Bank of Cyprus Group

Announcement

Group Financial Results for the nine months ended 30 September 2015

Nicosia, 23 November 2015

Key Highlights

- **Loans in arrears for more than 90 days (90+ DPD) were reduced by €649 mn or 5% in 3Q2015, with about half of the reduction reflecting the disposal of the majority of the Russian operations**
- **Customer deposits in Cyprus increased by €527 mn or 5% in 3Q2015 and the loans to deposits ratio (L/D) improved to 132%**
- **ELA has been reduced by €1,6 bn post 30 June 2015 to a current level of €4,3 bn**
- **Common Equity Tier 1 capital (CET1) ratio (transitional) increased by 70 basis points in 3Q2015 to 15,6%**
- **On-going regulatory dialogue with the ECB regarding the Supervisory Review and Evaluation Process (SREP); taking into account its current capital position, the Group does not expect to be required to raise any capital**
- **Profit after tax from continuing operations and Profit after tax of €115 mn and €73 mn for 9M2015, respectively**

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

We have made further progress against our strategic objectives during the third quarter of 2015. We have bolstered the Group's CET1 ratio by 70 basis points to 15,6%, due to reduced risk weighted assets relating to the disposal of the majority of the Russian operations and due to organic capital generation. However, we are engaged in an on-going regulatory dialogue with ECB for SREP and we do not expect the Group to be required to raise any capital. We are making further inroads in normalising our funding structure, with our Cypriot deposit base increasing by €527 mn or 5% during the quarter and the loans to deposits ratio improving to 132%. Post 30 June 2015, we have repaid €1,6 bn of ELA, reducing it to a current level of €4,3 bn, which is a 62% reduction from the peak. Loan quality shows further signs of improvement, with loans in arrears more than 90 days decreasing by €649 mn or 5% during the quarter. The net interest margin remains healthy and the cost to income ratio for the nine months of 2015 was a satisfactory 38%. Finally, profit before provisions and impairments and profit after tax for the nine months of 2015 were €490 mn and €73 mn respectively.

During the quarter we sold the majority of our Russian operations, including the banking subsidiary Uniastrum. With this sale, we have completed the disposal of the overseas banking subsidiaries earmarked for sale. At the same time, we have eliminated future potential risks relating to the Russian operations, released risk weighted assets of €550 mn and strengthened our regulatory capital position by 30 basis points.

Our credit risk management efforts are intensifying. Loan restructuring activity remains high and we are close to finalising the restructuring of many of our large borrowers. The changes in the legislative framework, coupled with the improving economic fundamentals, are supporting our efforts to tackle delinquent loans and to address the asset quality problem.

The Cyprus economy continues to perform better than expected amidst a relatively unfavourable external environment. The fiscal performance is exceeding expectations and the government has recently tapped the international markets for the third time since the start of the bailout program. As the Troika-supported program is coming to an end in early 2016, we urge the authorities to maintain the reforms momentum to improve the country's competitiveness and attract much-needed foreign investment in the country. To further support the recovery of the domestic economy, the Bank is providing credit to creditworthy individuals and companies, creating the conditions to 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.

Group Profile

Founded in 1899, Bank of Cyprus Group is the leading banking and financial services group in Cyprus. The Group provides a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. The Group operates through a total of 135 branches, of which 129 operate in Cyprus, 1 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4.610 staff worldwide. At 30 September 2015, the Group's Total Assets amounted to €24,2 bn and Total Equity was €3,5 bn.

EUROMONEY AWARDS FOR EXCELLENCE 2015
Bank of Cyprus
The Best Bank in Cyprus 2015

A. Summary of Financial Results for the nine months ended 30 September 2015

Balance Sheet Highlights

- The **CET1 ratio (transitional basis)** increased by 70 basis points to 15,6%[1] at 30 September 2015, due to the risk weighted assets reduction following the disposal of the majority of the Russian operations and due to organic capital generation. The **fully loaded CET1 ratio** totalled 15,1% at 30 September 2015.
- The Group is engaged on a regulatory dialogue with the ECB regarding SREP. The Group is contesting certain of the assumptions used by ECB for the calculation of the provisions for the credit risk inspection. If the impact of the provision-related adjustment calculated by the ECB and which, in the view of the Group, has not been recognised to date amounting to around €600 million was to be considered, there would be a decrease of 2,4% on CET1 ratio (pre-tax). Taking into account the Group's CET1 ratio of 15,6% as at 30 September 2015 and the expectations for the outcome of the SREP process, even after adjusting for potential additional capital requirements, the Group does not expect to be required to raise any capital.
- The Bank's **funding structure is improving**, with customer deposits in Cyprus increasing by €527 mn in 3Q2015. The L/D ratio improved to 132% and **customer deposits** increased to 56% of total assets, compared to 54% at 30 June 2015.
- During 3Q2015, **Emergency Liquidity Assistance (ELA)** was reduced by €1 bn to €4,9 bn at 30 September 2015. Post quarter-end, ELA was reduced further by €600 mn to a current level of €4,3 bn.
- The balance sheet was **deleveraged** by a further €1,2 bn during 3Q2015, primarily driven by the disposal of the majority of the Russian operations.
- **Loans in arrears for more than 90 days (90+ DPD)**[2] were reduced by €649 mn during 3Q2015 and totalled €11.998 mn at 30 September 2015, accounting for 52% of gross loans[3] (90+ DPD ratio). The 90+ DPD provisioning coverage ratio was 41%[4] at 30 September 2015, while taking into account the unrecognised interest income on contractual customer balances, the provisioning coverage rises to 52%[5].

Income Statement Highlights[6]

- **Net interest income (NII)** for 9M2015 totalled €644 mn and **net interest margin (NIM)** was 3,85%. NII for 3Q2015 was €205 mn, compared to €212 mn for 2Q2015, reflecting the full effect of the partial repayment of a bond by the Republic of Cyprus in early June 2015 and deleveraging actions. The NIM for 3Q2015 was 3,70%, compared to 3,79% for 2Q2015.
- **Total income** for 9M2015 was €786 mn. Total income for 3Q2015 was €251 mn, compared to €261 mn for 2Q2015.
- **Total expenses** for 9M2015 were €296 mn, and the cost to income ratio was 38%. Total expenses for 3Q2015 were €102 mn, compared to €92 mn for 2Q2015, with the increase primarily reflecting the one-off lower marketing, consultancy and professional expenses during 2Q2015.
- **Profit before provisions and impairments[7], restructuring costs and discontinued operations** for 9M2015 was €490 mn. Profit before provisions and impairments, restructuring costs and discontinued operations for 3Q2015 was €149 mn, compared to €169 mn for 2Q2015.

---

[1] Includes independently verified profits for the nine months ended 30 September 2015.
[2] Loans in arrears for more than 90 days (90+ DPD) are defined as loans with a specific provision and loans past-due for more than 90 days, but not impaired.
[3] Gross loans are reported before the fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €1.266 mn at 30 September 2015 (compared to €1.351 mn at 30 June 2015) and include any loans of discontinued operations/disposal group held for sale.
[4] Provisioning coverage ratio for 90+ DPD is calculated as the sum of accumulated provisions for impairment of customer loans, fair value adjustment on initial recognition and provision for off-balance sheet exposures, over 90+ DPD.
[5] This ratio is calculated by adjusting both the provisions stock and the customer balances to include any unrecognised interest income due on contractual balances.
[6] As from 4Q2014, the Group's operations in Russia are treated as disposal group held for sale and results have been presented accordingly as discontinued operations according to IFRS 5. In September 2015, the Bank completed the sale of the majority of its Russian operations. The part of the operations not disposed of has ceased to be classified as held for sale and its results are presented as part of the continuing operations. In addition, comparatives have been reclassified to reflect the change in presentation of impairment losses of other financial and non-financial instruments and results from revaluation and disposal of investment properties within the consolidated income statement. The presentation of "Gains on derecognition and changes in expected cash flows on acquired loans" has been changed in order to present this adjoining to the "Provisions for impairment of customer loans" in the consolidated income statement. The Company considers this presentation to be more relevant as it considers such gains and changes in expected cash flows (mainly arising from the fair value adjustment on initial recognition for acquired loans) to be credit risk related. This change in presentation did not have an impact on the profit for the 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.

- **Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans** for 9M2015 totalled €329 mn[8]. Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans for 3Q2015 were €96 mn, compared to €123 mn for 2Q2015.
- **Profit after tax from continuing operations**[9] for 9M2015 totalled €115 mn. Profit after tax from continuing operations for 3Q2015 was €45 mn, compared to €15 mn for 2Q2015.
- **Loss from disposal groups held for sale/discontinued operations** for 9M2015 was €38 mn, reflecting losses from the Russian operations.
- **Net profit on disposal of non-core assets** for 9M2015 was €23 mn[10], including the loss from the disposal of the majority of the Russian operations and other non-core assets. The disposal of the majority of the Russian operations resulted in an accounting loss of €23 mn, comprising a loss of €28 mn, caused by the technical unwinding of a foreign currency translation reserve, and a profit of €5 mn against the net book value of the assets.
- **Profit after tax attributable to the owners of the Bank** for 9M2015 was €73 mn. Profit after tax attributable to the owners of the Bank for 3Q2015 was €13 mn, compared to €31 mn for 2Q2015.

B. Analysis of Financial Results for the nine months ended 30 September 2015

B.1 Balance Sheet Analysis

B.1.1 Capital Base

Group shareholders' equity totalled €3.538 mn at 30 September 2015. The **CET1 ratio (transitional basis)** totalled 15,6% at 30 September 2015, compared to 14,9% at 30 June 2015 and 14,0% at 31 December 2014. Adjusting for Deferred Tax Assets[11], the **CET1 ratio on a fully-loaded basis** totalled 15,1% at 30 September 2015. During the quarter, the CET1 ratio benefited from the reduction of risk weighted assets related to the disposal of the majority of the Russian operations, which reduced risk weighted assets by approximately €550 mn and improved the CET1 ratio by approximately 30 basis points.

The European Central Bank (ECB) has been conducting the Supervisory Review and Evaluation Process (SREP) and onsite inspections on the Group. The onsite inspection on credit quality involved the review and assessment of the Group's non-performing and restructured but performing exposures, with a reference date of 31 December 2014.

The onsite inspection and related draft recommendation letter state that, on the basis of a modified set of assumptions there is, in the ECB's view, a provision-related adjustment of around €300 million for the judgemental (i.e. specifically assessed) portfolio and around €700 million for the statistical (i.e. collectively assessed) portfolio, mostly relating to the recovery value of real estate collateral. The Group is contesting certain of the assumptions used and is engaged in a regulatory dialogue with the ECB. The Group has, in any case, already, in the normal application of its provisioning methodology, substantially recognised the provisions for the judgmental portfolio reviewed by the ECB and part (around €100 million) of the provisions for the reviewed statistical portfolio in its consolidated financial results for the nine months ended 30 September 2015. The Group considers that the ECB-calculated adjustments do not indicate that the Group is not in compliance with IFRS. In any case, the Group will continue monitoring and re-assessing its provisioning assumptions, estimates and methodology in the context of the prevailing market conditions and other relevant developments, always in the context and guidance provided by the IFRS.

[8] Provisions for impairment of customer loans and gains on derecognition and changes in expected cash flows on acquired loans were €372 mn for 9M2015 and €109 mn for 3Q2015, 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.
[10] Includes profit from the repayment of Cyprus Government Bond of €31 mn, loss from the disposal of the majority of the Russian operations of €23 mn and net profit of €15 mn from other disposals of non-core assets.
[11] The DTA adjustments relate to Deferred Tax Assets totalling €443 mn and recognised on tax losses totalling €3,5 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.

If the impact of the provision-related adjustment calculated by the ECB and which, in the view of the Group, has not been recognised to date amounting to around €600 million was to be considered, there would be a decrease of 2,4% on CET1 ratio (pre-tax).

The Group estimates that the ECB's current SREP dialogue and onsite inspection process and related considerations will be concluded by the end of 2015. The CET1 Pillar II add-on capital requirement at 30 September 2015 stands at 5,2% (resulting in a total minimum CET1 of 13,2%) and it may be further reduced by future losses of up to €658 million, up to a CET1 ratio of 8%. The revised Pillar II CET1 capital requirement was preliminarily determined by the ECB to be 3,75%, resulting in a total minimum CET1 of 11,75%. Taking into account the Group's CET1 ratio of 15,6% as at 30 September 2015 and the expectations for the outcome of the SREP process, even after adjusting for potential additional capital requirements as a result of the credit risk inspection, the Group expects to be compliant with both its Pillar I and revised Pillar II add-on capital requirements and therefore does not expect to be required to raise any capital.

B.1.2 Customer Deposits and Loans

Group customer deposits totalled €13.608 mn at 30 September 2015, compared to €13.629 mn at 30 June 2015 and €13.169 mn at 31 December 2014. Adjusting for the disposal of Uniastrum Bank, group customer deposits increased by €581 mn in 3Q2015.

Customer deposits in Cyprus increased by €527 mn in 3Q2015 and stood at €12.158 mn at 30 September 2015, accounting for 89% of Group customer deposits. The Bank's deposit market share[12] in Cyprus reached 26,5% at 30 September 2015, compared to a low of 24,6% at 30 November 2014. Positive customer flows[13] were recorded during, and post the end of, 3Q2015. 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 56% of total assets at 30 September 2015, compared to 54% at 30 June 2015 and a low of 48% at 31 March 2014. The L/D ratio improved to 132% at 30 September 2015, compared to an adjusted 139%[14] at 30 June 2015 and a high of 151% at 31 March 2014.

Group gross loans[15] totalled €22.863 mn at 30 September 2015, compared to €23.926 mn at 30 June 2015 and €23.772 mn at 31 December 2014. Gross loans in Cyprus totalled €20.976 mn at 30 September 2015, and accounted for 92% of Group gross loans. The Bank is the single largest credit provider in Cyprus with a 39,3% loan market share at 30 September 2015, compared to 38,5% at 30 June 2015. Loans in the UK operations (€1.140 mn) accounted for 5% of total loans.

B.1.3 Eurosystem Funding

At 30 September 2015, the Bank's Eurosystem funding totalled €5,4 bn, comprising ELA of €4,9 bn and European Central Bank (ECB) funding of €500 mn. Customer inflows and proceeds from deleveraging[16] were used to reduce ELA by €2,5 bn during the first nine months of 2015. In October 2015, the restructuring of retained mortgage covered bonds resulted in a rating upgrade to Baa3 from B1. Following the upgrade to an investment grade rating, the covered bonds have become eligible collateral for the Eurosystem credit operations and, therefore, have been placed as collateral for accessing funding from the ECB. Through this transaction, the Bank has raised €550 mn of ECB funding for the repayment of ELA. Post 30 September 2015, ELA funding was reduced by €600 mn to a current level of €4,3 bn. In total, ELA has been reduced by €7,1 bn since its peak of €11,4 bn in April 2013.

[12] Based on data from the Central Bank of Cyprus.
[13] Customer flows are defined as the difference between changes in the stock of customer deposits and changes in the stock of gross customer loans, taking into account, among others, provisions, write offs, accrued interest, fair value adjustments and foreign exchange fluctuations.
[14] Net loans to deposits ratio as at 30 June 2015 excludes loans and deposits of discontinued operations/disposal group held for sale.
[15] See Note 3.
[16] 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.

B.1.4 Loan portfolio quality

Addressing the Group's asset quality remains the Group's key priority. The 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)[17] were reduced by €649 mn during 3Q2015 (5% qoq reduction), €369 mn of which relates to the disposal of the majority of the Russian operations. 90+ DPD stood at €11.998 mn at 30 September 2015, accounting for 52% of gross loans (90+ DPD ratio), compared to €12.646 mn a quarter earlier. The provisioning coverage ratio of 90+ DPD[18] stood at 41% at 30 September 2015, compared to 43% at 30 June 2015 and 41% at 30 June 2015 after adjusting for the disposal of the Russian operations. 90+ DPD are fully covered, when taking into account tangible collateral at fair value. The provisioning coverage ratio of 90+ DPD, calculated in line with local peers, with reference to the contractual balances of the customer, totalled 52%[19] at 30 September 2015, at a similar level compared to 30 June 2015.

	30.09.2015		**30.06.2015**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
90+ DPD	**11.998**	**52%**	**12.646**	**53%**
Of which:				
impaired with no arrears	848	4%	969	4%
impaired with arrears less than 90 days	126	1%	212	1%

Non-performing exposures[20] (NPEs) as defined by the European Banking Authority (EBA) declined by €584 mn (4% qoq reduction) to €14.225 mn at 30 September 2015 and accounted for 62% of gross loans. €412 mn of the reduction relates to the disposal of the majority of the Russian operations. The provisioning coverage ratio of NPEs (as defined by EBA) totalled 35% at 30 September 2015, compared to 36% at 30 June 2015 and 35% at 30 June 2015 after adjusting for the disposal of the Russian operations.

	30.09.2015		**30.06.2015**	
	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Non-performing exposures (NPEs) as per EBA definition	**14.225**	**62%**	**14.809**	**62%**
Of which:				
NPEs with forbearance measures, no impairments and no arrears	1.462	6%	1.338	6%
NPEs with forbearance measures, no impairments and arrears <90 days	537	2%	527	2%

B.1.5 Update on non-core operations

As part of its **deleveraging strategy**, the Bank completed the disposal of overseas banking subsidiaries identified for sale. During 3Q2015 the Bank completed the disposal of the majority of its Russian operations, including its Russian banking subsidiary CB Uniastrum Bank LLC. With the disposal of this major overseas banking subsidiary, the Group has further de-risked its balance sheet and eliminated future potential risks relating to its Russian banking operations, including any liquidity risks.

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

- Greece: The net exposure comprised (a) net on-balance sheet exposures (excluding foreclosed properties) totalling €49 mn (compared to €56 mn at 30 June 2015), (b) 637 foreclosed properties with a book value of €192 mn (compared to 637 foreclosed properties with a book value of €199 mn at 30 June 2015), (c) off-balance sheet exposures totalling €132 mn (compared to €133 mn at 30 June

[17] See Note 2.
[18] See Note 4.
[19] See Note 5.
[20] 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.

2015) and (d) lending exposures to Greek entities in the normal course of business in Cyprus totalling €71 mn (compared to €74 mn at 30 June 2015) and lending exposures in Cyprus with collaterals in Greece totalling €68 mn (compared to €66 mn at 30 June 2015).

- Romania: The overall net exposure is €354 mn (compared to €368 mn at 30 June 2015).
- Russia: Following the disposal of the majority of the Russian operations, the remaining net exposure (on and off balance sheet) in Russia is €120 mn, comprising customer loans and the €42 mn deferred component of an asset swap arrangement as part of the Uniastrum Bank sales agreement (compared to €155 mn[21] as per the completion announcement on 25 September 2015), and is expected to be reduced over time.

B.2 Income Statement[22] Analysis

The Group's net interest income (NII) and net interest margin (NIM) for 9M2015 amounted to €644 mn and 3,85% 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 22% of the Group's balance sheet funded by the Eurosystem (ECB funding and ELA) at 30 September 2015 (compared to 25% at 30 June 2015). NII for 3Q2015 was €205 mn, down 3% compared to €212 mn for 2Q2015. The decrease reflects the full effect of the partial repayment of a bond by the Republic of Cyprus in early June 2015 and deleveraging actions.

Non-interest income for 9M2015 was €142 mn, with recurring income comprising net fee and commission income of €115 mn and net insurance income of €32 mn. Non-interest income for 3Q2015 was €46 mn (compared to €49 mn for 2Q2015), with recurring income comprising net fee and commission income of €36 mn and net insurance income of €12 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 3Q2015 was a net loss of €2 mn, compared to a net profit of €4 mn for 2Q2015. The losses from revaluation and disposal of investment properties for 3Q2015 of €13 mn (compared to €16 mn for 2Q2015), mainly relate to the revaluation of investment properties held by the Group in Cyprus and in Greece. **Total income** for 9M2015 amounted to €786 mn, with 3Q2015 total income totalling to €251 mn (compared to €261 mn for 2Q2015).

Total expenses for 9M2015 were €296 mn, of which 60% related to staff costs (€177 mn) and 40% to other operating expenses (€119 mn). The cost to income ratio for 9M2015 was 38%. Total expenses for 3Q2015 were €102 mn, compared to €92 mn for 2Q2015, with the increase primarily reflecting the one-off lower marketing, consultancy and professional expenses during 2Q2015. The cost to income ratio for 3Q2015 was 41%, compared to 35% for 2Q2015.

Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans for 9M2015 totalled €329 mn[23]. Provisions for impairment of customer loans (continuing operations) and gains on derecognition and changes in expected cash flows on acquired loans for 3Q2015 were €96 mn, compared to €123 mn for 2Q2015. The 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 9M2015 accounted for 2,1%[24] of gross loans, compared to 2,2% for 1H2015. At 30 September 2015, accumulated provisions, including fair value adjustment on initial recognition[25], reached €4.933 mn (compared to €5.381 mn at 30 June 2015 and to €5.140 mn at 31 December 2014) and accounted for 21,6% of gross loans (compared to 22,5% at 30 June 2015 and to 21,6% at 31 December 2014). The reduction primarily relates to the disposal of the majority of the Russian operations in 3Q2015.

Impairments of other financial and non-financial assets for 9M2015 totalled €37 mn and primarily relate to further impairments of overseas non-core assets as part of the Bank's de-risking efforts.

---

[21] Comprising €135 mn on-balance sheet and €20 mn off-balance sheet exposures, based on the Group financial results for the six months ended 30 June 2015.
[22] See Note 6.
[23] See Note 8.
[24] The provisioning charge ratio is calculated as the provisions for impairment of customer loans, including provisions of discontinued operations (totalling €635 mn), net of gains on derecognition and changes in expected cash flows on acquired loans (totalling €263 mn) over average gross loans (as defined in Note 3).
[25] Including the fair value adjustment on initial recognition (difference between the outstanding contractual amount and the fair value of loans acquired from Laiki Bank) and provisions for off balance sheet exposures.

Profit after tax for continuing operations for 9M2015 totalled €115 mn. Profit after tax for continuing operations for 3Q2015 totalled €45 mn, compared to a profit of €15 mn for 2Q2015.

Restructuring costs for 9M2015 totalled €27 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 9M2015 was €38 mn and mainly related to the Russian operations. **Net loss on disposal of non-core assets** for 3Q2015 was €18 mn.

Profit after tax attributable to the owners of the Bank for 9M2015 was €73 mn. Profit after tax attributable to the owners of the Bank for 3Q2015 was €13 mn, compared to a profit of €31 mn for 2Q2015.

C. Outlook

The Group continues to focus on implementing 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 Cyprus market** by providing credit to promising sectors and exit 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, the **Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus**. After three years of recession, the Cypriot economy grew by 0,6% year-on-year during the second quarter of 2015, driven by stronger private demand and supported by the depreciation of the euro and low energy prices. Furthermore, according to the flash estimate[26] published on 13 November 2015, the real GDP growth rate for the third quarter of 2015 is estimated at 2,2% yoy, on a seasonality adjusted basis. The European Commission in its autumn macroeconomic forecasts for Cyprus, revised its projection for real GDP growth for the full year 2015 to 1,2% from 0,5%. Accordingly, the growth is primarily being driven by domestic demand, while the labour market is also forecasted to improve. The improvement in the Cypriot economy was recognised by the international credit rating agency, Moody's Investors Service, which upgraded the sovereign rating assigned to Cyprus to B1 from B3 on 13 November 2015. Accordingly, the key drivers for the upgrade were the faster than expected economic recovery and the consistent outperformance on fiscal targets that have led to a quicker reversal in the public debt ratio.

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. The continuing progress of the Cypriot authorities in implementing the economic reform programme agreed with the Troika, including a good fiscal performance with positive effects on debt sustainability, the gradual normalisation of financial and credit conditions and a comfortable funding situation after the raising of €2 bn of funding from capital markets in 2015, is expected to lead to an exit from the adjustment programme agreed with Troika. On the upside, the renewed weakness in energy prices, effects of the past depreciation of the euro and further increase in tourism arrivals could support consumption and exports more than expected. On the downside, the sanctions against Russia and the recent turmoil in trading partners could negatively affect economic activity more than anticipated. Furthermore, a slow reduction of the problem loans could lead to a more prolonged period of tight credit conditions, which would dampen the recovery.

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

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. The foreclosure legislation enacted in the summer is a significant step towards tackling the high level of non-performing loans. Other important initiatives by the authorities that may help the reduction of NPLs include the new legislation to allow the sale and securitisation of bank loans. 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.

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 debt 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. The Bank recently completed the restructuring of the Covered Bond Programme documentation, which converted the covered bonds to conditional-pass-through covered bonds and increased over-collateralisation for the covered bonds on a committed basis, resulting to a rating upgrade to Baa3 from B1. Following the upgrade to an investment grade rating, the covered bonds have become eligible collateral for the Eurosystem credit operations and, therefore, have been placed as collateral for accessing funding from the ECB. Through this transaction, the Bank has raised €550 mn of ECB funding for the repayment of ELA. Prior to the rating upgrade, the covered bonds were used as collateral for ELA. Finally, in light of challenging market conditions, the Bank is currently maintaining a significant liquidity buffer. Once market conditions have 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. With the disposal of the majority of its Russian operations, including its banking subsidiary CB Uniastrum Bank LLC, in September 2015, the Group **completed the disposal of overseas banking subsidiaries identified for sale**. Following the transaction, the remaining net exposure of the Group in Russia is expected to be reduced over time. Finally, the Bank is actively running down its loan and real estate portfolio in Romania and continues its efforts to dispose of its real estate assets in Greece and Cyprus.

The Bank's strengthened capital position is boosting the confidence of customers and other stakeholders towards the Bank, as evidenced by the customer inflows experienced in the last few quarters and the Bank's increasing deposit market share. 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 faced and the economic and regulatory environment. In addition, the Bank's capital adequacy will take into account the on-going regulatory dialogue with the ECB regarding the SREP. 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) in 2013, 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[27] 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 Sep-2015**	**Medium-Term Target Dec-2017**
Asset Quality	90+ Days Past Due provision coverage	41%	41%	>50%
	Provisioning charge (Cost of Risk) (ytd)	3,6%	2,1%[28]	<1,5%
	90+ Days Past Due (€mn)	12.653	11.998	<10.000
Funding	Loans to Deposits ratio (net)	141%	132%	<150%
Capital	Common Equity Tier 1 capital ratio (transitional)	14,0%	15,6%	>10%
	Leverage ratio (Assets/Equity)	7,7x	6,9x	<12x
Efficiency	Cost-to-Income ratio (ytd)	36%	38%	<45%
	Net Interest Margin (ytd)	3,94%	3,85%	>2,5%
	Number of Branches in Cyprus	130	129	125
	Group Employees in Cyprus	4.334	4.341	<4.100

D.1 Commentary about the evolution of Key Performance Indicators

Asset quality
The provisioning coverage of 90+ DPD totalled 41% at 30 September 2015, with the provisioning charge accounting for an annualised 2,1%[29] of gross loans for 9M2015, compared to 3,6% for FY2014.

Funding
The Loans to Deposits ratio (net) improved to 132% at 30 September 2015, compared to 141% at 31 December 2014.

Capital
The Common Equity Tier 1 capital ratio (on a transitional basis) totalled 15,6% at 30 September 2015, compared to 14,0% at 31 December 2014. The Leverage ratio has improved to 6,9x at 30 September 2015, compared to 7,7x at 31 December 2014.

Efficiency
The cost to income ratio for 9M2015 was 38%, compared to 36% for FY2014. The net interest margin for 9M2015 was 3,85%, compared to 3,94% for FY2014. The number of Group employees in Cyprus totalled 4.341 at 30 September 2015, compared to 4.334 employees at 31 December 2014.

[27] 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.
[28] See Note 24.
[29] See Note 24.

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

Restructuring and Recoveries Division (RRD)
The RRD is responsible for managing €11,5 bn of large or delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Over the couple of years, 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. The adoption of the foreclosure legislation and the insolvency framework has removed the uncertainty of previous months and will increase willingness of clients to co-operate. RRD's actions have been intensifying the Bank's efforts to address 90+ DPD balances.

Further progress has been achieved on rescheduling activity in the Cyprus operations. During the quarter, about €885 mn of loans were rescheduled, of which about €453 mn were already classified as rescheduled as at 30 June 2015. In addition, about €512 mn of loans classified as rescheduled loans at 30 June 2015 were not classified as such at 30 September 2015. Hence, rescheduled loans totalled €8,2 bn[30] at 30 September 2015, compared to €8,4 bn at 30 June 2015. So far, rescheduling activity has been higher in corporate lending, where 42%[31] of total corporate loans at 30 September 2015 have been rescheduled. In SME and Retail-Housing lending, rescheduled loans account for 38% and 40% respectively of total loans per each customer sector.

Deleverage
In September 2015, the Bank completed the sale of the majority of its Russian operations, comprising (i) its holdings[32] of 80% in its Russian banking subsidiary, CB Uniastrum Bank LLC, and of 80% in its Russian leasing subsidiary, Leasing Company Uniastrum Leasing LLC, and (ii) certain other Russian loan exposures. The sale allows the Group to de-risk its balance sheet by approximately €600 mn and allows the release of risk weighted assets of approximately €550 mn. The sale improved the Group's regulatory capital position, with a positive impact of approximately 30 basis points on the CET1 capital ratio. As a result of the transaction, the remaining net exposure (on and off balance sheet) of the Group in Russia is €120 mn and is expected to be reduced over time.

Furthermore, the Bank is actively running down its loan and real estate portfolio in Romania and continues its efforts to dispose of its real estate assets in Greece and Cyprus.

---

[30] 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 €548 mn for rescheduled loans at 30 September 2015 (compared to €611 mn for rescheduled loans at 30 June 2015) and include loans of discontinued operations/disposal group held for sale.
[31] 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 €1.266 mn for gross loans and to €548 mn for rescheduled loans at 30 September 2015 (compared to €1.351 mn for gross loans and to €611 mn for rescheduled loans at 30 June 2015) and include loans of discontinued operations/disposal group held for sale.
[32] Through the intermediary subsidiary BOC Russia (Holdings) Limited, which owns 100% of the share capital of CB Uniastrum Bank LLC and 100% of the share capital of Leasing Company Uniastrum Leasing LLC.

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 according to IFRS 5. In September 2015, the Bank completed the sale of the majority of its Russian operations. The part of the operations not disposed of, has ceased to be classified as held for sale and its results are presented as part of the continuing operations. In addition, comparatives have been reclassified to reflect the change in presentation of impairment losses of other financial and non-financial instruments and results from revaluation and disposal of investment properties within the consolidated income statement. The presentation of "Gains on derecognition and changes in expected cash flows on acquired loans" has been changed in order to present this adjoining to the "Provisions for impairment of customer loans" in the consolidated income statement. The Company considers this presentation to be more relevant as it considers such gains and changes in expected cash flows (mainly arising from the fair value adjustment on initial recognition for acquired loans) to be credit risk related. This change in presentation did not have an impact on the profit for the period.

Consolidated Income Statement						
€mn	**9M2015**	**9M2014** (represented)[33]	**yoy ±%**	**3Q2015**	**2Q2015** (represented)[34]	**qoq ±%**
Net interest income	644	743	-13%	205	212	-3%
Net fee and commission income	115	117	-1%	36	36	-
Net foreign exchange gains/(losses) and net gains/(losses) on other financial instruments	18	(4)	-	7	14	-50%
Insurance income net of insurance claims	32	35	-10%	12	9	35%
(Losses)/gains from revaluation and disposal of investment properties	(36)	(3)	-	(13)	(16)	-20%
Other income	13	8	67%	4	6	-43%
Total income	**786**	**896**	**-12%**	**251**	**261**	**-4%**
Staff costs	(177)	(176)	-	(59)	(59)	-1%
Other operating expenses	(119)	(136)	-12%	(43)	(33)	33%
Total expenses	**(296)**	**(312)**	**-5%**	**(102)**	**(92)**	**11%**
Profit before provisions and impairments, gains on derecognition and changes in expected cash flows on acquired loans, restructuring costs and discontinued operations	**490**	**584**	**-16%**	**149**	**169**	**-12%**
Gains on derecognition and changes in expected cash flows on acquired loans	263	18	-	33	187	-82%
Provisions for impairment of customer loans	(592)	(418)	42%	(129)	(310)	-59%
Provisions for impairment of customer loans net of gains on loan derecognition	**(329)**	**(400)**	**-18%**	**(96)**	**(123)**	**-23%**
Impairments of other financial and non-financial assets	(37)	(38)	-1%	(6)	(30)	-80%
Share of profit from associates and joint ventures	3	2	122%	1	1	-
Profit before tax, restructuring costs and discontinued operations	**127**	**148**	**-14%**	**48**	**17**	**181%**
Tax	(18)	(10)	76%	(8)	(3)	186%
Profit attributable to non-controlling interests	6	2	-	5	1	441%
Profit after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**115**	**140**	**-18%**	**45**	**15**	**195%**
Restructuring costs	(27)	(32)	-16%	(5)	(14)	-60%
Loss from disposal groups held for sale/discontinued operations	(38)	(92)	-58%	(9)	(11)	-17%
Net profit/(loss) on disposal of non-core assets	23	60	-61%	(18)	41	-143%
Profit after tax	**73**	**76**	**-3%**	**13**	**31**	**-59%**

[33] See Note 4.2 to the Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2015, Comparative information.
[34] See Note 33.

Condensed Consolidated Balance Sheet			
€mn	**30.09.2015**	**31.12.2014** (represented)[35]	**±%**
Cash and balances with Central Banks	986	1.139	-13%
Placements with banks	1.399	1.647	-15%
Debt securities, treasury bills and equity investments	1.428	2.541	-44%
Net loans and advances to customers	17.980	18.168	-1%
Other assets	2.381	2.378	-
Non-current assets and disposal groups classified as held for sale	23	916	-97%
Total assets	**24.197**	**26.789**	**-10%**
Amounts due to banks	323	162	99%
Funding from Central Banks	5.403	8.284	-35%
Repurchase agreements	368	580	-37%
Customer deposits	13.608	12.624	8%
Debt securities in issue	1	1	1%
Other liabilities	956	1.046	-9%
Non-current liabilities and disposal groups classified as held for sale	-	611	-
Total liabilities	**20.659**	**23.308**	**-11%**
Share capital	892	892	-
Capital reduction reserve and share premium	2.505	2.505	-
Revaluation and other reserves	208	147	41%
Accumulated losses	(87)	(79)	10%
Shareholders' equity	**3.518**	**3.465**	**2%**
Non-controlling interests	20	16	**26%**
Total equity	**3.538**	**3.481**	**2%**
Total liabilities and equity	**24.197**	**26.789**	**-10%**

[35] See Note 33.

Key Balance Sheet figures and ratios - pre classification of Russian operations as a disposal group held for sale			
	30.09.2015	**31.12.2014**	**±%**
Gross loans (€ mn)	22.863	23.772	-4%
Customer deposits (€ mn)	13.608	13.169	3%
Loans to deposits ratio (net)	132%	141%	-9 p.p.*
90+ DPD ratio	52%	53%	-1 p.p *
90+ DPD provisioning coverage ratio[36]	41%	41%	-

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

Capital	**30.09.2015**	**31.12.2014**	**±%**
Common Equity Tier 1 capital ratio (CET1) (transitional)	15,6%	14,0%	1,6 p.p.*
Total capital ratio	15,7%	14,2%	1,5 p.p.*
Risk weighted assets (€ mn)	20.717	22.715	-9%

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

Key performance ratios				
	3Q2015	**2Q2015**	**qoq ±%**	**1Q2015**
Net interest margin	3,70%	3,79%	-0,09 p.p.*	3,94%
Cost to income ratio	41%	35%	6 p.p.*	37%
Return on average assets	0,2%	0,5%	-0,3 p.p.*	0,4%
Return on average equity	1,5%	3,6%	-2,1 p.p.*	3,3%
Basic earnings/(losses) per share (€ cent)	0,15	0,36	-0,21	0,32

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

Notes to the Financial Results of the Group for the nine months ended 30 September 2015:

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2015 are available at the Bank of Cyprus Public Company Ltd Registered Office (at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com (Investor Relations).

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2015 have been reviewed by the Bank's external auditors.

The announcement and the presentation for the financial results for the nine months ended 30 September 2015 have been posted on the Group's website www.bankofcyprus.com (Investor Relations/Financial Results).

[36] See Note 4.