

Bank of Cyprus Group

100 Days

A review of the period

01 June – 10 September 2013

Stabilisation, Restructuring and Integration of Laiki operations, Shareholders' General Meeting to elect new Board of Directors

Annual General Meeting

10 September 2013

Bank of Cyprus



Requirements as per Memorandum of Understanding (MoU)

Transitory Board of Directors and **interim Chief Executive Officer** appointed, until new shareholders are organised in a General Meeting, in order to facilitate:

- **Stabilization** of the bank
- **Restructuring** of Cyprus operations
 - Restructuring and Laiki Integration
 - Improve operational efficiency
- **Risk management** and **optimisation of recovery of non-performing loans**
- **Liquidity management**
- **Restructuring Plan** that defines the bank's business objectives and credit policies
- Shareholders' General Meeting

Actions to comply with MoU

1 Implementation of Recapitalisation

- 47,5% of bailed-in eligible deposits converted to equity, based on independent valuation exercise to ensure that the Bank meets the minimum capital adequacy ratios throughout the MoU program

2 Restructuring of Cyprus operations

- **Restructuring and Integration** ongoing, absorb Laiki operations and improve efficiency
- **Branch rationalisation**, with >60 branches (~31% of network) expected to close during 2013
- **Personnel cost reduction**, implementation of salary and benefit cuts and VRS

3 Risk management

- Strengthen **risk management** to reverse asset quality deterioration
- Optimize recovery of non-performing loans

4 Funding and liquidity management

- **Liquidity outflows** decelerate, with defined actions to regain trust of clients/market

5 Restructuring Plan

- **Restructuring measures**, covering business, operations, risk, liquidity and capital
- **Strategy going forward** focusing on viability and profitability of core domestic operations

1 Implementation of Recapitalisation

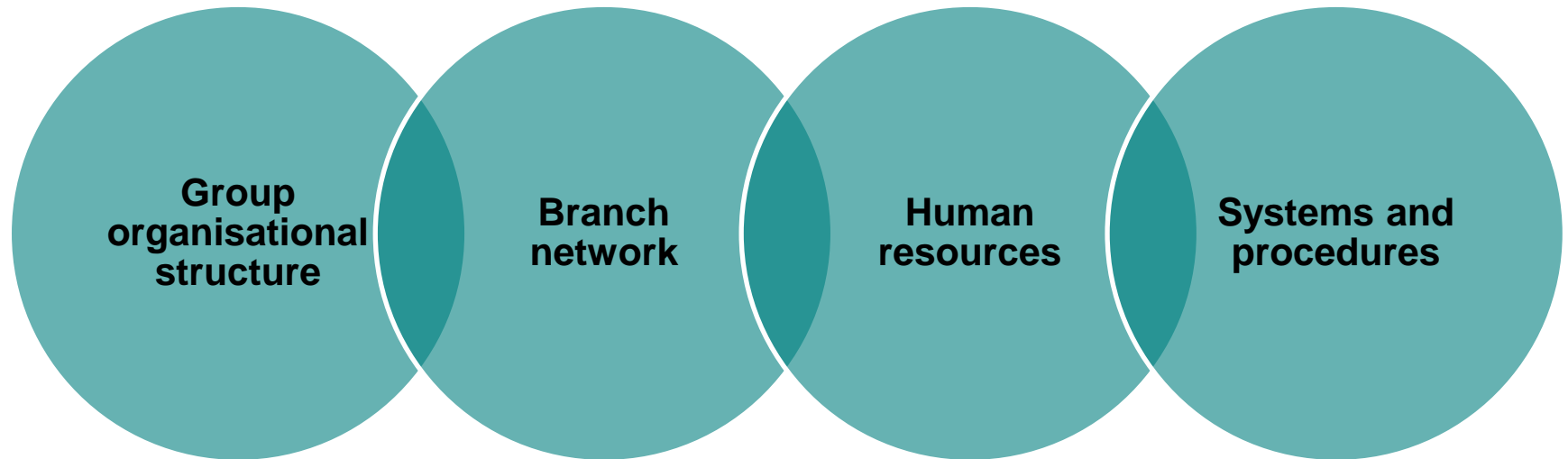
- Recapitalisation through bail-in of depositors
- Exit from Resolution status
- Shareholders' General Meeting



- 47,5% of bailed-in eligible deposits converted into equity; total equity raised €3,8 bn
- Issued 18% of share capital to Cyprus Popular Bank for the acquisition of certain assets, liabilities, insured deposits and ELA; Valuation based on KPMG exercise
- Exit from Resolution Status on 30 July 2013
- Delivery of KPMG report early August 2013
- Notice of Shareholders' General Meeting sent out on 8 August 2013 for a General Meeting on 10 September 2013

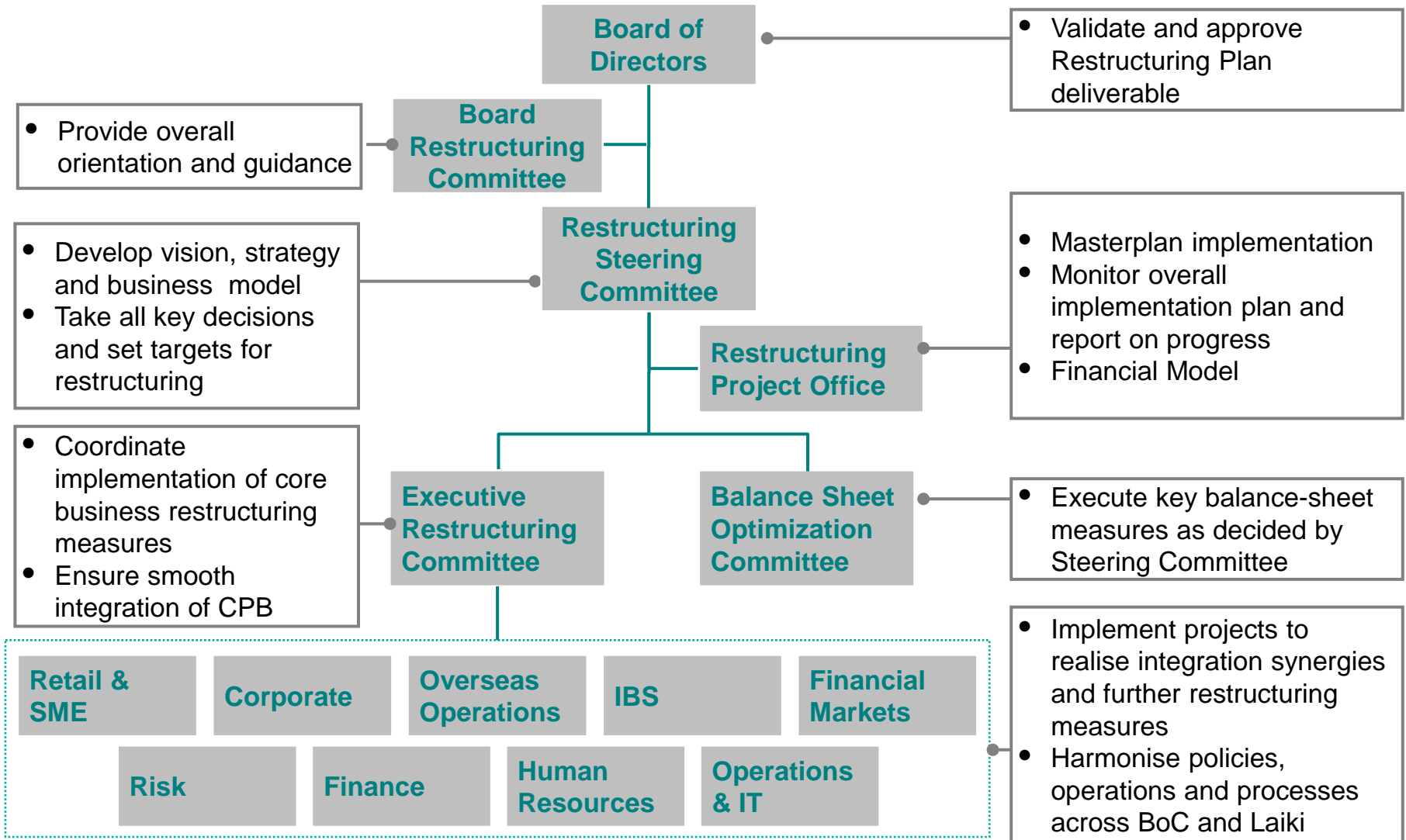
2 Restructuring of Cyprus operations

Initial decisions that needed to be made to preserve stability and continued viability during the transition period include:



2 Restructuring of Cyprus Operations

Integration and Restructuring Governance



2 Restructuring of Cyprus Operations

Branch Network

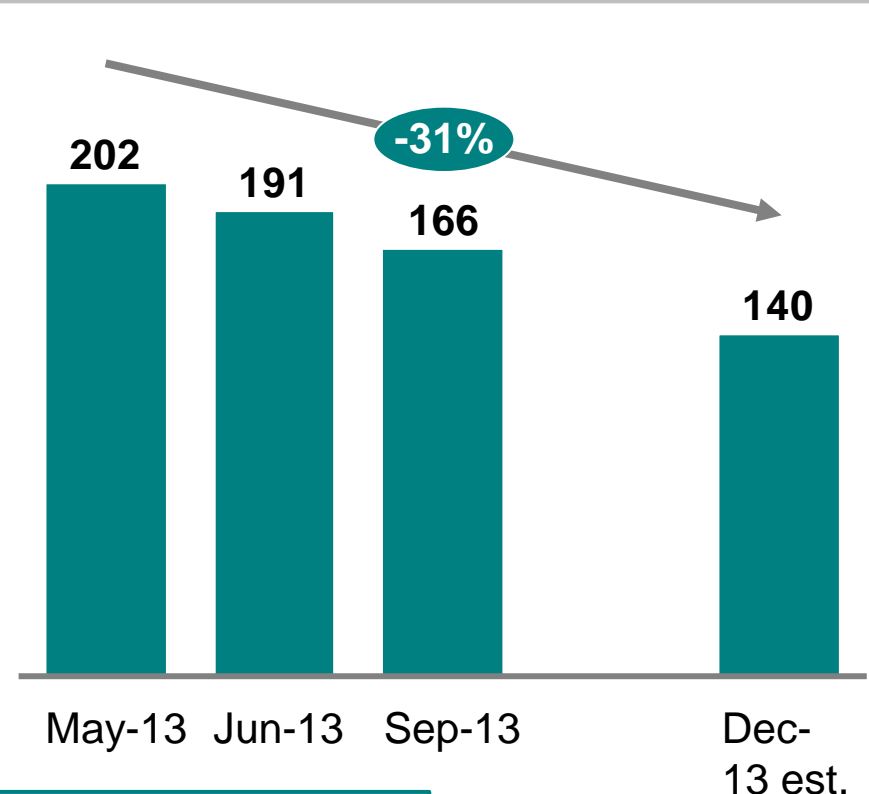
Overlap in branch networks...

- Starting with 203 branches
 - ✓ 118 from BOC
 - ✓ 85 from ex-Laiki
- Closed 37 branches until 6 September 2013 (currently operating 166 branches)

On-going:

- Continuing with plans to reduce branch network to around 140 branches by Dec-2013

...results in a significant reduction in branch numbers



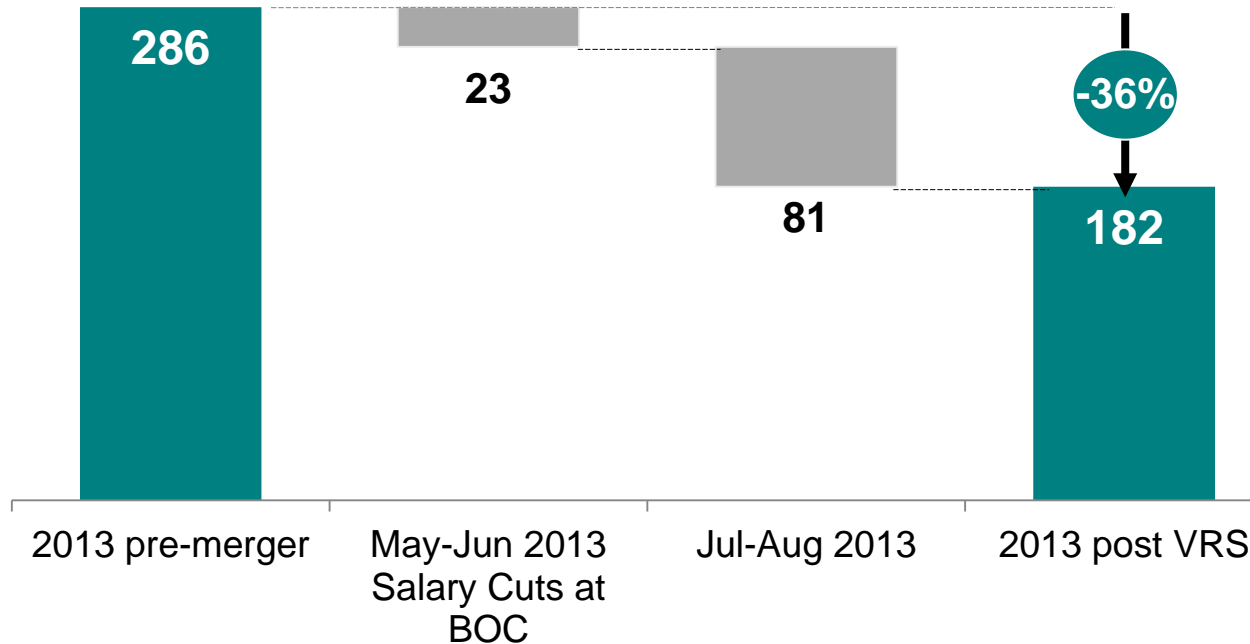
Ultimate branch number to be decided upon the completion of Restructuring Plan

2 Restructuring Cyprus Operations

Steps undertaken to reduce staff cost

Annualized Cyprus bank-only cost base

€mn.

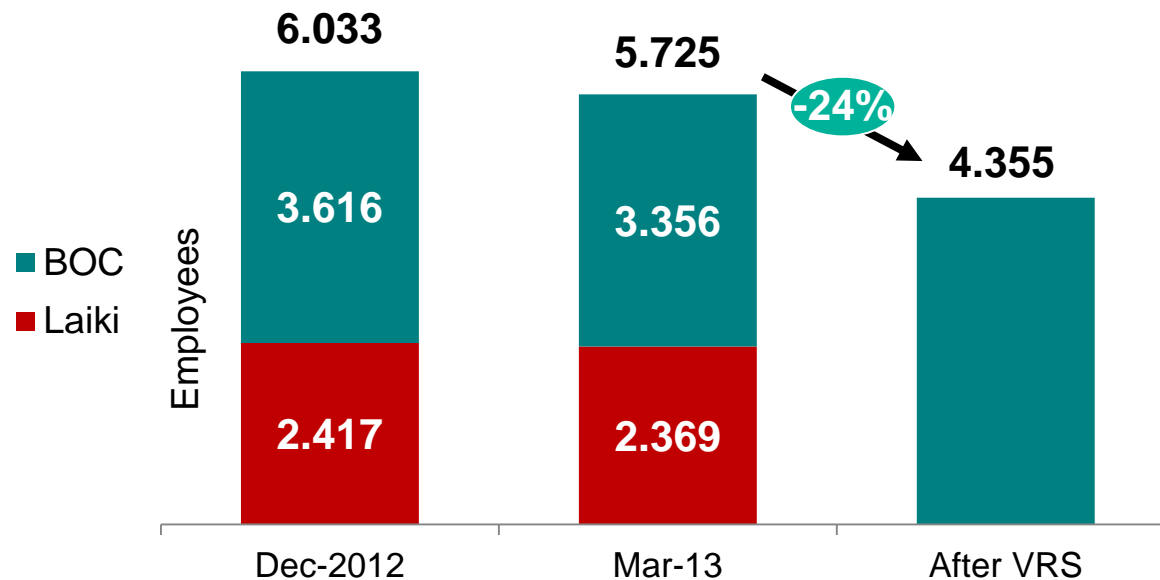


- Actions to reduce staff cost through salary cuts and Voluntary Retirement Scheme (VRS)
- From 1/6/2013 salary cuts
- VRS in Jul-Aug 2013; about 1.370 full time employees left the Group

2 Restructuring Cyprus Operations

Steps undertaken to reduce staff numbers

Cyprus Bank headcount



- VRS in July/August 2013; about 1,370 left the Group
- Ultimate number of staff to be decided upon the completion of the Restructuring Plan

3 Risk Management

- Review end-to-end credit processes, governance and policies to maximise the bank's recovery rate for non-performing loans (NPLs)



BOC will revamp and strengthen **its risk and end-to-end credit processes** (sanctioning, monitoring, delinquency management, recovery)

- **Credit sanctioning** has already been separated from business and will continuously be revised to reflect market conditions
- **Delinquency management** will be centralised and enhanced, to focus on collections as well as on rescheduling/restructuring viable customers
- **NPLs Recovery** will be enhanced and will handle cases based on size and recoverability criteria, and within a more flexible legal framework that is expected to emerge

3 Risk and Credit Management

End-to-end processes are being strengthened to reverse trends in asset quality

Risk Management Governance

- Centralized Risk division, led by an independent CRO
- Clear and separate organizational responsibility for credit risk processes
 - Business/ credit origination
 - Credit sanctioning
 - Credit monitoring
 - Workout and recovery

Strict Credit Sanctioning

- Clearly defined sanctioning authorities, with branch manager limits revoked
- Strict credit criteria across portfolios (e.g., avoided sectors, LTV, DTI)
- Frequent review of credit limits and credit concentrations

Proactive Delinquency Management & Recovery

- Clear assignment of responsibility for early/ late collections, workout and recoveries
- Introduction of transparent criteria for transfer between different stages of delinquency
- Launch of pre-packaged risk mitigation products for Retail and SME customers
- “Crash” 90+ dpd programs across all portfolios

4 Funding and Liquidity Conditions

Actions to Improve Liquidity

- Ways to improve liquidity and launch new products
- Embark on roadshow to raise the Group's profile



- Actions to improve liquidity including:
 - Issuance of government guaranteed bonds
 - Deleveraging and asset disposals
 - Launch new deposit and other product campaigns across business lines
- Stepping up efforts to reduce ELA that stigmatizes the Bank
 - Restoration of status of ECB eligible counterparty, provides access to ECB funding leading to reduced ELA funding
 - ECB funding under improved terms, given that the rate for main refinancing operations stands at 0,5%.
- To embark on marketing roadshow following recapitalisation and exit from resolution
 - Strengthen market access
 - Reduce collateral requirements pertaining to derivatives, which currently consume considerable liquidity

5 Restructuring Plan

Defining Business Objectives and Credit Policies

- Comply with MoU par. 1.28 by delivering “...a restructuring plan ...”
- Go beyond MoU requirements, to adopt international “Best Practices” and integrate relevant work across different areas of the Group (incl. governance, risk, provisioning)



- Appointed **McKinsey to support on Restructuring Plan** delivery and to validate governance against “best practices”
- Appointed **PwC to adopt “Best Practices” in Corporate credit**

Ongoing:

- Developing the **Restructuring Plan** (to be approved by mid-October 2013)
 - Articulate business objectives
 - Integrate Laiki operations and improve operational efficiencies
 - Optimize recovery of problematic loans and define credit policies
 - Normalize funding conditions
 - Ensure capitalization targets are met

5 Restructuring Plan

Radical shift in the Group's strategy

Objectives of Restructuring Plan

- Rebuild **trust and confidence** of depositors and investors
- Build a **resilient, systemic institution**, able to withstand further shocks and economic turbulence
- Integrate ex-Laiki operations, to maximize **synergies and bottom-line** impact
- Preserve BoC's status as the **cornerstone of the Cypriot economy**

Potential implications for BoC strategy

- Re-orient the Group's **business model**
 - Revamp offering to **key customer segments** and especially to most promising sectors
 - Revise **IBU business model** in line with the new environment
 - Develop **lean operating model** going beyond capturing of full synergies with ex-Laiki
 - Strengthen **risk management** capacity, capabilities, processes and infrastructure
- Implement actions to **improve capital and liquidity position**
 - Assess **international** presence, retaining very selective presence abroad
 - Gradually exit **capital intensive** or non-core activities

5 Restructuring Plan

Overseas and non-core subsidiaries

- Set immediate targets for overseas subsidiaries to become self-funded and profitable
- Strategy for overseas and non-core subsidiaries
- Immediate action for subsidiaries and repossessed properties in Greece
- Integrate part of Laiki-UK operations into BOC-UK

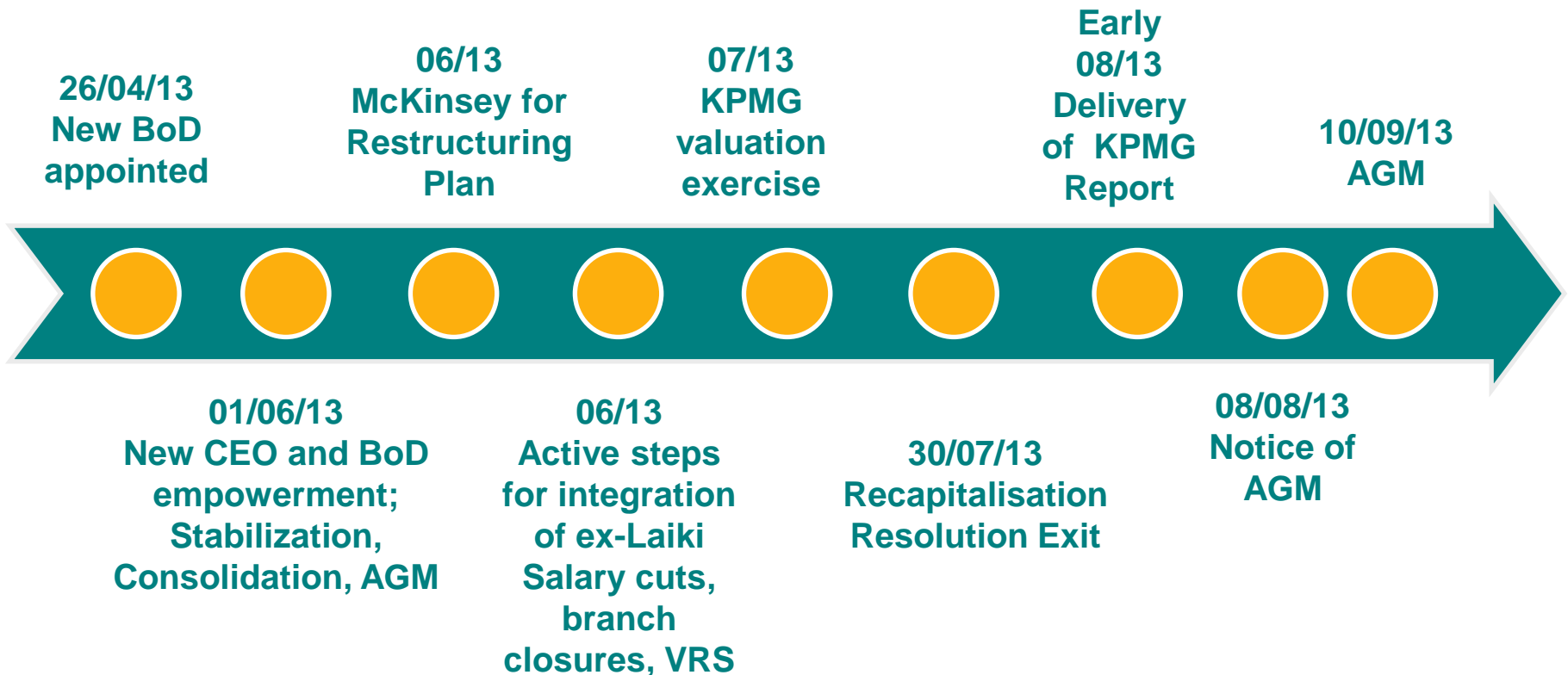


- Created **International Operations Division** to manage overseas operations
- Set **targets for subsidiaries to become self-funded** and improve performance to reduce exposure mainly to Russia and Ukraine
- Appointed advisor to consider **strategy for Ukraine**
- Investigating investor interest for real estate in Cyprus
- Sale of **Asset Management Company** in Greece (AEDAK); Considering offers for Brokerage and Insurance Companies

Ongoing actions:

- Defining strategy for countries with BOC presence and assess opportunities and timing to exit such markets
- Setting-up a **real estate fund** for ~600 repossessed properties in Greece valued at €220 mn
- Assessing opportunities to **sell part of Laiki-UK loans**, with remaining being integrated into BOC-UK (with deposits)

100 days - Roadmap to Shareholders' General Meeting



Key Challenges for the Bank

Managing liquidity – Defending deposit franchise – Regaining trust

Integrating Laiki Bank – Achieving operations efficiencies

Defending overseas investments

Managing loan quality deterioration – Effective management of problem loans

Identify and explore growth opportunities

Macro developments / Progress of Adjustment Program in Cyprus