Announcement

Report and Explanatory Statement:

Preliminary Group Financial Results for the year ended 31 December 2013

Nicosia, 28 February 2014

Bank of Cyprus Group's CEO Statement:

"The Group is proceeding steadily with the implementation of its restructuring plan and is ahead of plan on a number of fronts. The integration of ex-Laiki business in Cyprus is on track, with branches reduced to 130 from 203 in May 2013. The deleveraging process is progressing well, with the recent agreement to sell the Ukrainian operations resulting in balance sheet de-risking and liquidity enhancement through the repatriation of funding.

The on-going challenging economic conditions continue to pressure the loan book, necessitating additional provisions that resulted in further losses for the fourth quarter of 2013. Despite these losses, the Core tier 1 capital ratio was sustained at 10,2% at 31 December 2013, due to the reduction in risk weighted assets. Stabilising our 90+ days past due loan book has been an important focus of management.

Focusing on arresting asset quality deterioration, making progress on non-core disposals and maintaining capital ratios are core to building a strong platform for the safe return of depositors. The establishment of centralised arrears management in our Restructuring and Recoveries Division has created the platform to systematically manage stressed and delinquent customer accounts.

There were customer deposit inflows during the fourth quarter of 2013, evidencing growing confidence of customers towards the Bank. The stability in our deposit base and improved liquidity have allowed the release of the 6-month blocked deposits ahead of plan. Depositors with released funds have generally stayed with the Bank and indeed the retention of deposits exceeded expectations."

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 358 branches, of which 180 operate in Russia, 130 in Cyprus, 42 in Ukraine, 1 in Romania, 4 in the United Kingdom and 1 in the Channel Islands. Bank of Cyprus also has 6 representative offices in Russia, Ukraine, China and South Africa. The Bank of Cyprus Group employs 7.752 staff worldwide. At 31 December 2013, the Group's Total Assets amounted to €30,4 bn and Equity was €2,7 bn.

Note regarding the Preliminary Financial Results for the year ended 31 December 2013:
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 decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority.
In this context, the banking and leasing operations of the Bank in Greece were sold to Piraeus Bank S.A. as per the *Sale of Greek Operations of Bank of Cyprus Public Company Ltd Decree of 2013*. Hence, the financial results of the Greek operations are presented as discontinued operations.
The Bank acquired the operations of Cyprus Popular Bank Public Co Ltd (Laiki Bank) in Cyprus as per the *Sale of certain operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013*. Hence, the financial results of Laiki Bank are fully consolidated as from the date of the transfer, 29 March 2013. It is noted that the fair value of the transferred assets and liabilities for the purposes of accounting for the business combination of the Group is provisional in accordance with IFRSs.
Due to the above transactions, the figures and financial results of the Group are not comparable with past financial results.

A. Summary of Preliminary Financial Results for the year ended 31 December 2013

Balance Sheet

- **The core tier 1 capital ratio was sustained at 10,2% at 31 December 2013, at the same level as 30 September 2013. Although negatively affected by a 2% reduction in the core tier 1 capital during the fourth quarter of 2013 (a negative impact of 0,2 percentage points), the core tier 1 capital ratio was sustained at 10,2% due to a 2% reduction in risk weighted assets (a positive impact of 0,2 percentage points).**

- **At 31 December 2013, gross loans and deposits were €26,7 bn and €15,0 bn respectively, with a net loans to deposits ratio of 145% (compared to 146% at 30 September 2013).**

- **The Emergency Liquidity Assistance (ELA) funding has been reduced to €9,56 bn at 31 December 2013, down from €9,86 bn at 30 September 2013. ECB funding totalled €1,4 bn at 31 December 2013.**

- **With their growth rate contained to 0,2% during the fourth quarter of 2013, loans in arrears for more than 90 days (90+ DPD)[1] totalled €13.003 mn at 31 December 2013, compared to €12.983 mn at 30 September 2013, and accounted for 49% of gross loans (90+ DPD ratio). The provision coverage ratio of 90+ DPD was improved to 38% from 37% at 30 September 2013, while taking into account tangible collateral, 90+ DPD are fully covered by provisions and tangible collateral. Loan quality challenges continue into 2014, with 90+ DPD showing signs of stabilisation, but with the new definition Non-Performing Loans[2] continuing to rise.**

Income Statement

- **Total income for the year ended 31 December 2013 was €1.174 mn, with net interest income (NII) at €999 mn and net interest margin (NIM) at 3,62%. Total income for the fourth quarter of 2013 was €314 mn, with NII at €274 mn and NIM at 3,87%.**

- **Total expenses for the year ended 31 December 2013 were €552 mn and the cost to income ratio was at 47%. Total expenses for the fourth quarter of 2013 were €130 mn, 5% lower compared to the third quarter of 2013.**

- **Profit before impairments, restructuring costs and discontinued operations for the year ended 31 December 2013 was €622 mn, while profit before impairments, restructuring costs and discontinued operations for the fourth quarter of 2013 was €184 mn.**

- **Provisions for impairment of loans for the year ended 31 December 2013 were €1.067 mn, with the provisioning charge accounting for 3,9% of gross loans. Provisions for impairment of loans for the fourth quarter of 2013 were €268 mn, compared to €261 mn for the third quarter of 2013.**

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[1] 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.

[2] 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.

- **Loss from continuing operations (defined as loss before restructuring costs, discontinued operations and the disposal of Greek operations) for the year ended 31 December 2013 totalled €426 mn. Loss from continuing operations for the fourth quarter of 2013 totalled €77 mn.**

- **The disposal of Greek operations in the first quarter of 2013 resulted in a combined loss on disposal and from discontinued operations of €1.456 mn.**

- **Restructuring costs for the year ended 31 December 2013 totalled €158 mn, of which €121 mn relate to the cost of the two Voluntary Retirement Schemes (VRS) implemented during the year.**

- **Loss after tax attributable to the owners of the company for the year ended 31 December 2013 totalled €2.040 mn. Loss after tax attributable to the owners of the company for the fourth quarter of 2013 totalled €93 mn.**

B. Analysis of Preliminary Financial Results for the year ended 31 December 2013

B.1 Key developments

The results of 2013 reflect the consequences of the Eurogroup decisions. On 25 March 2013, the Cypriot government and the Eurogroup reached an agreement on a financial assistance facility of up to €10 bn to be granted to Cyprus, conditioned upon the implementation of an extensive programme of policy reform. A Memorandum of Understanding (MoU) has been agreed between the Republic of Cyprus and the Troika (European Commission, European Central Bank and the International Monetary Fund) on a package of measures for the years 2013-2016 which includes financial sector reform, fiscal policy and fiscal structural measures, labour market reforms and improvements in goods and services markets.

In its statement on 25 March 2013[3], the Eurogroup noted that Laiki (second largest bank in Cyprus) would be resolved, that Bank of Cyprus (Bank) would be recapitalised via a bail-in of its depositors and that none of the programme's money would be used for the Bank's recapitalisation.

The Bank was under Resolution from 25 March 2013 until 30 July 2013, a period during which it was recapitalised and restructured in accordance with the decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority, in accordance with the *Resolution of Credit Institutions and Other Institutions Law of 2013*.

The recapitalisation was implemented via the bail-in of depositors, through the conversion of 47,5% of uninsured deposits into equity. In addition, the holders of ordinary shares and debt securities issued by the Bank as of 29 March 2013 have contributed to the recapitalisation through the absorption of losses.

During the period under Resolution, the Bank has:

- Disposed loans, fixed assets and deposits of its Greek operations to Piraeus Bank S.A. Piraeus Bank acquired assets of €7,9 bn and liabilities of €7,7 bn. The Group made a cash payment to Piraeus Bank of €1,2 bn, resulting in a loss on disposal of €1,4 bn.

[3] See link http://eurozone.europa.eu/newsroom/news/2013/03/eg-statement-cyprus-25-03-13/

- Acquired assets of €15,1 bn and liabilities of €14,6 bn, mainly insured deposits of €4,2 bn as well as ELA funding of €9 bn from Laiki Bank.[4]
- Acquired the operations of Laiki Bank's branch operations in the United Kingdom.
- Disposed the majority of deposits and the retail loans of Bank of Cyprus branch operations in Romania to Marfin Bank (Romania) S.A.

Following its recapitalisation and exit from Resolution the Bank took decisive measures for the restructuring of its Cyprus operation and the management of its funding position. Branch rationalisation, staff cost reduction, harmonisation of procedures and integration of ex-Laiki's operations as well as the strengthening of the Bank's risk management and procedures have been the main priorities of the Bank.

The Bank held an Annual General Meeting on 10 September 2013 which elected a new Board of Directors, representing the new shareholder structure of the Group.

On 6 December 2013 the Bank announced a number of changes in its organisational structure in order to simplify the structure and to organise the Group along functional, domestic, international and restructuring lines. The most significant change is the establishment of the Restructuring and Recovery Division to spearhead the Group's restructuring, collections and recovery efforts. The Division will be responsible for managing customer exposures greater than €100 mn, for debt restructuring, for debt collections and recovery of non-performing loans across all customers segments.

[4] It is noted that the fair value of the transferred assets and liabilities for the purposes of accounting for the business combination of the Group is provisional in accordance with IFRSs.

B.2 Balance Sheet Analysis

B.2.1 Capital Base

The Group's equity at 31 December 2013 amounted to €2.671 mn and its core tier 1 capital ratio was maintained at 10,2%, at the same level as at 30 September 2013. Although negatively affected by a 2% reduction in the core tier 1 capital during the fourth quarter of 2013, the core tier 1 capital ratio was sustained at 10,2% due to a 2% decrease in risk weighted assets. The reduction in the core tier 1 capital was driven primarily by the net loss of €93 mn for the fourth quarter of 2013 (a negative impact of 0,4 percentage points) offset by gains and other items recorded directly in reserves of €62 mn (a positive impact of 0,2 percentage points). The reduction in risk weighted assets (a positive impact of 0,2 percentage points) was due to deleveraging efforts.

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 of 1 January 2014, the minimum capital requirement set by the Central Bank of Cyprus is for a core tier 1 capital ratio of 9%, with no minimum requirements for total capital adequacy ratio. As per the latest draft MoU, the Central Bank of Cyprus is assessing the impact of the coming into force of the Common Equity Tier 1 capital definition laid down in the Capital Requirements Directive IV (CRDIV) and Capital Requirements Regulation (CRR). Accordingly, on the basis of that assessment the Central Bank of Cyprus will define by end-March 2014, and in consultation with Troika and informing the European Stability Mechanism , the minimum capital requirements.

B.2.2 Deposits and Loans

The Group's total deposits were €15,0 bn at 31 December 2013, compared to €15,5 bn at 30 September 2013, to €17,0 bn at 30 June 2013 and to €28,4 bn at 31 December 2012. The reduction in the Group's deposits between 31 December 2012 and 30 June 2013 is primarily due to a) the disposal of €7,7 bn deposits in Greece, b) the acquisition of €4,5 bn of deposits from Laiki (Cyprus and UK), c) the conversion of €3,8 bn of deposits to equity as per the Bank's recapitalisation, and d) deposit outflows during the 1st half of 2013.

The customer outflows[5] experienced by the Bank in its Cyprus operations post-March 2013 have significantly abated during the second half of 2013. During the third quarter of 2013, there was a 10% reduction in deposits in Cyprus reflecting primarily the deposit outflows, the utilisation of blocked deposits for the prepayment of loans by customers and the strengthening of the euro relative to the United States dollar that affects the volume of deposits held in United States dollar.

During the fourth quarter of 2013, the Cypriot operations experienced customer inflows and the deposit base showed signs of stabilisation, with the overall deposit reduction contained to 2% during the quarter, compared to the 10% reduction in the previous quarter. The continued strengthening of the euro relative to the United States dollar has eroded 0,4% of the deposit base of the Group in Cyprus compared to September 2013.

At 31 December 2013, deposits in Cyprus accounted for 85% of Group deposits, deposits in Russia for 6% and deposits in the United Kingdom for 8%. The Bank's deposit market share in Cyprus was 27,5% at 31 December 2013, compared to 27,9% at 30 September 2013.

Customer deposits remain the primary source of funding and accounted for 49% of assets as at 31 December 2013, while the loans to deposits ratio totalled 145%, compared to 146% at 30 September 2013. Following the absorption of Laiki Bank and its ELA funding of €9,0 bn, the Bank's

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

ELA funding 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 €9,56 bn at 31 December 2013. Overall, between April 2013 and 31 December 2013, the Bank managed to reduce its Eurosystem funding (ECB funding + ELA) by €450 mn from €11,4 bn (comprising solely ELA funding) to €10,96 bn and at the same time managed to absorb a significant reduction in its deposit base.

The decisions of the Eurogroup have significantly dented the trust and confidence of customers towards the Cypriot banking system in general. 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.

The temporary restrictive measures and capital controls are allowing the Bank some headroom to contain the risk of significant deposit outflows. 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[6]. At 31 December 2013, deposits totalling €3,0 bn (about 37,4% of the uninsured deposits[7]) remained blocked in the form of three equal fixed term deposits with terms of 6, 9, and 12 months respectively, beginning 1 August 2013. The Bank 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 January 2014, the Bank announced its decision not to exercise its right to renew for another six months the 6-month blocked 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.

Gross loans were €26,7 bn at 31 December 2013 (compared to €27,4 bn at 30 September 2013 and €28,3 bn at 30 June 2013), with loans in Cyprus totalling €23,2 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 efforts for deleverage. The gross loans are presented before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,9 bn. As at 31 December 2013 the gross loans of ex-Laiki amounted to €9,9 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 39% of loans as at 31 December 2013. Therefore, the Bank's future financial performance is interlinked with the Cypriot economy. Loans in Russia (€1,4 bn) and loans in the UK operations (€1,4 bn) accounted for 5% each of total loans.

In terms of type of customer exposure, corporate loans[8] accounted for 46% of gross loans at 31 December 2013, SME[9] 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 December 2013.

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[6] 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.*

[7] Uninsured deposits are calculated pursuant to the provisions of the *Bailing-in of Bank of Cyprus Public Company Limited Decrees of 2013 up to (No. 3)*, issued by the Central Bank of Cyprus in its capacity as Resolution Authority.

[8] Corporate clients for the Cyprus loan portfolio are businesses that have total loans above €4 mn and turnover of above €2 mn.

[9] SME clients for the Cyprus loan portfolio are businesses that have total loans less than €4 mn and turnover less than €2 mn .

B.2.3 Loan portfolio quality

The quality of the Group's loan portfolio continues to be challenged by the on-going recession, rising unemployment, and declining property prices which affect the value of collateral held by the Group.

Loans past due for more than 90 days (90+ DPD) totalled €13.003 mn at 31 December 2013 (compared to €12.983 mn at 30 September 2013) and accounted for 49% of gross loans (90+ DPD ratio). During the fourth quarter of 2013, the growth rate of 90+ DPD was contained to a mere 0,2%, compared to a growth rate of 18% during the third quarter of 2013. The provisioning coverage ratio of 90+ DPD[10] improved to 38% at 31 December 2013, up from 37% at 30 September 2013. Taking into account tangible collateral, 90+ DPD are fully covered with provisions and tangible collateral.

Non-performing loans (NPLs) calculated based on the new definition of the Central Bank of Cyprus effective from 1 July 2013[11], totalled €14.042 mn at 31 December 2013 (compared to €13.131 mn at 30 September 2013) and accounted for 53% of gross loans. During the fourth quarter of 2013, the growth rate of NPLs decelerated significantly to 7%, compared to a growth rate of 29% for the third quarter of 2013. The provisioning coverage ratio of NPLs totalled 35% at 31 December 2013, compared to 37% at 30 September 2013. Taking into account tangible collateral, NPLs are fully covered with provisions and tangible collateral.

Loan quality challenges continue into 2014. Although 90+ DPD seem to be stabilising, 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 December 2013, the NPLs ratio comprises **Loans restructured and less than 90 days past due** (6% of gross loans) and **Loans more than 90 days past due or Loans restructured and more than 90 days past due** (47% of gross loans).

	31.12.13		30.09.13	
Breakdown of New definition Non performing loans	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Loans restructured and less than 90 days past due	1.682	6%	955	4%
Loans more than 90 days past due or Loans restructured and more than 90 days past due	12.360	47%	12.176	44%
Non-performing loans	**14.042**	**53%**	**13.131**	**48%**
90+ DPD (based on IFRS)	**13.003**	**49%**	**12.983**	**47%**

[10] Defined as accumulated provisions as a percentage of gross loans in arrears for more than 90 days (90+ DPD).

[11] New definition of Non-Performing Loans (NPL) as per the Central Bank of 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 an NPL until its maturity.

B.3 Income Statement Analysis

B.3.1 Analysis of income and expenses

The Group's net interest income (NII) and net interest margin (NIM) for the year ended 31 December 2013 were €999 mn and 3,62%, 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 about 36% of the Group's balance sheet is funded by Eurosystem funding (ECB funding + ELA). NII and NIM for the fourth quarter of 2013 were €274 mn and 3,87%, respectively.

Total income for the year ended 31 December 2013 was €1.174 mn and was negatively affected by a loss on the revaluation of investment properties (primarily repossessed assets) of €78 mn included in other income.

Total expenses for the year ended 31 December 2013 amounted to €552 mn, of which 58% related to staff costs (€322 mn) and 42% to other operating expenses (€230 mn). Following the absorption of ex-Laiki's operations in Cyprus, the Bank proceeded with a rapid branch rationalisation programme with branch numbers reduced from 203 in May 2013 to 130 at 28 February 2014 (a 36% reduction in branch numbers). Furthermore, the Group offered a Voluntary Retirement Scheme (VRS) in Cyprus, which coupled with salary cuts implemented in the second quarter of 2013, resulted in a 35% reduction of staff costs on annualised basis. As a result, the cost to income ratio for the year ended 31 December 2013 was 47%, while the cost to income ratio for the fourth quarter of 2013 was 41%.

B.3.2 Provisions for the impairment of loans

The continuing deterioration in the quality of the Bank's loan portfolio is reflected in the provision charge for the impairment of loans of €1.067 mn for the year ended 31 December 2013, with the charge for impairment of loans for the year amounting to 3,9% of gross loans. As at 31 December 2013 accumulated provisions reached €4.979 mn (compared to €4.826 mn at 30 September 2013) and amounted to 18,6% of gross loans (compared to 17,6% at 30 September 2013).

The ratios are calculated before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,9 bn.

B.3.3 Loss from continuing operations

Loss from the continuing operations of the Group (defined as the loss before restructuring costs , discontinued operations and the disposal of the Greek operations) totalled €426 mn for the year ended 31 December 2013. Loss from the continuing operations for the fourth quarter of 2013 totalled €77 mn.

B.3.4 Restructuring costs

Restructuring costs for the year ended 31 December 2013 totalled €158 mn and include the cost of VRS (€22 mn) offered in January 2013 and the cost of VRS (€99 mn) offered during the third quarter of 2013. The one-off cost of VRS for the third quarter of 2013 had a 0,4 percentage points impact on the Bank's core tier 1 capital ratio.

C. Outlook

The Group has prepared a Restructuring Plan which has been approved by the Central Bank of Cyprus in November 2013. As per the 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 Bank should take to create **a safer, smaller, more focused institution capable of supporting the recovery of the Cypriot economy** by:

- **Rebuilding trust and confidence** of both depositors and investors.
- Preserving the Bank's status as **the 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 Bank operations**, maximising synergies and bottom-line impact for the combined entity through the realisation of synergies.
- **Enhance the capital adequacy** of the Group by internally generating capital through profitability, deleveraging and disposal of non-core assets.

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 third review mission of Troika has concluded that the Cyprus adjustment program is on track, fiscal targets have been met with considerable margin, the economic contraction has been less pronounced than initially estimated and the financial sector is showing signs of stabilisation. 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 3 branches will be closed in the next few months to reach the target of 127 units. The next milestone regarding the ex-Laiki integration process is the unification of the IT banking system which is scheduled to be completed in June 2014. The adoption of a unified IT system, will facilitate the further utilisation of synergies and cost minimisation.

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 growth rate of 90+ DPD contained to 0,2% during the fourth quarter of 2013, compared to a growth rate of 18% during the previous quarter. Nevertheless, it is too early to assess whether these actions are sufficiently effective. 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, pressuring 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 creation of the Restructuring and Recoveries Division (RRD), as part of the new organisational structure, aims to manage arrears across all portfolios. Compared to a previous fragmented approach to managing stressed, distressed and delinquent clients, the RRD will be responsible for all these clients as a centralized arrears management area operating in a much more robust, focused and logical manner. The creation of the RRD is a major step in the Bank's recovery path, as swiftly and professionally addressing problem lending positions is absolutely critical.

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 funding into ECB funding. Furthermore, between April 2013 and December 2013, the Bank managed to absorb a significant reduction in deposits and at the same period reduced its Eurosystem funding by €450 mn.

The Bank is stepping up its marketing efforts to attract deposits and to improve its funding structure. In terms of the new retail deposit product launched in October 2013, about 59% of new deposit accounts are 12 month deposits, indicating that customers are entrusting their savings to the Bank for longer term. Furthermore, actual renewals of maturing fixed time deposits remain higher than the minimum renewal limits as per the restrictive measures. 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.

As part of its deleveraging strategy, the Bank has reached an agreement to sell its Ukrainian business to ABH Ukraine Limited, a member of the Alfa Group[12]. The sale consideration is €225 million[13] and the proceeds will enhance the Bank's liquidity position. The accounting loss is approximately €158 mn[14] and the impact on the Group's capital is estimated to be approximately €77 mn or 0,3 percentage points negative on the Group's capital ratios. The sale falls under the Group's strategy of focusing on core businesses and markets and disposing operations that are considered as non-core and is being implemented at a faster pace than what is anticipated in the Restructuring Plan. The Group proceeded with what it considers to be a good transaction in order to deleverage and de-risk its balance sheet and to eliminate future potential risks relating to its Ukrainian investment, particularly given the political and economic environment prevailing currently in Ukraine.

[12] For more information on the transaction see the relevant announcement at the link: http://www.bankofcyprus.com/Documents/Investor%20Relations/Press%20Releases/ENG/20140131SaleofBOCUENG.pdf

[13] This is subject to adjustments that will be made upon completion which is estimated to take place by the end of the first quarter of 2014.

[14] This is based on the September 2013 balance sheet position and will be finalised upon completion of transaction.

Notes to the Preliminary Financial Results:
Following the Eurogroup decisions to recapitalise Bank of Cyprus via a bail-in of depositors, Bank of Cyprus 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 Greek 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*.

The Company has not been able to measure the fair value of the shares issued by it pursuant to the bail-in Decree as well as the shares issued as consideration for the acquisition of certain assets and liabilities from Cyprus Popular Bank Public Co Ltd as required by IFRS, due to the specific conditions and significant uncertainties that existed at the date of the transactions. The Group's equity and balance sheet are not affected by the way the Company has accounted for the above transactions.

The Preliminary Financial Results of the Group for the year ended 31 December 2013 have not been audited by the Group's external auditors.

The audited Consolidated Financial Statements for the year ended 31 December 2013 will be available at the Bank of Cyprus Public Company Ltd Registered Office (at 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus) and on the Group's website (www.bankofcyprus.com) on the date of the announcement of the final results for the year.

The announcement and the presentation of the preliminary financial results for the year ended 31 December 2013 have been posted on the Group's website www.bankofcyprus.com (Investor Relations)

D. Appendix[1]

Analysis of Group Income Statement						
€ mn	**FY2013**	**FY2012**	**Annual change ±%**	**4Q2013**	**3Q2013**	**Quarterly change ±%**
Net interest income	999	702	+42%	274	296	-8%
Net fee and commission income	169	173	-2%	43	41	+6%
Net foreign exchange gains/(losses) and net (losses)/profits on other financial instruments	5	(3)	-	23	9	+169%
Insurance income net of insurance claims	65	63	+3%	14	12	+19%
Other (expenses)/income	(64)	(15)	+326%	(40)	3	-
Total income	**1.174**	**920**	**+28%**	**314**	**361**	**-13%**
Staff costs	(322)	(294)	+10%	(66)	(83)	-21%
Other operating expenses	(230)	(251)	-8%	(64)	(54)	+18%
Total expenses	**(552)**	**(545)**	**+2%**	**(130)**	**(137)**	**-5%**
Profit before impairments, restructuring costs and discontinued operations	**622**	**375**	**+66%**	**184**	**224**	**-18%**
Provisions for impairment of loans and advances	(1.067)	(1.339)	-20%	(268)	(261)	+3%
Share of profit/(loss) from associates	2	-	-	-	(1)	-
Loss before tax, restructuring costs and discontinued operations	**(443)**	**(964)**	**-54%**	**(84)**	**(38)**	**+122%**
Tax	5	88	-	2	1	-
Loss attributable to non - controlling interests	12	9	-	5	2	-
Loss after tax and before restructuring costs and discontinued operations	**(426)**	**(867)**	**-51%**	**(77)**	**(35)**	**+118%**
Restructuring costs	(158)	(10)	-	(16)	(107)	-
Loss from discontinued operations	(90)	(789)	-	-	-	-
Loss on disposal of the Greek operations	(1.366)	-	-	-	-	-
Impairment of GGBs pre-tax & Impairment of goodwill	-	(503)	-	-	-	-
Tax on GGBs	-	(45)	-	-	-	-
Loss after tax	**(2.040)**	**(2.214)**	**-8%**	**(93)**	**(142)**	**-34%**

Performance Summary						
	FY2013	**FY2012**	**Annual change ±%**	**4Q2013**	**3Q2013**	**Quarterly change ±%**
Net interest margin	3,62%	2,94%	+68 b.p.*	3,87%	4,02%	-15 b.p.*
Cost to income ratio	47%	59%	-12 p.p.*	41%	38%	+3 p.p.*
90+ DPD provision coverage ratio[2]	38%	48%	-10 p.p.*	38%	37%	+1 p.p.*
Basic losses per share (cent)	(57,6)	(14.345,9)	-	(2,9)	(5,3)	-

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

Condensed Balance Sheet			
€ mn	**31.12.13**	**31.12.12**	**±%**
Cash and balances with Central Banks	1.240	1.272	-3%
Placements with banks	1.290	1.769	-27%
Debt securities, Treasury bills and equity investments	3.537	1.870	+89%
Net loans and advances to customers	21.764	24.375	-11%
Other assets	2.526	1.746	+45%
Total assets	**30.357**	**31.032**	**-2%**
Amounts due to banks	196	341	-42%
Funding from Central Banks	10.956	-	-
Repurchase agreements	594	608	-2%
Customer deposits	14.971	28.442	-47%
Debt securities in issue	1	45	-98%
Other liabilities	889	1.128	-21%
Subordinated loan stock	5	133	-96%
Total liabilities	**27.612**	**30.697**	**-10%**
Share capital	4.684	1.795	+161%
Shares subject to interim orders	59	-	-
Share premium	-	428	-
Convertible Enhanced Capital Securities	-	429	-
Revaluation and other reserves	66	106	-
Accumulated losses	(2.138)	(2.500)	-
Shareholders' equity	**2.671**	**258**	**+935%**
Non-controlling interests	74	77	-4%
Total equity	**2.745**	**335**	**+719%**
Total liabilities and equity	**30.357**	**31.032**	**-2%**

Key Balance Sheet figures and ratios			
	31.12.13	**31.12.12**	**±%**
Gross loans (€ bn)	26,7	28,1	-5%
Customer Deposits (€ bn)	15,0	28,4	-47%
Loans to deposits ratio	145%	86%	+59 p.p.*
90+ DPD ratio	49%	27%	+22 p.p.*
Capital			
Core tier 1 capital ratio	10,2%	-1,9%	+12,1 p.p.*
Tier 1 capital ratio	10,2%	0,6%	+9,6 p.p.*
Total capital ratio	10,6%	0,9%	+9,7 p.p.*
Risk weighted assets (€ mn)	22.478	21.580	+4%

* p.p. = percentage points

Note 1: 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 decrees issued by the Central Bank of Cyprus in its capacity as Resolution Authority. Therefore, it is not possible to compare the figures and financial results of the Group with past financial periods.

Note 2: Loan quality and provision coverage ratios are calculated as a percentage of gross loans.