mn. This is mainly due to impairment of Laiki Bank related exposures that were transferred to the Bank, as well as impairment of non-core assets classified as held for sale.**

- **Profit after tax excluding restructuring costs, discontinued operations and net gain on disposal of non-core assets, for the year ended 31 December 2014 totalled €42 mn. Loss after tax excluding restructuring costs, discontinued operations and net gain on disposal of non-core assets for the fourth quarter of 2014 totalled €96 mn, compared to a profit of €44 mn for the third quarter of 2014.**

- **Restructuring costs for the year ended 31 December 2014 totalled €36 mn. During the year ended 31 December 2014 there was a net gain of €47 mn from the disposal of non-core assets.**

- **The Bank has assessed the progress of its disposal process of the Russian operations and concluded that the criteria of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are met as at 31 December of 2014. As a result, the Russian operations have been classified as a disposal group held for sale. In addition, as the Russian operations represent a separate major segment of the Group, as per the requirements of IFRS 5, the results from such operations are presented as discontinued operations in the Income Statement. In line with the Group's accounting policy, an impairment loss of up to the carrying value of non-current assets within IFRS 5 measurement scope (e.g. tangible and intangible assets and other non-financial assets) is recognised. As a result, the Bank has recognised an impairment loss of €84 mn, which is included in losses from discontinued operations in the Consolidated Income Statement. The total loss of discontinued operations for the fourth quarter was €220 mn. The total loss of discontinued operations for the year ended 31 December 2014 amounted to €309 mn, of which €269 mn relates to the Russian operations and €36 mn relates to the Ukrainian operations disposed in the second quarter of 2014.**

- **Loss after tax attributable to the owners of the Bank for the year ended 31 December 2014 totalled €256 mn. Loss after tax attributable to the owners of the Bank for the fourth quarter of 2014 totalled €332 mn, compared to a loss of €5 mn for the third quarter of 2014.**

[6] 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.
[7] Provisions for impairment of customer loans for the year ended 31 December 2014 were €939 mn, when including provisions for impairments of discontinued operations relating to Ukraine and Russia.
[8] The provisioning charge ratio is calculated as the provisions for impairment of customer loans, including provisions of discontinued operations, (in total €939 mn) net of gains on derecognition and changes in expected cash flows on acquired loans (totalling €47 mn) over average gross loans (as defined in Note 1).

B. Analysis of Preliminary Financial Results for the year ended 31 December 2014

B.1 Balance Sheet Analysis

B.1.1 Capital Base

The Group's shareholders' equity at 31 December 2014 totalled €3.470 mn. The **CET1 ratio (transitional basis) totalled 14,0%** at 31 December 2014 (compared to 15,4% at 30 September 2014). Adjusting for Deferred Tax Assets, the **CET1 ratio (fully-loaded basis)** totalled 13,4% at 31 December 2014.

During the fourth quarter of 2014, the CET1 ratio was primarily affected by a 9% reduction in CET1 capital, primarily due to the net loss of €332 mn for the fourth quarter of 2014.

As reported in the Group's financial results for the nine months ended 30 September 2014, the Single Supervisory Mechanism (SSM) requested the Group to review certain of its accounting estimates relating to provisions, in light of the higher degree of conservatism applied in the Asset Quality Review (AQR), as part of the ECB Comprehensive Assessment, and that such a review could have led to an increase in provisions for impairments, negatively affecting the Group's capital position and financial results. It is noted that, as per the ECB Comprehensive Assessment, the total AQR adjustments for the Group as at 31 December 2013 amounted to €731 mn, of which €277 mn related to specific provisions and €454 mn related to collective provisions. The Group has completed a review of its accounting estimates and methodologies in an effort to more closely align them with the observations and adjustments suggested by the SSM, resulting in an additional provisions charge for the fourth quarter. Accordingly, provisions for impairment of loans totalled €248 mn for the fourth quarter of 2014, while including the additional charge relating to the Russian operations, the aggregate charge for the fourth quarter totalled €408 mn. The additional provisions improve provision coverage levels and better align some of the Bank's methodologies to take account of the AQR observations.

As part of Phase 3 of its Share Capital Increase[9], 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 is €892.294.453,30.

B.1.2 Deposits and Loans

The Group's total deposits were €13.169 mn at 31 December 2014, compared to €13.330 mn at 30 September 2014. In constant exchange rates, total deposits increased by €80 mn during the fourth quarter of 2014. Deposits in Cyprus increased by €71 mn during the fourth quarter of 2014, despite the on-going deleverage efforts of customers that use their savings to pay down debt, the release of €600 mn of blocked decree deposits at the end of October 2014, the further relaxation of external restrictive measures and the public debate regarding the foreclosure and insolvency frameworks. This increase was the first quarterly increase in deposits in Cyprus since the events of March 2013.

Post April 2014, the Bank experienced customer inflows[10] in its Cyprus operations, every month with the exception of August 2014, while for the whole of 2014 there were net customer inflows. Customer inflows have continued during 2015.

---

[9] 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.
[10] Customer flows are defined as the difference between changes in the stock of customer deposits and changes in the stock of gross customer loans.

At 31 December 2014, deposits in Cyprus accounted for 86% of Group deposits, deposits in the United Kingdom for 10% and deposits in Russia for 4%. The Bank's deposit market share[11] in Cyprus increased to 24,8% at 31 December 2014, compared to 24,6% at 30 November 2014.

Deposits remain the Group's primary source of funding and accounted for 49% of assets as at 31 December 2014. The ratio of net loans to deposits improved to 142% at 31 December 2014, compared to 148% at 30 September 2014.

In addition to the restrictive measures applicable for the Cypriot banking system as a whole, additional restrictive measures applicable to the Bank's deposits affected by the bail-in[12] were introduced in March 2013. On 31 January 2015, the last tranche of blocked decree deposits (about €300 mn out of a total of €2,8 bn blocked decree deposits) was released. It is noted that all blocked decree deposits have been released earlier than expected and the majority of them have remained with the Bank, evidencing the growing confidence of customers towards the Bank.

The Bank's deleveraging efforts continue with gross loans declining[13] by 3,9% during the fourth quarter of 2014 to €23,8 bn as at 31 December 2014. During the fourth quarter of 2014, the Bank completed the disposal of the majority of the Laiki UK loan portfolio[14]. Gross loans in Cyprus totalled €21,2 bn and accounted for 89% of gross loans at 31 December 2014. The Bank continues to be the single largest credit provider in Cyprus with a 38,8%[15] market share as at 31 December 2014. Loans in Russia (€0,9 bn) and loans in the UK operations (€0,9 bn) accounted for 4% of total loans each.

B.1.3 Eurosystem Funding

The Bank's Eurosystem funding totalled €8,3 bn at 31 December 2014 comprising ELA of €7,4 bn and ECB of €880 mn. Proceeds from deleverage were used to reduce ELA by €280 mn during the fourth quarter of 2014 to €7,4 bn at 31 December 2014 (accounting for 28% of total assets). During the fourth quarter of 2014, the ECB funding was reduced by €40 mn to €880 mn as at 31 December 2014 from €920 mn at 30 September 2014. Post 31 December 2014, ELA and ECB funding were reduced further by €200 mn and €50 mn, respectively.

B.1.4 Loan portfolio quality

The quality of the Group's loan portfolio continues to be challenged primarily by the on-going recession in Cyprus and the delay in the introduction of the appropriate legislation in the hands of the Bank to enable it to engage effectively with borrowers in Cyprus.

Loans in arrears for more than 90 days (90+ DPD)[16] totalled €12.653 mn at 31 December 2014 and accounted for 53% of gross loans (90+ DPD ratio). 90+ DPD decreased by 3% or €325 mn during the fourth quarter of 2014, compared to an increase of 3% or €386 mn during the third quarter of 2014. The decrease in the 90+ DPD primarily relates to the Cypriot operations where the Bank's efforts to restructure and collect delinquent loans are gathering pace, as well as to the disposal of the majority of the Laiki UK loan portfolio. The provisioning coverage ratio of 90+ DPD[17]

---

[11] Based on data from the Central Bank of Cyprus.
[12] The *Enforcement of Temporary Restrictive Measures on Transactions of Bank of Cyprus Public Co Ltd in case of Emergency of 2013* issued by the Ministry of Finance on 30 July 2013. Deposits totalling €2,8 bn (about 37,4% of the uninsured deposits) remained blocked in the form of three equal fixed term deposits with terms of 6, 9, and 12 months respectively, beginning 1 August 2013. The Bank had the right to renew them for an additional equal term at the same interest rates, depending on market conditions. Once these deposits are unblocked, the funds are subject to the general restrictive measures applicable at the time.
[13] See Note 1.
[14] See relevant announcement dated 3 November 2014: http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20141103_CompletionSaleOfUKLoanBook_ENG.pdf
[15] Based on data from the Central Bank of Cyprus.
[16] See Note 3.
[17] See Note 4.

totalled 40% at 31 December 2014, while taking into account tangible collateral at fair value, 90+ DPD are fully covered.

Non-performing exposures[18] **(NPEs) as defined by the European Banking Authority (EBA)** totalled €14.961 mn at 31 December 2014 (compared to €15.046 mn at 30 September 2014) and accounted for 63% of gross loans. The provisioning coverage ratio of NPEs (as defined by EBA) totalled 34% at 31 December 2014, compared to 33% at 30 September 2014.

Until 30 September 2014, non-performing loans (NPLs) were calculated as per the Central Bank of Cyprus (CBC) rules effective from 1 July 2013[19]. At 30 September 2014, NPLs as per CBC rules, totalled €14.735 mn and accounted for 60% of gross loans. The provisioning coverage ratio of NPLs totalled 34% at 30 September 2014.

	31.12.2014		**30.09.2014**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing loans (as per CBC rules)	**n/a**	**n/a**	**14.735**	**60%**
Non-performing exposures (NPEs) as per EBA definition	**14.961**	**63%**	**15.046**	**61%**
90+ DPD (as per financial statements definition)	**12.653**	**53%**	**12.978**	**52%**

B.1.5 Update on non-core operations

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.

During 2014, the Group disposed its Ukrainian operations, its investment in the Romanian Banca Transilvania, customer loans in Serbia, assets in Romania and the majority of the UK loan portfolio acquired from Laiki Bank in March 2013.

The remaining non-core overseas operations as at 31 December 2014 are as follows:

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €97 mn, (b) about 600 foreclosed properties with a book value of €179 mn, and (c) off-balance sheet exposures totalling €185 mn.
- Romania: The overall net exposure is €520 mn.
- Russia: In light of the deteriorating economic conditions since mid-December 2014, the Bank has proceeded to reassess its operations in that country and increased the level of provisions for impairment of its loans and other assets. This action reflects a deliberately

[18] It is noted that the European Banking Authority (EBA) has published its reporting standards on forbearance and non-performing exposures. According to EBA, a loan is considered as non-performing 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 day past due or (ii) impaired exposures i.e. a) specific provision is kept, b) write off, c) legal, d) bankrupt, or (iii) material exposures which are more than 90 days past due or (iv) performing forborne exposures that re-restructured within 2 year probation period or (v) performing forborne exposures under probation (2 years) that present more than 30 days past due after the restructuring date.

[19] Non-Performing Loans (NPL) as per the Central Bank of Cyprus Directive: In accordance with the directive, a loan is considered as non-performing when it shows arrears of more than 90 days or if it has been restructured and at the time of restructuring presented arrears for a period of more than 60 days, regardless of tangible or other collateral or it has been restructured more than 2 times in a period of 18 months. More specifically a NPL is defined as a loan which has arrears (of interest or capital or any other charges) for a period of more than 90 days, an overdraft in excess of its contractual limit on a continuous basis for a period of more than 90 days and a restructured facility which at the time of restructuring was classified as NPL or has arrears/excesses for a period of more than 60 days, or has been restructured more than 2 times in the last 18 months. Restructured loans remain as NPLs for 6 months following the commencement of the new repayment schedule of capital instalments or in the case of gradual increasing instalments, six months from the first month from which the higher instalment is due. In case of lump-sum payments at maturity, the loan remains as NPL until its maturity.

more conservative stance regarding the Russian economic outlook and significantly reduces the Group's overall net exposure to €163 mn.

B.2 Income Statement[20] Analysis

B.2.1 Analysis of income and expenses

The Group's net interest income (NII) and net interest margin (NIM) for the year ended 31 December 2014 were €967 mn and 3,94% respectively. Both NII and NIM continue to reflect the competitive environment in Cyprus and the composition of the Group's funding whereby 31% of the Group's balance sheet was funded by Eurosystem funding (ECB funding and ELA) as at 31 December 2014. NII and NIM for the fourth quarter of 2014 were €225 mn and 3,81%, respectively (compared to €231 mn and 3,82% for the third quarter of 2014).

Non-interest income for the year ended 31 December 2014 was €210 mn, with net fee and commission income and net insurance income accounting for €153 mn and €46 mn, respectively. The remaining component of non-interest income (comprising net foreign exchange income, net gains from financial instruments and other income) was a net gain of €11 mn. Total income for the year ended 31 December 2014 was €1.177 mn. Total income for the fourth quarter of 2014 was €287 mn, compared to €263 mn for the third quarter of 2014.

Total expenses for the year ended 31 December 2014 amounted to €430 mn, of which 55% related to staff costs (€234 mn) and 45% to other operating expenses (€196 mn). Total expenses for the fourth quarter of 2014 increased to €118 mn (compared to €103 mn for the third quarter of 2014), mainly due to advertising, regulatory and ECB Comprehensive Assessment related costs, listing costs and other advisory fees. The cost to income ratio for the year ended 31 December 2014 was 37%. The cost to income ratio for the fourth quarter of 2014 was 41% (compared to 39% in the third quarter of 2014).

B.2.2 Provisions for impairment of customer loans and other impairments

The provision charge for the year ended 31 December 2014 (continuing operations) was €666 mn[21], with the income statement charge for impairment of loans amounting to 3,5%[22] of gross loans, compared to 4,0% for 2013. At 31 December 2014, accumulated provisions, including fair value adjustment on initial recognition[23], reached €5.110 mn (compared to €4.948 mn at 30 September 2014 and €4.979 mn at 31 December 2013) and accounted for 21,5% of gross loans (compared to 20,0% at 30 September 2014 and 18,6% at 31 December 2013). Provisions for impairment of customer loans for the fourth quarter of 2014 were €248 mn (continuing operations), compared to €115 mn for the third quarter of 2014, with the increase in provisions relating to the methodological alignment and changes in certain estimates, following the completion of the review of the AQR results.

During the year ended 31 December 2014, there were gains arising on derecognition and changes in expected cash flows on acquired loans totalling €47 mn.

Impairments of other financial and non-financial assets for the year ended 31 December 2014 totalled €81 mn. This is mainly due to impairment of Laiki Bank related exposures that were transferred to the Bank as well as impairment of non-core assets classified as held for sale.

[20] See Note 5.
[21] See Note 7.
[22] See Note 8.
[23] This includes 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.

B.2.3 Profit after tax excluding restructuring costs, discontinued operations and net gain on disposal of non-core assets

Profit after tax excluding restructuring costs, discontinued operations and net gain on disposal of non-core assets for the year ended 31 December 2014 totalled €42 mn. Loss after tax excluding restructuring costs, discontinued operations and net gain on disposal of non-core assets for the fourth quarter of 2014 totalled €96 mn, compared to a profit of €44 mn for the third quarter of 2014.

B.2.4 Restructuring costs, discontinued operations and net gain on disposal of non-core assets

Restructuring costs, discontinued operations and net gain on disposal of non-core assets for the year ended 31 December 2014 totalled a loss of €298 mn. Restructuring costs for the year ended 31 December 2014 totalled €36 mn and primarily relate to external advisors' fees and other expenses, including an accrual for property transfer fees, relating to the Group's restructuring.

The Bank has assessed the progress of its disposal process of the Russian operations and concluded that the criteria of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are met as at 31 December of 2014. As a result, the Russian operations have been classified as a disposal group held for sale. In addition, as the Russian operations represent a separate major segment of the Group, as per the requirements of IFRS 5, the results from such operations are presented as discontinued operations in the income statement. In line with the Group's accounting policy, an impairment loss of up to the carrying value of the non-current assets within IFRS 5 measurement scope (e.g. tangible and intangible assets and other non-financial assets) is recognised. As a result, the Bank has recognised an impairment loss of €84 mn, which is included in losses from discontinued operations in the Group's Income Statement. The total loss of discontinued operations for the fourth quarter of 2014 was €220 mn. The total loss of discontinued operations for the year ended 31 December 2014 amounted to €309 mn, of which €269 mn relates to the Russian operations and €36 mn relates to the Ukrainian operations disposed in the second quarter of 2014.

Net gains on disposals of non-core assets totalled €47 mn and relate to the disposal of the Ukrainian operations, the disposal of the investment in Banca Transilvania, the disposal of the loans in Serbia, the early partial repayment of a sovereign bond issued by the Republic of Cyprus and to the disposal of the majority of the Laiki UK loan portfolio.

B.2.5 Loss after tax

Loss after tax attributable to the owners of the Bank for the year ended 31 December 2014 totalled €256 mn. Loss after tax attributable to the owners of the Bank for the fourth quarter of 2014 totalled €332 mn, compared to a loss of €5 mn for the third quarter of 2014.

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:

- **Arrest and reverse the trend** in delinquent loans.
- **Normalize the funding structure** of the Group and reduce ELA.
- 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 disposal of non-core assets.
- **Delivering value** to shareholders and other stakeholders

With the Cypriot operations accounting for 89% and 86% of the Group's loans and 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 the latest forecasts, real GDP is estimated to contract by less than the 2,8% contraction of the European Commission's autumn forecasts and substantially less than the 4,8% contraction of the European Commission's spring forecast. The lessening of the recession in 2014 was driven by the flexibility of the economy as exemplified 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. Real economic activity is expected to remain relatively subdued in 2015 with GDP growth being close to zero. 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 domestic banking sector, further delays in the adoption of appropriate legislation necessary for addressing the high stock of problem loans, 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 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 Bank's management. The establishment of the **RRD** has brought a major change in the way the Bank is managing its delinquent portfolio, with mechanisms put in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. However, for the Bank to be successful in tackling its loan portfolio quality problem, there have to be the necessary changes in the legislation for foreclosures and insolvency that would prevent strategic defaults and would introduce the appropriate moral hazard in the relationship between the Bank and the borrowers. 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 remaining in recession and with certain sectors of the economy, such as construction and real estate development, continuing to be subdued, the performance of our borrowers will continue to be challenged, putting pressure on the quality of the loan portfolio.

The Bank is **stepping up its marketing efforts to attract deposits and to normalize its funding structure**. The Bank's efforts will be underpinned by the likely 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. The Bank's significantly strengthened capital position and overall improvement in its financial position will **enhance its funding options and 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.

Despite the events of March 2013 and their impact on the Bank's franchise, the Bank remains the leading financial institution in Cyprus. The significant improvements in its financial and operational position achieved during the last year 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 significantly 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. Following recent appropriate action taken by the Central Bank of Cyprus, the Bank has led the way in lowering lending rates in the market. This is expected to further boost economic activity and to ease the debt servicing burden on households and firms in the country.

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. Currently, the Bank is running a process to dispose its operations in Russia. Concurrently, the Bank has also proceeded with a reassessment of its operations in Russia and increased the level of provisions for impairment of loans and other assets in light of the deteriorating economic conditions in the country. Furthermore, the Bank is actively running down its loan and real estate portfolio in Romania. In addition, the Bank continues its efforts to dispose its real estate assets in Greece and Cyprus.

The Bank's strengthened capital position and the passing of the ECB Comprehensive Assessment are expected to further strengthen the confidence of customers and other stakeholders towards the Bank. Going forward, the Bank will continue to **ensure that appropriate capital levels are maintained** reflecting its risk profile, 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, 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 of the Restructuring Plan[24] and the financial performance of the Group.

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

BOC Group Key Performance Indicators		**Actual Dec-2013**	**Actual Dec-2014**	**Medium-Term Target Dec-2017**
Asset Quality	90+ Days Past Due provision coverage	38%	40%	>50%
	Provisioning charge (Cost of Risk) (ytd)	4,0%	3,5%[25]	<1,5%
	90+ Days Past Due (€ mn)	13.003	12.653	<10.000
Funding	Loans to Deposits ratio (net)	145%	142%	<150%
Capital	Common Equity Tier 1 capital ratio (transitional)	10,4%	14,0%	>10%
	Leverage ratio (Assets/Equity)	11,1x	7,7x	<12x
Efficiency	Cost-to-Income ratio (ytd)	43%	37%	<45%
	Net Interest Margin (ytd)	3,45%	3,94%	>2,5%
	Number of Branches in Cyprus	133	130	125
	Group Employees in Cyprus[26]	4.352	4.334	<4.100

D.1 Commentary about the evolution of Key Performance Indicators

Asset quality

The provisioning coverage of 90+ DPD totalled 40% at 31 December 2014, compared to 38% at 31 December 2013. The provisioning charge for the year ended 31 December 2014 was 3,5%[27], compared to 4,0% for the year ended 31 December 2013.

Funding

The Loans to Deposits ratio (net) totalled 142% at 31 December 2014, compared to 145% at 31 December 2013.

Capital

The Common Equity Tier 1 capital ratio (on a transitional basis) totalled 14,0% at 31 December 2014, compared to 10,4% as adjusted in accordance with CRD IV/CRR on transitional basis for 31

[24] 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.
[25] See Note 8.
[26] The number of Group employees as per Group Profile has been adjusted by 90 to account for the employees of a subsidiary, not included in previous profiles.
[27] See Note 8.

December 2013. The Leverage ratio has improved to 7,7x at 31 December 2014, compared to 11,1x at 31 December 2013.

Efficiency
The cost to income ratio for the year ended 31 December 2014 was 37%, compared to a ratio of 43% for the year ended 31 December 2013. The net interest margin for the year ended 31 December 2014 was 3,94%, compared to 3,45% for the year ended 31 December 2013. Branches in Cyprus have been reduced to 130 units compared to 133 units as at 31 December 2013. The number of Group employees in Cyprus totalled 4.334 as at 31 December 2014, compared to 4.352 employees at 31 December 2013.

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

Restructuring and Recoveries Division (RRD)
The RRD is responsible for the managing of €11,5 bn of stressed 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 island to help address SME delinquent clients whereas the Corporate Management Unit is focused entirely on the corporate customers.

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 likely 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
During 2014, the Group disposed its Ukrainian operations, its investment in the Romanian Banca Transilvania, its loans in Serbia, assets in Romania and the majority of the UK loan portfolio acquired from Laiki Bank. 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 its real estate assets in Greece and Cyprus.

E. Appendix

As from the fourth quarter of 2014, 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 for the earlier financial quarters of 2014 and FY2013 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	**FY2014**	**FY2013**	**4Q2014**	**3Q2014**	**2Q2014**	**1Q2014**
Net interest income	967	880	225	231	263	248
Net fee and commission income	153	140	37	37	37	42
Net foreign exchange gains/(losses) and net profits/(losses) on other financial instruments	7	(2)	15	(13)	(1)	6
Insurance income net of insurance claims	46	65	10	10	13	13
Other income/(expenses)	4	(64)	(0)	(2)	6	0
Total income	**1.177**	**1.019**	**287**	**263**	**318**	**309**
Staff costs	(234)	(265)	(58)	(59)	(59)	(58)
Other operating expenses	(196)	(170)	(60)	(44)	(45)	(47)
Total expenses	**(430)**	**(435)**	**(118)**	**(103)**	**(104)**	**(105)**
Profit before provisions and impairments, gains on derecognition and changes in expected cash flows on acquired loans, restructuring costs and discontinued operations	**747**	**584**	**169**	**160**	**214**	**204**
Provisions for impairment of customer loans	(666)	(941)	(248)	(115)	(173)	(130)
Gains on derecognition and changes in expected cash flows on acquired loans	47	27	29	6	4	8
Impairments of other financial and non-financial assets	(81)	(23)	(49)	1	(33)	(0)
Share of profit/(loss) from associates and joint ventures	5	(5)	3	(2)	2	2
Profit/(loss) before tax, restructuring costs and discontinued operations	**52**	**(358)**	**(96)**	**50**	**14**	**84**
Tax	(10)	(2)	0	(6)	(2)	(2)
(Loss)/profit attributable to non - controlling interests	(0)	1	0	(0)	(0)	(0)
Profit /(loss) after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**42**	**(359)**	**(96)**	**44**	**12**	**82**
Restructuring costs	(36)	(157)	(3)	(12)	(16)	(5)
Loss from disposal group held for sale / discontinued operations	(309)	(174)	(220)	(37)	(6)	(46)
Net gain/(loss) on disposal of non-core assets[28]	47	(1.366)	(13)	-	60	-
(Loss)/profit after tax	**(256)**	**(2.056)**	**(332)**	**(5)**	**50**	**31**

[28] FY2014: This relates to the disposal of the Ukrainian operations, the disposal of the stake in Banca Transilvania, the disposal of the loans in Serbia, the early part repayment of the Cyprus Government Bond by the Republic of Cyprus and the disposal of the majority of the Laiki UK loan portfolio.
FY2013: This relates to the disposal of the Greek operations.

Condensed Consolidated Balance Sheet			
€ mn	**31.12.2014**	**31.12.2013**	**±%**
Cash and balances with Central Banks	1.139	1.240	-8%
Placements with banks	1.647	1.290	+28%
Debt securities, treasury bills and equity investments	2.541	3.433	-26%
Net loans and advances to customers	18.168	21.764	-17%
Other assets	2.362	2.622	-10%
Assets held for sale	977	-	-
Total assets	**26.834**	**30.349**	**-12%**
Amounts due to banks	162	196	-18%
Funding from Central Banks	8.284	10.956	-24%
Repurchase agreements	580	594	-2%
Customer deposits	12.624	14.971	-16%
Debt securities in issue	1	2	-22%
Other liabilities	1.083	888	+22%
Subordinated loan stock	-	5	-
Liabilities held for sale	614	-	-
Total liabilities	**23.348**	**27.612**	**-15%**
Share capital	892	4.743	-81%
Capital reduction reserve and share premium	2.505	-	-
Revaluation and other reserves	147	72	+103%
Accumulated losses	(74)	(2.152)	-97%
Shareholders' equity	**3.470**	**2.663**	**+30%**
Non-controlling interests	16	74	-79%
Total equity	**3.486**	**2.737**	**+27%**
Total liabilities and equity	**26.834**	**30.349**	**-12%**

Consolidated Income Statement (without reflecting Russian operations as a disposal group held for sale and presentation of its results as discontinued operations)

Consolidated Income Statement - Pre classification						
€ mn	**FY2014**	**FY2013**	**4Q2014**	**3Q2014**	**2Q2014**	**1Q2014**
Net interest income	1.025	977	235	244	279	267
Net fee and commission income	170	167	39	43	43	45
Net foreign exchange gains/(losses) and net profits/(losses) on other financial instruments	7	2	12	(12)	(0)	7
Insurance income net of insurance claims	46	65	11	10	12	13
Other income/(expenses)	4	(63)	(2)	(1)	6	1
Total income	**1.252**	**1.148**	**295**	**284**	**340**	**333**
Staff costs	(268)	(316)	(66)	(67)	(68)	(67)
Other operating expenses	(236)	(221)	(71)	(55)	(53)	(57)
Total expenses	**(504)**	**(537)**	**(137)**	**(122)**	**(121)**	**(124)**
Profit before provisions and impairments, gains on derecognition and changes in expected cash flows on acquired loans, restructuring costs and discontinued operations	**748**	**611**	**158**	**162**	**219**	**209**
Provisions for impairment of customer loans	(900)	(1.019)	(408)	(163)	(183)	(146)
Gains on derecognition and changes in expected cash flows on acquired loans	47	27	30	6	4	7
Impairments of other financial and non-financial assets	(166)	(23)	(133)	1	(34)	(0)
Share of profit/(loss) from associates and joint ventures	5	(5)	3	(2)	2	2
(Loss)/profit before tax, restructuring costs and discontinued operations	**(266)**	**(409)**	**(350)**	**4**	**8**	**72**
Tax	(25)	5	(10)	(5)	(8)	(2)
Loss attributable to non - controlling interests	60	12	45	7	6	2
(Loss)/profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**(231)**	**(392)**	**(315)**	**6**	**6**	**72**
Restructuring costs	(36)	(157)	(4)	(11)	(16)	(5)
Loss from disposal group held for sale / discontinued operations	(36)	(141)	-	-	-	(36)
Net gain/(loss) on disposal of non-core assets[29]	47	(1.366)	(13)	-	60	-
(Loss)/profit after tax	**(256)**	**(2.056)**	**(332)**	**(5)**	**50**	**31**

[29] See Note 28.

Consolidated Balance Sheet ignoring classification of disposal groups as held for sale

Condensed Consolidated Balance Sheet – Pre-classification

€ mn	**31.12.2014**	**31.12.2013**	**±%**
Cash and balances with Central Banks	1.225	1.240	-1%
Placements with banks	1.683	1.290	+30%
Debt securities, treasury bills and equity investments	2.541	3.433	-26%
Net loans and advances to customers	18.748	21.764	-14%
Other assets	2.637	2.622	+1%
Total assets	**26.834**	**30.349**	**-12%**
Amounts due to banks	192	196	-2%
Funding from Central Banks	8.284	10.956	-24%
Repurchase agreements	580	594	-2%
Customer deposits	13.169	14.971	-12%
Debt securities in issue	3	2	+95%
Other liabilities	1.118	888	+26%
Subordinated loan stock	2	5	-51%
Total liabilities	**23.348**	**27.612**	**-15%**
Share capital	892	4.743	-81%
Capital reduction reserve and share premium	2.505	-	-
Revaluation and other reserves	147	72	+103%
Accumulated losses	(74)	(2.152)	-97%
Shareholders' equity	**3.470**	**2.663**	**+30%**
Non-controlling interests	16	74	-79%
Total equity	**3.486**	**2.737**	**+27%**
Total liabilities and equity	**26.834**	**30.349**	**-12%**

Key Balance Sheet figures and ratios			
	31.12.2014	**31.12.2013**	**±%**
Gross loans (€ bn)	23,8	26,7	-11%
Customer deposits (€ bn)	13,2	15,0	-12%
Loans to deposits ratio (net)	142%	145%	-3 p.p.*
90+ DPD ratio	53%	49%	+4 p.p.*
90+ DPD provision coverage ratio[30]	40%	38%	+2 p.p.*
Capital			
Common Equity Tier 1 capital ratio (CET1) (transitional)	14,0%	10,4%	+3,6 p.p.*
Total capital ratio (as calculated under CRD IV)	14,2%	10,6%	+3,6 p.p.*
Risk weighted assets (as calculated under CRD IV) (€ mn)	22.922	23.530	-3%

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

Key performance ratios						
	FY2014	**FY2013**	**4Q2014**	**3Q2014**	**2Q2014**	**1Q2014**
Net interest margin	3,94%	3,45%	3,81%	3,82%	4,23%	3,90%
Cost to income ratio	37%	43%	41%	39%	33%	34%
Return on average assets	-0,9%	-	-4,9%	-0,1%	0,7%	0,4%
Return on average equity	-8,4%	-	-36,9%	-0,7%	7,4%	4,7%
Basic (losses)/earnings per share (cent)	(4,32)	(56,94)	(5,60)	(0,11)	1,06	0,66

[30] See Note 4.