Announcement

Group Financial Results for the quarter ended 31 March 2014

Nicosia, 30 May 2014

Bank of Cyprus Group's CEO Statement:

"We have made significant progress in the implementation of our Restructuring Plan during the first quarter of 2014, and we continue to deliver against our strategic objectives. The first quarter of 2014 was the Group's first profitable quarter after seven consecutive loss-making quarters, with profit from continuing operations and profit after tax totalling €72 mn and €31 mn, respectively. The performance of the Cypriot operations, our core business, was significantly stronger than the Group's overall performance, supporting our efforts in shrinking to strength through the disposal of non-core operations. The balance sheet was deleveraged by €1 bn and the Common Equity Tier 1 capital (CET1) ratio increased to 10,6%. Loans in arrears for more than 90 days declined for the first time following sixteen consecutive quarterly increases.

The integration of the ex-Laiki business in Cyprus is on track and the IT migration is expected to be completed by early June 2014. The deleveraging process through specific, deliberate and well-timed actions is progressing ahead of plan. In the second quarter of 2014, the disposal of the Ukrainian operations, our investment in Romanian Banca Transilvania and of certain loans in Serbia have reduced the Group's risk profile, have further enhanced our liquidity by €350 mn and have had a 0,3 percentage points positive impact on the CET1 ratio. The Bank's improving liquidity position allowed us to release the 9-month decree deposits ahead of plan, with the vast majority of these deposits having been retained.

Arresting asset quality deterioration, making progress on non-core disposals and maintaining capital ratios are core to building confidence in the Bank of Cyprus. The establishment of the Restructuring and Recoveries Division has ensured that we have a systematic approach to managing stressed and delinquent customer accounts. Our efforts to reduce our problem loan book should also be supported by the necessary changes to legislation that would prevent strategic defaults and would enhance our ability in engaging with clients, always within an appropriate Code of Conduct. The continuing recessionary environment continues to place pressure on the Bank's fundamentals and, while we were pleased to see an arresting in the deterioration trend of loans in arrears, we remain vigilant and cautious about the coming quarters.

In terms of the macro picture in Cyprus, while current economic conditions remain challenging, there are encouraging signs. The recession has been shallower than expected, the ratings of the Republic of Cyprus have been upgraded and there has been a positive fourth review by the Troika. Through our relentless focus on asset quality, funding, capital and efficiency we aim to ensure that Bank of Cyprus restores its financial strength enabling it to support the recovery of the Cypriot economy. As the leading bank in Cyprus, Bank of Cyprus will benefit significantly from improving fundamentals and confidence in its home market."

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 300 branches, of which 164 operate in Russia, 130 in Cyprus, 1 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has 5 representative offices in Russia, Ukraine, China and South Africa. The Bank of Cyprus Group employs 6.898 staff worldwide. At 31 March 2014, the Group's Total Assets amounted to €29,4 bn and Total Equity was €2,7 bn.

Notes to the Financial Results for the quarter ended 31 March 2014:

Following the Eurogroup decisions to recapitalise Bank of Cyprus 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 the following decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority:

1) Sale of the Greek banking and leasing operations as per the *Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013*.
2) Acquisition of Laiki's operations as per the *Sale of certain operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013.*
3) Compensation for assets and liabilities acquired from Laiki as per the *Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013.*
4) Recapitalisation of Bank of Cyprus as per the *Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013 up to (No. 3)*. Unsecured deposits are also calculated pursuant to the provisions of the Decrees.
5) Acquisition of Laiki's branch operations in the UK as per the *Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013*.
6) Disposal of the Bank's operations in Romania to Marfin Romania as per the *Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013*.

Due to the above transactions, the figures and financial results of the Group are not comparable with past financial results, while the financial statements as at 31 March 2013 were not possible to publish since no reliable information was available for the three months ended 31 March 2013 due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events to March 2013.

It is noted that the Bank has completed the fair valuation of the assets and liabilities acquired from Cyprus Popular Bank Public Co Ltd and has included final amounts and all the final adjustments on net assets of €7,1 mn were recognised retrospectively as if the accounting recognition of a business combination was completed on the acquisition date.

In April 2014, the Group's activities in Ukraine were sold to Alfa Group. As a result, the Ukrainian operations are presented as discontinued operations. Comparatives have been re-presented to reflect the reclassification of the Ukrainian operations disposed on 18 April 2014, from continuing to discontinued operations.

The Consolidated Financial Statements for the quarter ended 31 March 2014 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).

The Consolidated Financial Statements for the quarter ended 31 March 2014 have not been reviewed by the Bank's external auditors.

The announcement and the presentation of the financial results for the quarter ended 31 March 2014 have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

A. Summary of Financial Results for the quarter ended 31 March 2014

Balance Sheet

- **The Common Equity Tier 1 capital (CET1) ratio (calculated in accordance with CRD IV/CRR[1]) was improved to 10,6% at 31 March 2014, compared to an adjusted for CRD IV/CRR CET 1 ratio of 10,5% at 31 December 2013. Taking into account the sale of the Ukrainian operations, the investment in Romanian Banca Transilvania and the loans in Serbia in the second quarter of 2014, there has been a 0,3 percentage points positive impact on the CET1 ratio.**

- **At 31 March 2014, gross loans and deposits were €26,3 bn and €14,1 bn respectively, with a net loans to deposits ratio of 151% (compared to 145% at 31 December 2013). Pro forma for the sale of the Ukrainian operations and the loans in Serbia, the net loans to deposits ratio is reduced to 148%.**

- **Emergency Liquidity Assistance (ELA) has been reduced to €9,51 bn at 31 March 2014, down from €9,56 bn at 31 December 2013. ECB funding totalled €1,4 bn at 31 March 2014. ELA was reduced by a further €270 mn in the second quarter of 2014 utilising funds from deleveraging.**

- **Loans in arrears for more than 90 days (90+ DPD)[2] declined by 1,9% during the first quarter of 2014 and totalled €12.756 mn at 31 March 2014, compared to €13.003 mn at 31 December 2013, and accounted for 48,6% of gross loans (90+ DPD ratio). The provision coverage ratio of 90+ DPD was improved to 39%, while taking into account tangible collateral, 90+ DPD are fully covered by provisions and tangible collateral. Although early to consider the reduction in 90+ DPD as a sustainable trend, 90+ DPD are showing signs of stabilisation going into the second quarter of 2014, while the new definition Non-Performing Loans[3] continue to rise.**

Income Statement

- **Total income for the first quarter of 2014 was €340 mn, with net interest income (NII) at €267 mn and net interest margin (NIM) at 3,99%. Total income for the fourth quarter of 2013 was €310 mn, with NII at €268 mn and NIM at 3,80%.**

- **Total expenses for the first quarter of 2014 were €124 mn, 2% lower compared to the fourth quarter of 2013, and the cost to income ratio was 36% compared to 41% for the fourth quarter of 2013.**

- **Profit before impairments, restructuring costs and discontinued operations for the first quarter of 2014 was €216 mn, 17% higher compared to €184 mn for the fourth quarter of 2013.**

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[1] As from 1 January 2014, the new Capital Requirements Regulations (CRR) and amended Capital Requirements Directive IV (CRDIV) became effective (see section B1.1 for more details). The adoption has had a 0,3 percentage points positive impact on the Group's CET1 ratio as at 1 January 2014.
[2] 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, as per IFRS.
[3] These are defined as per the new Directive issued by the Central Bank of Cyprus for the *Definition of Non-performing and Restructured Credit Facilities,* effective as of 1 July 2013. The Directive is available on the website of the Central Bank of Cyprus.

- **Provisions for impairment of loans for the first quarter of 2014 were €146 mn, with the provisioning charge accounting for 2,2% of gross loans on an annualised basis. Provisions for impairment of loans for the fourth quarter of 2013 were €229 mn, accounting for 3,7% of gross loans on an annualised basis.**

- **Profit from continuing operations (defined as profit after tax and before restructuring costs and discontinued operations) for the first quarter of 2014 totalled €72 mn. Loss from continuing operations for the fourth quarter of 2013 totalled €38 mn. Profit from continuing operations in the Cyprus operations for the first quarter of 2014 totalled €101 mn.**

- **The Ukrainian operations, sold in April 2014, were classified as discontinued operations in the first quarter of 2014 and recorded a loss of €36 mn. The reclassification of the Ukrainian operations into discontinued operations has been made in previous quarters for comparison purposes.**

- **Restructuring costs for the first quarter of 2014 totalled €5 mn, compared to €15 mn for the fourth quarter of 2013.**

- **Profit after tax attributable to the owners of the company for the first quarter of 2014 totalled €31 mn, compared to a loss of €103 mn for the fourth quarter of 2013. Profit after tax in the Cyprus operations for the first quarter of 2014 totalled €96 mn.**

B. Analysis of Financial Results for the quarter ended 31 March 2014

B.1 Balance Sheet Analysis

B.1.1 Capital Base

The Group's shareholders' equity at 31 March 2014 amounted to €2.689 mn, 1% higher compared to 31 December 2013, while the Group's provisional CET1 ratio increased to 10,6% compared to 10,5%, as adjusted in accordance with CRD IV/CRR rules, for 31 December 2013. The CET1 ratio was enhanced due to the 1Q2014 profitability (it is noted that the CET1 ratio includes unaudited profits amounting to €18 mn for the quarter) and the reduction of risk weighted assets. After taking into account the deleveraging actions completed in the second quarter of 2014 relating to Ukraine, Banca Transilvania and Serbia, there is a 0,3 percentage points positive impact on the CET1 ratio.

Going forward, the Group aims to preserve and enhance its capital adequacy by retaining internally generated capital, while the restructuring and disposal of non-core assets will be driven by risk mitigation and capital considerations.

As from 1 January 2014, the new Capital Requirements Regulations (CRR) and amended Capital Requirements Directive IV (CRD IV) became effective, comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. It is immediately binding on all EU member states. CRD IV governs access to deposit taking activities, internal governance arrangements, including remuneration, board composition and transparency. Unlike the CRR, the directive needs to be transposed into national laws and national regulators can impose additional capital buffer requirements. CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as leverage, which are not expected to be fully implemented until 2018. The Central Bank of Cyprus (CBC) has determined the extent of phasing-in of the transitional provisions relating to Common Equity Tier 1 deductions. On the basis of that assessment and taking into account the parameters of the balance sheet assessment and the EU-wide stress test, the minimum capital requirements will be determined in consultation with the Troika and informing the European Stability Mechanism. In addition the CBC may also impose additional capital requirements for risks which are not covered by the above-mentioned capital requirements (Pillar II add-ons).

B.1.2 Deposits and Loans

The Group's total deposits were €14,1 bn at 31 March 2014, compared to €15,0 bn at 31 December 2013.

Customer outflows[4] experienced by the Bank in its Cyprus operations post-March 2013 have significantly abated during the second half of 2013 and into 2014. During the first quarter of 2014, the deposits of the Cypriot operations dropped by 6% compared to a 2% drop in the fourth quarter of 2013 and 10% in the third quarter of 2013. The first quarter of 2014 drop in the deposits of the Cyprus operations was due to seasonality, payment of taxes and dividends, the release of the 6-month decree deposits and the general relaxation of restrictive measures.

On 30 January 2014, the Bank released the 6-month decree deposits maturing on 31 January 2014 and totalling about €940 mn. Depositors with released funds have generally stayed with the Bank and indeed the retention of deposits exceeded expectations.

At 31 March 2014, deposits in Cyprus accounted for 85% of Group deposits, deposits in Russia for 5% and deposits in the United Kingdom for 9%. The Bank's deposit market share in Cyprus was 26,4% at 31 March 2014, compared to 27,5% at 31 December 2013.

Customer deposits remain the primary source of funding and accounted for 48% of assets as at 31 March 2014, while the net loans to deposits ratio totalled 151% compared to 145% at 31 December 2013. The net loans to deposits ratio on a pro-forma basis following the disposal of the Ukrainian operations and the loans in Serbia stands at 148%.

Following the absorption of Laiki Bank and its ELA of €9 bn, the Bank's ELA amounted to €11,11 bn at 30 June 2013. With the Bank becoming an ECB eligible counterparty for monetary policy operations following its exit from Resolution, the Bank has raised €1,4 bn of funding under monetary policy operations and has reduced its ELA to €9,51 bn at 31 March 2014. Overall, between April 2013 and March 2014, the Bank managed to reduce its Eurosystem funding (ECB funding + ELA) by €490 mn from €11,4 bn (comprising solely ELA) to €10,91 bn and at the same time managed to absorb a significant reduction in its deposit base. ELA was reduced by a further €270mn in the second quarter of 2014 utilising funds from deleveraging.

The decisions of the Eurogroup to bail-in depositors significantly dented the trust and confidence of customers towards the Cypriot banking system. As a result, restrictive measures and capital controls with respect to banking and cash transactions were introduced by the authorities in March 2013 to prevent large deposit outflows and to preserve the solvency and liquidity of the credit institutions in Cyprus. These measures included restrictions on cash withdrawals, compulsory renewal of maturing deposits and restrictions on capital movements and are constantly being reviewed and revised. Currently the only major restriction applicable for domestic banking transactions relates to the opening of an account in another institution.

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

In addition to the restrictive measures applicable for the Cypriot banking system as a whole, there are additional restrictive measures applicable to the Bank's deposits affected by the bail-in[5]. At 31 March 2014, deposits totalling €1,9 bn remained blocked in the form of two equal fixed term deposits with terms of 9 and 12 months respectively, beginning 1 August 2013. The Bank is allowed to renew them for an additional equal term at the same interest rates, depending on market conditions. Once these deposits are unblocked, the funds will be subject to the general restrictive measures applicable at the time.

On 30 April 2014 the Bank announced its decision for the release of the 9-month decree deposits amounting to approximately €930 mn and maturing on 30 April 2014. One third of the 9-month decree deposits was immediately released and available in customers' current accounts, one third was converted into a 3-month time deposit maturing and automatically released on 31 July 2014 and one third was converted into a 6-month deposit maturing and automatically released on 31 October 2014. The behaviour of depositors with released funds has been very satisfactory and the retention of deposits has been at a very high level.

Gross loans were €26,3 bn at 31 March 2014 (compared to €26,7 bn at 31 December 2013, €27,4 bn at 30 September 2013 and €28,3 bn at 30 June 2013), with loans in Cyprus totalling €22,8 bn and accounting for 87% of gross loans. The reduction in gross loans reflects primarily the prepayment of loans using blocked deposits, the normal repayment of loans and the Bank's deleveraging efforts. The gross loans are presented before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,8 bn. As at 31 March 2014 the gross loans of ex-Laiki amounted to €9,6 bn. Following the deleveraging actions completed in April and May 2014, gross loans were reduced further to €25,6 bn.

Following the absorption of Laiki's loan portfolio in Cyprus, the Bank is the single largest provider of credit in Cyprus with a market share of 40% of loans as at 31 March 2014. Therefore, the Bank's future financial performance is interlinked with the Cypriot economy. Loans in Russia (€1,3 bn) and loans in the UK operations (€1,2 bn) accounted for 5% each of total loans.

In terms of type of customer exposure, corporate loans[6] accounted for 46% of gross loans at 31 March 2014, SME[7] loans accounted for 23%, whereas mortgages and consumer loans accounted for 20% and 11%, respectively. In terms of exposures by economic sector, loans in the construction sector and in real estate development accounted for 16% of gross loans each, at 31 March 2014.

B.1.3 Loan portfolio quality

Although the quality of the Group's loan portfolio continues to be challenged by the on-going recession, there are some early signs that the loan portfolio quality is stabilising with **loans past due for more than 90 days** (90+ DPD) declining during the first quarter of 2014, the first such decline following sixteen consecutive quarterly increases.

Loans past due for more than 90 days (defined as loans with a specific provision [i.e. impaired loans] and loans past-due for more than 90 days, as per IFRS) totalled €12.756 mn at 31 March 2014 (compared to €13.003 mn at 31 December 2013) recording a drop of €247 mn or 1,9% and accounted for 48,6% of gross loans (90+ DPD ratio). The provisioning coverage ratio of 90+ DPD[8] improved to 39% at 31 March 2014, up from 38% at 31 December 2013 and 37% at 30 September 2013. Taking into account tangible collateral, 90+ DPD are fully covered with provisions and tangible collateral.

[5]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.*
[6] Corporate clients for the Cyprus loan portfolio are businesses that have total loans above €4 mn and turnover of above €2 mn.
[7] SME clients for the Cyprus loan portfolio are businesses that have total loans less than €4 mn and turnover less than €2 mn.
[8] Defined as accumulated provisions as a percentage of gross loans in arrears for more than 90 days (90+ DPD).

Non-performing loans (NPLs) calculated based on the new definition of the Central Bank of Cyprus effective from 1 July 2013[9], totalled €14.437 mn at 31 March 2014 (compared to €14.042 mn at 31 December 2013) and accounted for 55% of gross loans. The growth rate of NPLs for the first quarter of 2014 decelerated significantly to 3%, compared to a growth rate of 7% for the fourth quarter of 2013 and to a growth rate of 29% for the third quarter of 2013. The provisioning coverage ratio of NPLs totalled 35% at 31 March 2014 at the same level as 31 December 2013. Taking into account tangible collateral, NPLs are fully covered with provisions and tangible collateral.

The stabilising signs of loan portfolio quality continue into the second quarter of 2014. 90+ DPD seem to be stabilising, while the new definition NPLs continue to rise reflecting the fact that restructured loans remain classified as NPLs for a longer period. This lengthy curing period for NPLs means that there will be a growing difference between the 90+ DPD and the new definition NPLs going forward. As at 31 March 2014, the NPLs ratio comprises **Loans restructured and less than 90 days past due** (8% of gross loans) and **Loans more than 90 days past due and Loans restructured and more than 90 days past due** (47% of gross loans).

	31.3.2014		31.12.13	
Breakdown of New definition Non performing loans	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Loans restructured and less than 90 days past due	2.189	8%	1.682	6%
Loans more than 90 days past due and Loans restructured and more than 90 days past due	12.248	47%	12.360	47%
Non-performing loans	**14.437**	**55%**	**14.042**	**53%**
90+ DPD (based on IFRS)	**12.756**	**49%**	**13.003**	**49%**

B.2 Income Statement Analysis

B.2.1 Analysis of income and expenses

The Group's net interest income (NII) and net interest margin (NIM) for the first quarter of 2014 were €267 mn and 3,99% respectively. Both NII and NIM continue to be affected by the current situation in Cyprus and the current composition of the Group's funding whereby 37% of the Group's balance sheet is funded by Eurosystem funding (ECB funding + ELA). NII and NIM for the fourth quarter of 2013 were €268 mn and 3,80%, respectively.

Total income for the first quarter of 2014 was €340 mn compared to a total income of €310 mn for the fourth quarter of 2013. It is noted that the fourth quarter of 2013 was negatively affected by a loss on the revaluation of investment properties (primarily repossessed assets) of €42 mn included in other income.

[9] New definition of Non-Performing Loans (NPL) as per the Central Bank of Cyprus Directive: In accordance with the new 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. 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 by more than 5% of the contractual limit (threshold of 5% to be withdrawn as from 1/1/2014) 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. 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.

Total expenses for the first quarter of 2014 amounted to €124 mn, of which 54% related to staff costs (€67 mn) and 46% to other operating expenses (€57 mn). The cost to income ratio for the first quarter of 2014 was 36%, while the cost to income ratio for the fourth quarter of 2013 was 41%.

B.2.2 Provisions for the impairment of loans

The early signs of a loan portfolio quality stabilisation are reflected in the reduced provision charge for the impairment of loans for the first quarter of 2014. Accordingly, the provision charge for the first quarter of 2014 was €146 mn, compared to a provision charge of €229 mn for the fourth quarter of 2013. The annualised charge for impairment of loans for the first quarter of 2014 amounted to 2,2% of gross loans, compared to an annualised charge of 3,7% for the fourth quarter of 2013. As at 31 March 2014 accumulated provisions reached €5.029 mn (compared to €4.979 mn at 31 December 2013) and amounted to 19,1% of gross loans (compared to 18,6% at 31 December 2013).

The ratios are calculated before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,8 bn (compared to €1,9 bn at 31 December 2013).

B.2.3 Profit from continuing operations

Profit from the continuing operations of the Group (defined as the profit after tax and before restructuring costs and discontinued operations) totalled €72 mn for the first quarter of 2014 compared to a loss of €38 mn for the fourth quarter of 2013.

B.2.4 Restructuring costs

Restructuring costs for the first quarter of 2014 totalled €5 mn compared to €15mn for the fourth quarter of 2013.

C. Outlook

The Group has prepared a Restructuring Plan which has been approved by the Central Bank of Cyprus in November 2013. The Restructuring Plan charts the Group's strategic direction and ensures the restoration of the Group's viability.

The Bank has appointed HSBC Bank plc in order to assist it to assess the strategic options available to the Group regarding its corporate structure in order to support the investment case and value proposition. The advisor will assess, among others, the progress of implementing the Restructuring Plan, analyse the funding and capital structure of the Group, identify options that could accelerate the implementation of the Restructuring Plan in tandem with the further strengthening of the Group and provide recommendations to the Board of Directors.

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.

With the Cypriot operations accounting for 87% and 85% of the Group's loans and deposits respectively, the Bank's financial performance is highly correlated to the economic and operating conditions in Cyprus. Although the economic situation in Cyprus remains challenging, the economy is proving relatively resilient. The fourth review mission of Troika has concluded that the Cyprus adjustment program is on track, fiscal targets have been met with considerable margin, progress has been made with the recapitalisation and consolidation of the cooperative credit sector and banks are advancing with their restructuring plans while the economic contraction has been less severe than initially estimated. With these developments suggesting that economic and operating conditions in Cyprus are gradually improving, the continuation of these trends bodes well for the Bank's recovery process.

The Bank remains on track on the ex-Laiki integration process. Branches in Cyprus have been reduced to 130 down from 203 units back in May 2013, while another 2 branches will be closed in the next few months to reach the target of 128 units.[10] The next milestone regarding the ex-Laiki integration process is the unification of the IT banking system which is scheduled to be completed in early June 2014.

The provisions for the impairment of loans are expected to remain elevated and will be driven by the default rate of borrowers and by the likely further reductions in collateral values. In order to stabilise and improve its asset base the Bank is taking measures to effectively manage its delinquencies. Targeted measures initiated recently are yielding some results, with the 90+ DPD recording the first drop after sixteen consecutive quarterly increases. Nevertheless, it is too early to determine whether this is a sustainable trend. Furthermore, with the Cypriot economy expected to contract further during 2014 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. Regarding the new definition NPLs, these are expected to continue to increase, as restructured loans remain classified as NPLs for a longer period.

Tackling the Bank's loan portfolio quality is of utmost importance and is a top priority for the Bank's management. The set up of the **Restructuring and Recoveries Division (RRD**) has brought a major change in the way the Bank is managing its delinquent portfolio. The RRD is responsible for the managing of €12 bn delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Since it was set up the RRD has restructured close to €2 bn of loans as well as 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 which provides restructuring solutions to viable customers. Business Support Centres have been set up throughout the island to help address SME delinquent clients whereas the Major Corporate and Mid Corporate units of the RRD are focused entirely on the larger customers.

The Bank is taking measures to restore investor and depositor confidence. Since its reinstatement as an ECB eligible counterparty for monetary policy operations, the Bank has switched part of its ELA into ECB funding. Furthermore, between April 2013 and May 2014, the Bank managed to absorb a significant reduction in deposits and at the same period reduced its Eurosystem funding by €0,8 bn.

The Bank is stepping up its marketing efforts to attract deposits and to improve its funding structure. In terms of new deposit accounts, retail customers are gradually opting for 6- and 12-month deposits instead of the shorter term of 3-month, indicating that we are gaining our customers' confidence. Furthermore, renewals of maturing fixed time deposits remain at a very high level. Finally, the Bank's improving liquidity and the stabilising signs of its deposit base witnessed during the last few months were the decisive reasons for the Bank not to exercise its right to renew for another 6 months the 6-month blocked deposits that matured on 31 January 2014 and its decision to release the 9-month blocked deposits that matured on 30 April 2014.

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. The Bank has sold its Ukrainian business to Alfa Group. The sale falls under the Group's strategy of focusing on core businesses and markets and disposing of operations that are considered as non-core and is being implemented at a faster pace than what was anticipated in the Restructuring Plan. The Group proceeded with what it considers to be a good transaction in order to

[10] The target has been revised from the original number of 127 in order to accommodate a seasonal branch to be opened in the area of Ayia Napa.

deleverage and de-risk its balance sheet and to eliminate future potential risks relating to its Ukrainian investment, particularly given the prevailing political and economic environment in Ukraine. The Group also sold its 9,99% investment in Romanian Banca Transilvania that was held by the Bank and a Group subsidiary.[11] Finally, the Group has disposed its loans in Serbia[12]. The combined impact of the above transactions is an enhancement of the **CET1 ratio by 0,3 percentage points and the immediate enhancement of the Group's liquidity position by €350 mn.** Furthermore, the combined accounting loss of these disposals of about €40 mn, based on 31 March 2014 financial statements, will affect the results of the Group for the second quarter of 2014.

In addition to the above, the Group has appointed HSBC Bank plc to provide financial advice in relation to the disposal of a UK loan portfolio owned by the Group and largely composed of residential and commercial real estate-backed facilities.

D. Selective Features of the Restructuring Plan

The Restructuring Plan was approved by the Central Bank of Cyprus in November 2013. As per the Memorandum of Understanding (MoU) between the Republic of Cyprus and the Troika, the Bank is required to publish selected features of its Restructuring Plan and to identify Key Performance Indicators, which will be monitored on a quarterly basis by the Authorities.

The Restructuring Plan defines the strategic objectives and actions the Group should take to create a **safer, stronger, more focused institution** capable of supporting the recovery of the Cypriot economy. The proposed business, risk management, operational efficiency, liquidity and capital measures aim to strengthen the Group by:

- Rebuilding trust and confidence of both depositors and investors in the Bank and the overall banking sector in Cyprus.
- Preserving the Bank's status as the systemic cornerstone of the domestic economy, continuing to support both businesses and households.
- Building a resilient institution, able to effectively manage its portfolio of assets and withstand further external shocks and economic turbulence.
- Smoothly integrating ex-Laiki operations, maximising bottom-line impact for the combined entity.
- Enhance the capital adequacy of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

Specifically, the Restructuring Plan of the Group for the years 2013-17 defines the following Key Pillars of the Strategy:

- Refocus on the **domestic core business**, leveraging on the Bank's position as the leading financial institution in Cyprus and reforming its operations in three key areas:

  – The revamped **core domestic business lines (**) Consumer & SME Banking, Corporate Banking, International Banking Services (IBS), Wealth, Asset Management & Brokerage, and Insurance) will be managing ongoing business, aiming to diversify domestic sources of income by:

[11] For more information on the transaction see the relevant announcement at the link: http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140418SaleofBTENG.pdf
[12] For more information on the transaction see the relevant announcement at the link: http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140520AnnouncementRKBENG.pdf

    - Retaining and gathering **deposits** from a broader, more stable customer base, through targeted campaigns and an enhanced service and product offering, addressing the needs and fostering the loyalty of customers.
    - Channelling prudent **new lending** growth on the lower-risk Retail products and customers, as well as on the most promising, outward-looking business sectors for SME and Corporate that will prevail as the domestic economy recovers.
    - Enhancing **fee generation** by continuing to serve international business transactions, stimulating bancassurance and capturing opportunities in financial markets emerging from domestic economic developments (such as privatisation and hydrocarbon exploration) in order to progressively eliminate the impact of the bail-in and declining business volumes on commissions.

  – The new **special projects division/corporate finance unit,** which will manage selected top exposures in Cyprus, aiming to maximise long-term value of large viable projects through innovative **restructuring**. As per the new organisational structure of the Group, this division has evolved into the Major Corporate Management Department and is now part of the Restructuring and Recoveries Division (RRD).

  – The independent, centralised and specialised **delinquency and recovery units** separated from business lines, which will proactively manage the Bank's non-performing portfolios through collection actions, restructuring solutions and litigation as necessary. With the integration of the Major Corporate Management Department the RRD will handle all activity relating to (a) Exposures greater than €100 mn, (b) debt restructuring and (c) debt collection and recovery of NPLs across all customer segments.

  In line with its new strategy to focus on domestic business throughout the horizon of the Restructuring Plan and following the Bank's exit from its Greek banking operations, the Group expects to proceed with a full review of its **overseas banking operations** and will proceed with the disposal of operations considered as non-core or non-viable. Within this context, the Group has already disposed its Ukrainian operations, its investment in Romanian Banca Transilvania and the loans in Serbia.

- Effectively control risks, through a conservative Group **risk appetite,** and strengthen independent **risk management** capacity, capabilities, processes and infrastructure, aiming to gradually reduce cost-of-risk and to minimise market risk.

- Enhance profitability through a **"lean" operating model** in distribution networks and central operations, maximising synergies from the integration of ex-Laiki.

- Gradually normalise **liquidity** conditions, progressively reducing ELA funding by managing deposits in Cyprus, reducing funding gaps abroad, leveraging on the Bank's regained ECB eligibility and returning to capital markets for funding.

- Preserve and enhance **capital adequacy** by pursuing cautious growth, returning to profitability and disposing or winding down non-core international and domestic assets and operations. The Group aims to comply with minimum capital adequacy requirements set forth by the Central Bank of Cyprus (CBC), with the Common Equity Tier 1 capital ratio remaining above CBC's minimum requirement throughout the Restructuring Plan period. Maintaining a high capital buffer would enable the Bank's credit rating to improve, facilitating access to capital markets for funding in the medium term.

It should be stressed that the Bank considers the **achievement of a strong CET1 ratio as a more important target than profitability**, shielding the Bank against further shocks and eventually enabling easier access to markets for funding.

The Restructuring Plan will enable the Bank to overcome its difficulties and gradually normalise its performance. The Plan sets specific medium-term financial targets that prioritise the stability and viability of the Group.

E. 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 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 Mar-2014**	**Medium-Term Target Dec-2017**
Asset Quality	90+ Days Past Due provision coverage	38%	39%	>50%
	Provisioning charge (Cost of Risk) (ytd)	3,7%	2,2%	<1,5%
	90+ Days Past Due € mn	13.003	12.756	<10.000
Funding	Loans to Deposits ratio	145%	151%	<150%
Capital	Common Equity Tier 1 capital ratio	10,5%	10,6%	>10%
	Leverage ratio (Assets/Equity)	11,1x	10,6x	<12x
Efficiency	Cost-to-Income ratio (ytd)	47%	36%	<45%
	Net Interest Margin (ytd)	3,54%	3,99%	>2,5%
	Number of Branches in Cyprus	133	130	125
	Group Employees in Cyprus	4.247	4.240	<4.100

E.1. Commentary about the evolution of KPIs

Asset quality

The provisioning coverage of 90+ DPD has increased to 39% at 31 March 2014, up from 38% at 31 December 2013. The provisioning charge for the first quarter of 2014 was 2,2%, compared to an annualised provisioning charge of 3,7% for the year ended 31 December 2013.

Funding

The Loans to Deposits ratio totalled 151% at 31 March 2014, up from 145% at 31 December 2013.

Capital

The Common Equity Tier 1 capital ratio increased to 10,6% at 31 March 2014, compared to 10,5% as adjusted in accordance with CRD IV/CRR rules for 31 December 2013. The Leverage ratio has improved to 10,6x at 31 March 2014, compared to 11,1x at 31 December 2013.

Efficiency
The cost to income ratio for the quarter ended 31 March 2014 was 36%, compared to a ratio of 47% for the year ended 31 December 2013. The Net interest margin for the first quarter of 2014 was 3,99%, compared to 3,54% for the year ended 31 December 2013. Branches in Cyprus have been reduced to 130 units as at 31 March 2014, compared to 133 units as at 31 December 2013. The number of Group employees in Cyprus totalled 4.240 as at 31 March 2014, compared to 4.247 employees at 31 December 2013.

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

In order to ensure timely and effective implementation of its Restructuring Plan, more than 45 distinct work packages have been identified and are being implemented. The High Importance Packages relating to the bank's strategic pillars, including the progress accomplished so far are set out below:

Restructuring and Recoveries Division (RRD)
The creation of the Restructuring and Recoveries Division (RRD), as part of the new organisational structure, aims to manage arrears across all portfolios. A specialist hired from overseas has been appointed to head this critical function. The RRD is responsible for the managing of €12 bn delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Since its set up the RRD has restructured close to €2 bn of loans as well as 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 which provides restructuring solutions to viable customers. Business Support Centres have been set up throughout the island to help address SME delinquent clients whereas the Major Corporate and Mid Corporate units of RRD are focused entirely on the larger customers.

Strengthening risk and corporate governance framework
An independent and strengthened Risk Management Division (RMD) has been set up with a mandate to define sound policies reflecting the newly approved Risk Appetite of the Group and monitor risks in a proactive manner across the business segments. RMD is structured in such a way to ensure all risks across the Group have ownership, accountability and clear reporting lines.

Integration and lean operating model
The new Group organisational structure has been published together with detailed structures for all divisions. The Cyprus branch network reduction is on track with 73 branches closed. The IT systems integration is progressing as planned with the migration taking place in early June 2014. Through a Voluntary Retirement Scheme and salary cuts implemented during 2013 personnel numbers in Cyprus have been reduced by 24% and personnel expenses by 35% on an annualised basis.

Restoring trust and strengthening of deposit base
Regarding deposits retention, a monitoring mechanism has been set up. New deposit campaigns have been launched. A new marketing/communication plan across all business lines is being implemented. Customer segmentation criteria within Retail have been approved and they will form the basis of deposit retention and gathering strategies.

Deleverage
The Group has disposed its Ukrainian operations, its investment in Romanian Banca Transilvania and the loans in Serbia. The Group has appointed HSBC Bank plc to provide financial advice in relation to the disposal of a UK loan portfolio owned by the Group and largely composed of residential and commercial real estate –backed facilities.

F. Appendix

Consolidated Income Statement				
€ mn	**1Q2014**	**4Q2013**	**qoq change ±%**	**3Q2013**
Net interest income	267	268	-	290
Net fee and commission income	45	43	+5%	41
Net foreign exchange gains and net profits on other financial instruments	14	23	-40%	9
Insurance income net of insurance claims	13	14	-7%	12
Other income/(expenses)	1	(38)	n/a	3
Total income	**340**	**310**	**+10%**	**355**
Staff costs	(67)	(64)	+5%	(82)
Other operating expenses	(57)	(62)	-9%	(52)
Total expenses	**(124)**	**(126)**	**-2%**	**(134)**
Profit before impairments, restructuring costs and discontinued operations	**216**	**184**	**+17%**	**221**
Provisions for impairment of loans and advances	(146)	(229)	-36%	(258)
Share of profit/(loss) from associates	2	-	-	(5)
Profit/(loss) before tax, restructuring costs and discontinued operations	**72**	**(45)**	**n/a**	**(42)**
Tax	(2)	2	-	1
Loss attributable to non - controlling interests	2	5	-	2
Profit/(loss) after tax and before restructuring costs and discontinued operations	**72**	**(38)**	**n/a**	**(39)**
Restructuring costs	(5)	(15)	-	(107)
Loss from discontinued operations	(36)	(50)	-	-
Profit/(loss) after tax	**31**	**(103)**	**n/a**	**(146)**

	1Q2014	**4Q2013**	**qoq change ±%**	**3Q2013**
Net interest margin	3,99%	3,80%	+19 b.p.*	3,94%
Cost to income ratio	36%	41%	-5 p.p.*	38%
90+ DPD provision coverage ratio[1]	39%	38%	+1 p.p.*	37%
Basic earnings/(losses) per share (cent)	0,7	(3,2)		(5,5)

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

Condensed Consolidated Balance Sheet			
€ mn	**31.03.2014**	**31.12.2013**	**±%**
Cash and balances with Central Banks	964	1.240	-22%
Placements with banks	1.141	1.290	-12%
Debt securities, Treasury bills and equity investments	3.475	3.433	+1%
Net loans and advances to customers	21.234	21.764	-2%
Other assets	2.564	2.622	-2%
Total assets	**29.378**	**30.349**	**-3,2%**
Amounts due to banks	171	196	-13%
Funding from Central Banks	10.906	10.956	-
Repurchase agreements	582	594	-2%
Customer deposits	14.066	14.971	-6%
Debt securities in issue	1	1	-
Other liabilities	888	889	-
Subordinated loan stock	5	5	-
Total liabilities	**26.619**	**27.612**	**-4%**
Share capital	4.700	4.684	-
Shares subject to interim orders	46	59	-
Revaluation and other reserves	67	72	-
Accumulated losses	(2.124)	(2.152)	-
Shareholders' equity	**2.689**	**2.663**	**+1%**
Non-controlling interests	70	74	-5%
Total equity	**2.759**	**2.737**	**+1%**
Total liabilities and equity	**29.378**	**30.349**	**-3,2%**

Key Balance Sheet figures and ratios			
	31.03.2014	**31.12.2013**	**±%**
Gross loans (€ bn)	26,3	26,7	-2%
Customer Deposits (€ bn)	14,1	15,0	-6%
Loans to deposits ratio	151%	145%	+6 p.p.*
90+ DPD ratio	48,6%	48,6%	-
Capital			
Common Equity Tier 1 capital ratio (CET1)	10,6%	10,5%	+1 b.p.*
Total capital ratio (as calculated under CRD IV)	10,8%	10,7%	+1 b.p.*
Risk weighted assets (as calculated under CRD IV) (€ mn)	23.530	23.849	-1%

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

Note 1: Loan quality and provision coverage ratios are calculated as a percentage of gross loans.