Share Capital Increase

Additional Information Pack – Part 1

July 2014

Bank of Cyprus

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Loan portfolio performance analysis by customer type

As at March 31, 2014; €m	Group				
		Performing loans and advances			
	Total loans and advances	Not restructured loans and advances	Restructured loans and advances	Total performing loans and advances	Non-performing credit facilities
1. Corporate legal entities	**15,022**	**3,962**	**1,396**	**5,358**	**9,665**
Construction	3,872	494	327	822	3,050
Real estate activities	3,320	840	332	1,172	2,148
Wholesale and retail trade: repair of motor vehicles and motorcycles	2,137	819	177	996	1,141
Accommodation and food service activities	1,638	492	172	663	974
Electricity, gas, steam and air-conditioning supply	49	37	9	46	3
All other sectors	4,007	1,279	380	1,659	2,349
2. Retail legal entities	**2,230**	**1,030**	**156**	**1,187**	**1,043**
Wholesale and retail trade: repair of motor vehicles and motorcycles	574	287	37	325	250
Real estate activities	382	153	22	175	207
Construction	282	76	25	102	180
Manufacturing	213	92	13	104	109
Service activities	126	78	6	84	42
All other sectors	653	344	53	397	256
3. Private individuals	**9,011**	**4,125**	**1,157**	**5,282**	**3,729**
Credit facilities for the purchase/construction of immovable property:	5,802	2,784	926	3,710	2,092
(a) Owner occupied	3,374	1,670	562	2,232	1,142
(b) For other purposes	2,428	1,114	364	1,478	950
Consumer loans	2,030	701	190	891	1,139
Credit cards	262	184	0	184	78
Current accounts	366	207	0	207	159
Credit facilities to sole traders	550	249	40	290	261
4. Total credit facilities	**26,263[1]**	**9,117**	**2,710**	**11,826**	**14,437**
Provisions for impairment and fair value adjustment on initial recognition	**5,029[1]**	**213**	**93**	**307**	**4,722**

Note:
1. Includes fair value adjustment on initial recognition of €1,813m relating to the loans and advances to customers acquired as part of the Laiki Bank acquisition in 2013

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Reconciliation of Group equity to CET1

€bn, March 31, 2014	
Group equity - per financial statements	2.76
Less: Intangibles	(0.02)
Less: In-force value (insurance companies)	(0.09)
Less: Non banking subsidiaries reserves, adjustments on MI and other items	(0.10)
Less: Unrealised gains from available for sale debt and equity instruments transferred to T2 (as per transitional provisions)	(0.05)
CET1	**2.50**

Breakdown of RWA by geography

€bn; as at March 31, 2014

Country of operation	Credit risk[1]		Market risk[1]	Operational risk[1]	Total[1]	
Cyprus	18.59	87%	0.16	1.66	20.40	87%
Russia	1.04	5%		0.28	1.32	6%
United Kingdom	0.93	4%		0.04	0.98	4%
Romania	0.33	2%		0.04	0.37	2%
Greece	0.24	1%		0.00	0.24	1%
Ukraine	0.15	1%		0.04	0.18	1%
Channel Islands	0.04	0%		0.00	0.04	0%
Netherlands	0.00	0%		0.00	0.00	0%
Grand Total	**21.31**	100%	**0.16**	**2.06**	**23.53**	100%

Note:
1. Based on CRD IV provisional calculations

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Basel III fully loaded computation

€bn	Pro forma March 31, 2014			Variance
	CET1 Transitional estimate	Movement of transitional to fully loaded	CET1 Fully loaded	
Share capital (net of treasury shares)	4.68		**4.68**	
Retained earnings	(2.17)		**(2.17)**	
OCI and other reserves (Property revaluation, FX and AFS reserves)	(0.01)		**(0.01)**	
Minority interest	0.06	(0.01)	**0.05**	
Deduction of intangibles	(0.02)		**(0.02)**	
Adjustments impacted by transitional provisions			**-**	
Amount exceeding the 10% threshold deductions for deferred tax assets and financial sector entities		(0.21)	**(0.21)**	
Amount exceeding the 15% threshold deductions for deferred tax assets and financial sector entities		(0.05)	**(0.05)**	
Unrealised available-for-sale debt and equity instruments	(0.05)	0.05	**-**	
CET1	**2.50**	**(0.22)**	**2.27**	
RWA	**23.53**	**(0.08)**	**23.45**	
CET1 ratio	**10.6%**		**9.7%**	**0.9%**
Q2 actions			**0.7%**	
Proforma FL-pre capital increase			**10.4%**	
Expected capital increase (1bln)			**4.3%**	
Proforma FL (post capital increase)[1]			**14.7%**	
Positive net impact due to reduction of CET1 deduction due to DTAs			0.4%	
Proforma FL (post accounting for reduction in DTA deduction)			**15.1%**	

The Bank intends to operate at a 12% CET1 ratio in the medium term and intends to measure returns on a normalised capital base

Note:
1. Excluding further capital benefit under 10% / 15% thresholds

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Top 30 customer groups by exposure (aggregated)

€m; as at March 31, 2014

Grouping	Performing[1]	90+DPD[2]	Gross exposures	Provisions[3]	Net exposures	RWA	Avg. loan to value[4]	Market value of collateral[5]	Industry concentration
Top 10	1,140	1,766	2,906	859	2,047	1,175	122%	2,253	• Real estate – 50% • Diversified – 27% • Tourism – 16%
Top 20	1,675	2,733	4,409	1,320	3,088	1,783	123%	3,555	• Real estate – 42% • Diversified – 22% • Tourism – 18%
Top 30	2,248	3,241	5,489	1,558	3,931	2,177	154%	4,379	• Real estate – 42% • Diversified – 18% • Tourism – 18%

Notes:
1. Exposure not classified as IFRS90+DPD
2. 90+DPD: loans with a specific provision (i.e. impaired loans) and loans past-due for more than 90 days as per IFRS
3. Includes specific and collective provisions as well as KPMG loss
4. Based on indexed market value of collateral
5. Capped / indexed

Top 50 individual 90+DPD exposures (aggregated)

€m; as at March 31, 2014

Grouping	Balance[1]	Recoverable amount of collaterals[2]	Provisions[3]	Industry concentration (% within groupings)
Top 10	1,312	831	504	• Real estate – 40% • Development – 18% • Trade – 14%
Top 20	2,005	1,495	704	• Real estate – 41% • Development – 26% • Trade – 9%
Top 30	2,450	1,791	921	• Real estate – 37% • Development – 23% • Tourism – 14%
Top 50	3,076	2,262	1,190	• Real estate – 36% • Development – 18% • Tourism – 18%

Notes:
1. Excludes any income not recognised in the P&L
2. Recoverable amount of collateral as per CBC directive i.e. for mortgages the amount is based on the Forced Sale value of the property which usually is 75%-80% of the market value
3. Includes specific and collective provisions as well as KPMG loss

Other asset quality metrics

Share of provisions going towards new vs. existing NPLs

	3Q13	4Q13	1Q14[1]
% of Specific P&L charge on new (NPLs / 90+DPD)	61%	60%	89%
% of Specific P&L charge on existing (NPLs / 90+DPD)	39%	40%	11%

Portfolio roll over (€m)

	To past due but not impaired (>5 dpd)	To impaired
Neither past due nor impaired (< 5dpd)	1,043.1	88.0
% of loans	11%	1%

	To >90dpd	To impaired	To neither past due not impaired (0-5dpd)	o/w Rescheduled
Past due but not impaired (between 5-90dpd)	472.7	141.4	565.9	191.7
% of loans	26%	8%	32%	34%

Historical cure rates

Reference	Portfolio	Segment	Cure rate
1	BoC	Corporate	10.80%
2	BoC	International	6.30%
3	BoC	Retail	8.48%
4	BoC	SME	5.15%
5	ex-Laiki	Corporate	12.55%
6	ex-Laiki	International	0.11%
7	ex-Laiki	Retail	6.10%
8	ex-Laiki	SME	7.20%

Note:
1. Sum of 1Q14 %s is > 100% due to a recovery in collective provisions

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Deposits breakdown

Deposits breakdown (€m)	Dec-2013	Mar-2014
Total customer deposits, split by:	**14,971**	**14,066**
o/w retail deposits	9,437	9,011
o/w corporate deposits	5,534	5,055
Total customer deposits, split by:	**14,971**	**14,066**
o/w demand and savings	4,418	4,478
o/w time deposits	10,553	9,588
Total customer deposits, split by:	**14,971**	**14,066**
o/w domestic deposits	12,705	11,985
o/w non-domestic deposits	2,266	2,081
Total customer deposits[1], split by:	**12,705**	**11,985**
o/w insured by the Deposit Guarantee Fund	7,468	7,435
o/w un-insured by the Deposit Guarantee Fund	5,237	4,550
% of depositors below 100k	58.8%	62.0%

Note:
1. Pertains to domestic deposits

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Calculation of liquidity ratio

Liquidity ratio as at March 31, 2014	€m
Assets/Liabilities Less than 1 Year Maturity	**Balance**
Cash and balances with CB	964
Placements with banks	699
Unencumbered investments at market value net of haircut (analysed below)	122
Total assets	**1,785**
Liabilities < 1 year maturity	6,120
(-) Deposits < 1 year	(5,165)
(+) Total deposits	14,066
(-) Repos	(582)
Near-term liabilities (assuming all deposits included)	**14,438**
Liquidity ratio	**12.4%**
Analysis of unencumbered investments	
Unencumbered investments at market value net of haircut	
Balance sheet value of all Investments	3,475
Balance sheet value of encumbered investments	(3,279)
Diff. between B/S value and market value and to other illiquid assets and haircuts	(74)
	122

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Yields by segment

As of 1Q14	YTD effective yield
Core bank – Cyprus	**5.10%**
Consumer	4.85%[1]
SME	6.07%
Corporate	5.54%
IBU	3.55%
Wealth management division	3.09%
Restructuring & recovery division – Cyprus	**4.87%**
Total Cyprus	**4.98%**

Note:
1. Includes housing loans with average Yield of around 4.45%

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Cost of deposits

YTD cost of deposits[1]	March 31, 2014	May 31, 2014	May 31, 2014 (monthly)
Customer local deposits			
Current a/c credit balances	(0.22%)	(0.27%)	(0.32%)
Guarantee deposits	(3.39%)	(3.37%)	(3.35%)
Savings	(0.15%)	(0.17%)	(0.21%)
Other deposits	(0.88%)	(0.91%)	(1.89%)
Notice a/cs	(1.96%)	(1.95%)	(1.83%)
Fixed deposits	(2.68%)	(2.67%)	(2.60%)
Customer local (euro) deposits	**(1.90%)**	**(1.89%)**	**(1.80%)**
Customer foreign deposits			
Current a/c credit balances	0.00%	0.00%	0.00%
Guarantee deposits	(0.21%)	(0.16%)	(0.08%)
Savings	-	-	-
Other deposits	(0.11%)	(0.07%)	0.00%
Notice a/cs	(0.11%)	(0.11%)	(0.11%)
Fixed deposits	(0.64%)	(0.64%)	(0.64%)
Customer foreign deposits	**(0.41%)**	**(0.39%)**	**(0.34%)**
Combined cost of deposits	**(1.57%)**	**(1.56%)**	**(1.48%)**

Note:
1. Annualised

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Net interest income computation

In €'000s	Total NII (1Q14)	NII-performing	NII 90+DPD	NIM (total)	NIM - Performing	NIM - 90+DPD
Core Bank - Cyprus	**91,773**	**65,029**	**26,744**	**2.67%**	**2.44%**	**3.48%**
Consumer	40,378	25,222	15,157	2.64%	2.30%	3.51%
SME	19,599	10,162	9,438	4.46%	4.00%	5.11%
Corporate	20,995	20,132	863	3.85%	3.81%	4.86%
IBU	10,336	9,103	1,233	1.20%	1.23%	1.01%
Wealth management division	463	410	53	0.67%	0.74%	0.39%
Restructuring & Recovery Division – Cyprus	**84,021**	**26,845**	**57,175**	**3.11%**	**4.35%**	**2.74%**
Total Cyprus	**175,793**	**91,875**	**83,919**	**2.86%**	**2.79%**	**2.94%**
Plus Interest income from bonds and other liquids[1]	**60,007**					
Total NII Cyprus	**235,800**	**91,875**	**83,919**	**3.84%**		
Greece	614	614			1.83%	
UK	7,333	7,333			1.46%	
Uniastrum	18,675	18,675			6.05%	
Romania	4,535	4,535			4.66%	
Total BoC Group	**266,958**	**123,032**	**83,919**	**3.99%**	**3.20%**	
Group NIM excluding income from bonds				**3.09%**		

Notes: Working has been prepared based on latest available information and after taking into account the following assumptions

1. Interest income from bonds, including Cy government bond has been excluded from the NIM calculations by line.
2. ELA and ECB funding allocated to RRD
3. A notional FTP equals to average funding cost (around 1.73%) was allocated between the Core lines based on the variation of their Loans to deposits ratio
4. For simplicity overseas units included in performing column

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Property valuation policies

New lending

New lending amount	No. of valuations
Lending < €2m	1
Lending > €2m	2

Restructuring facilities

Facility amount	Frequency / age of valuation
Under €1m	2 years
Over €1m	6 months

Recoveries facilities

Facility amount	Frequency / age of valuation
At the time of transfer to recoveries[1]	Immediately
Under €2m	2 years
Over €2m	1 year

Revision of facilities

- Properties mortgaged to the Bank and held as security are revalued at regular intervals to ensure that the value of the property is adequate to cover the facilities given by the Bank
- For the purpose of monitoring the property values, the available Property Price Index (PPI) issued by the Central Bank is used
- The Index currently covers only residential properties (houses and apartments) in all government controlled areas of Cyprus
- For all physical and legal entities whose mortgaged properties are covered by the PPI, the property will be monitored against the Index at least on a quarterly basis
- When a cumulative reduction in excess of 15% in relation to the property value in the Bank´s system is presented, an official valuation is requested
- Properties which are covered by the Index, but secure facilities of customers which are involved in investment property purposes, property development, building construction or buying and selling of real estate are revalued at least every 3 years

Amount of Customer Group Facilities	Revaluation period		
€	**Residential**	**Commercial**	**Specialised**
0 – 3,000,000	5 years	3 years	2 years
>3,000,001	3 years	2 years	2 years
	Index monitoring for valuation purposes		
Irrespective of the amount	Quarterly	n/a	n/a

Note:
.1. Irrespective of amount

Additional key information

Focus areas	Key comments
Financials	
Interest recognition – cash interest vs. accrued interest	• Group's accounting policy is that interest is recognised on the net book value of the loans using the effective interest rate method. This means that the provisions are calculated on the basis of the expected future cash flows of each client, discounted back to the present. This discounting results in higher upfront provisions charges and this discounting is 'unwound' through interest income in the period until the cashflows are expected to arise • Unwinding of the discount in year 2013 amounted to €189m and in 1Q14 to €61m • This policy is in line with IFRS and CBC directives
Ex-Laiki	
Exposure to Laiki Bank	• Exposure to Laiki Bank - €488.7m in Greece, Serbia and Romania – Additional exposure of €343.8m to Romania
Details on Government bond transfer from Laiki Bank	• Notional amount at the time of transferred was at €1,889m • KPMG valued this bond as a 3yr bond (the earlier time the Government could repay this) and assumed the interest of 5.15% to be capitalised annually, so final notional amount would reach to €2,196m • Fair value on initial recognition (March 31, 2013) was €1,570m and it was classified as loans and receivables and is not marked-to-market (as per IFRS). The yield of this bond is 10.8% • Carrying value as at March 31, 2014 is €1,744m • €950m was repaid by the Government and resulted in a capital gain of €95m
Loan portfolio	
Guidance on loan portfolio mix	• Bank will continue to focus on growing its core businesses in Cyprus, while reducing exposure to its overseas operations and its non-core and non-performing exposures in Cyprus • Within Cyprus, the 1Q14 sector mix by gross loans is 34.2% in retail, 22.9% in SME and 42.8% in corporate. Bank will continue to lend conservatively to a balanced portfolio and does not have a specific target loan portfolio mix • Bank intends to focus on growth in lower-risk retail products and customers, as well as targeted business sectors for SME and corporate customers (e.g. professional services, education, energy, green project and information and communication technology)
Guidance on lending rates	• Lending rates are expected to decrease slightly in line with the decrease in the cost of funding from the Eurosystem

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Additional key information (contd.)

Focus areas	Key comments
Investments	
Yields on bond portfolio	• Yield of bond portfolio was c.7% as at 1Q14; current yield (following repayment of part of recapitalisation bond) is c.5.6%
Collaterals	
Collateral composition	• Real estate represents 85%, Cash 4%, Bank and Government guarantees 2%, Fixed and Floating 1% and other collateral the rest • General practice in Cyprus is to take personal guarantees which are considered over and above of any other tangible collateral
Collateral valuation	• Collaterals consist mainly of mortgages as well as other tangible collaterals such as cash, bank/government guarantees etc. • Mortgages which comprise the vast majority of collateral, an independent valuation is always requested at the inception of the loan; subsequent revaluations occur as per the guidelines provided in the restructuring and valuations policies • For provisioning purposes as well as for disclosure in the FS, these are always indexed to current values based on the RICS property index • Bank follows the CBC guidelines for the calculation of recovery values
Others	
Restructuring costs	• Restructuring cost for 2014 are estimated to be much lower than the last year costs (€168m) which included voluntary retirement compensations and branch closure expenses • As per current estimates such costs for 2014 are not expected to exceed €30m; actual costs for 1Q14 were €5m, restructuring costs exclude disposal losses but relate only to advisors and branch closure costs
Branches & employees	(see table below)

Branches & employees

	Dec-2013	Mar-2014	Medium-term target Dec-2017
Number of branches in Cyprus	133	130	125
Group employees in Cyprus	4,247	4,240	<4,100

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