



Announcement

Group Financial Results for the nine months ended 30 September 2013

Nicosia, 18 December 2013

Bank of Cyprus' Group CEO Statement:

"The Group is proceeding with the implementation of its restructuring plans. The integration of ex-Laiki business is on track. The branch network in Cyprus has been reduced to 133 branches from 203 branches, while measures to reduce personnel expenses resulted in an improved cost to income ratio. As we flagged at the recent AGM, the continued deterioration in the performance of our loan book and the need for additional provisioning in the third quarter of 2013 has resulted in further losses. These losses and primarily the cost of the Voluntary Retirement Scheme (VRS) lowered the Core Tier 1 ratio to 10,2% at 30 September 2013, from 10,5% a quarter earlier.

The recently announced changes to the Group's organisational structure are designed to simplify the structure, to improve transparency and to focus management on our restructuring, collections and recovery efforts.

Our priority remains to restore investor and customer confidence in the Bank. This can only be achieved through our focusing on arresting asset quality deterioration, making progress on non-core disposals and maintaining capital ratios so as to build a strong platform for the safe return of depositors to the Bank.

The large customer outflows experienced in the immediate months following the Eurogroup decisions have abated significantly, suggesting the growing confidence of customers towards the Bank."

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 currently operates through a total of 368 branches, of which 187 operate in Russia, 133 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 8.323 staff worldwide. At 30 September 2013, the Group's Total Assets amounted to €31,4 bn and Equity was €2,8 bn.

Note regarding the Financial Results for the nine months ended 30 September 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 Financial Results for the nine months ended 30 September 2013

Balance Sheet

- The Bank's core tier 1 capital ratio and its total capital ratio totalled 10,2% and 10,4% respectively, as at 30 September 2013, compared to 10,5% and 10,7% at 30 June 2013. The core tier 1 capital ratio was primarily affected by the one-off cost of the VRS of €98 mn (a negative impact of 0,4 percentage points) and by the loss from continuing operations for the third quarter of 2013 of €35 mn (a negative impact of 0,1 percentage points and has benefited by a 2% reduction in risk weighted assets (a positive impact of 0,2 percentage points).
- At 30 September 2013, gross loans and deposits were €27,4 bn and €15,5 bn respectively, with a net loans to deposits ratio of 146% (compared to a ratio of 140% as at 30 June 2013).
- Following its exit from resolution, the Bank has become a European Central Bank (ECB) eligible counterparty for monetary policy operations and has raised €1,30 bn of funding. As a result, the Emergency Liquidity Assistance (ELA) funding has been reduced to €9,86 bn at 30 September 2013, from €11,11 bn at 30 June 2013.
- Loans in arrears for more than 90 days (90+ DPD)¹ accounted for 47% of gross loans (90+ DPD ratio) compared to 39% at 30 June 2013. The provision coverage ratio of 90+ DPD was 37%, compared to 42% at 30 June 2013. Non-performing loans based on the new Directive of the Central Bank of Cyprus² accounted for 48% of gross loans. Loan quality challenges continued into the fourth quarter of 2013, with the 90+ DPD ratio remaining stable but the new definition NPLs ratio rising further.

Income Statement

- Total Income for the nine months ended 30 September 2013 was €61 mn, with Net Interest Income (NII) at €726 mn and Net Interest Margin (NIM) at 3,52%. Total income for the third quarter of 2013 was €61 mn, with NII at €296 mn and NIM at 4,02%.
- Total expenses for the nine months ended 30 September 2013 were €423 mn and the cost to income ratio was at 49,1%.
- Profit before impairments and restructuring costs for the nine months ended 30 September 2013 was €438 mn, while profit before impairments and restructuring costs for the third quarter of 2013 was €224 mn.
- Provisions for impairment of loans for the nine months ended 30 September 2013 were €799 mn, with the provisioning charge accounting for 3,8% of gross loans on an annualised basis. Provisions for impairment of loans for the third quarter of 2013 were €261 mn. The elevated provisioning reflects the continued deterioration in the loan

¹ Defined as loans with a specific provision 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.

portfolio due to the advancing recession and the ongoing reduction in collateral values in Cyprus.

- **Loss from continuing operations (defined as loss before restructuring expenses, discontinued operations and the disposal of Greek operations) for the nine months ended 30 September 2013 totalled €349 mn. Loss from continuing operations for the third quarter of 2013 totalled €35 mn.**
- **Disposal of Greek operations and partial sale of the Romanian operations in the first quarter of 2013 resulted in a combined loss on disposal and from discontinued operations of €1.456 mn.**
- **Restructuring expenses for the nine months ended 30 September 2013 totalled €142 mn, while for the third quarter of 2013 they totalled €107 mn, of which €98 mn relate to the one-off cost of VRS.**
- **Loss after tax attributable to the owners of the company for the nine months ended 30 September 2013 totalled €1.947 mn. Loss after tax attributable to the owners of the company for the third quarter of 2013 totalled €142 mn.**

B. Analysis of Financial Results for the nine months ended 30 September 2013

B.1 Key developments

The results of the nine months 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 2013³, 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:

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

- 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.
- 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 customer deposits 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.

As required by the MoU, 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.

B.2 Balance Sheet Analysis

B.2.1 Capital Base

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

The Group's equity at 30 September 2013 amounted to €2,8 bn and its core tier 1 capital and total capital ratios stood at 10,2% and 10,4% respectively, compared to relevant ratios of 10,5% and 10,7% at 30 June 2013. During the third quarter of 2013, the Bank's core tier 1 capital ratio was primarily affected by a 6% reduction in the core tier 1 capital and it benefited from a 2% decrease in risk weighted assets. The 6% reduction in the core tier 1 capital was driven primarily by the one-off VRS cost of €98 mn (a negative impact of 0,4 percentage points on the core tier 1 capital ratio) and by the loss from continuing operations of €35 mn for the third quarter of 2013 (a negative impact of 0,1 percentage points on the core tier 1 capital ratio). The 2% reduction in risk weighted assets (a positive impact of 0,2 percentage points on the core tier 1 capital ratio) during the third quarter of 2013 was due to efforts for deleveraging and for optimisation of risk weighted assets.

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 per the MoU signed between the Cyprus and the Troika, the minimum core tier 1 capital ratio will be set at 9% by 31 December 2013.

B.2.2 Deposits and Loans

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.

The Group's total deposits were €15,5 bn at 30 September 2013 compared with €17,0 bn at 30 June 2013 and with €28,4 bn at 31 December 2012. The significant 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) and c) the conversion of €3,8 bn of deposits to equity as per the Bank's recapitalisation. The reduction in deposits during the third quarter of 2013 reflects primarily the high-though-declining deposit outflows experienced during the quarter, 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. Post-March 2013, the Bank experienced large customer outflows that have significantly abated since then and the deposit base shows signs of stabilisation during the last couple of months.

Deposits in Cyprus account for 84% of Group deposits, deposits in Russia for 7% and deposits in the United Kingdom for 8%. The Bank's deposit market share in Cyprus was 28% at 30 September 2013.

Customer deposits remain the Bank's primary source of funding and accounted for 49% of assets as at 30 September 2013, while the Bank's net loans to deposits ratio totalled 146%, compared to 140% at 30 June 2013. Following the absorption of Laiki Bank and its ELA funding of €9,0 bn, the Bank's 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 €1,3 bn of funding under monetary policy operations and has reduced its ELA to €9,86 bn at 30 September 2013.

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 include 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-in⁵. Deposits totalling €3,0 bn (about 37,4% of the uninsured deposits⁶) remain 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.

Gross loans were €27,4 bn at 30 September 2013 (compared to €28,3 bn at 30 June 2013), with loans in Cyprus totalling €23,5 bn and accounting for 86% of gross loans. The reduction in gross loans reflects primarily the prepayment of loans using blocked deposits and the normal repayment of loans. The gross loans are presented before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €2 bn. As at 30 September 2013 Laiki's gross loans amounted to €10,2 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 38% of loans as at 30 September 2013. Therefore, the Bank's future financial performance is interlinked with the Cypriot economy. Loans in Russia (€1,6 bn) accounted for 6% of total loans, while loans in the UK operations accounted for 5% of total loans.

⁵The *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 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.

In terms of type of customer exposure, corporate loans represent 45,6% of gross loans, SME loans represent 22,8% of gross loans, whereas mortgages and consumer loans represent 19,4% and 12,2% of gross loans respectively. In addition, loans are mainly concentrated in the sectors of construction which represent 14,8% of gross loans and real estate which represent 16,6% of gross loans.

B.2.3 Loan portfolio quality

The quality of the Group's loan portfolio continues to deteriorate affected by rising unemployment, a continuing credit crunch due to a shortage of liquidity and declining property prices which affect the value of collateral held by the Group. This trend continues and poses a real threat to the Bank's recovery.

Loans past due for more than 90 days (including impaired loans which are loans with a specific provision) (90+ DPD), accounted for 47% of gross loans (90+ DPD ratio) as at 30 September 2013, compared to 39% at 30 June 2013 and to 27% at 31 December 2012. The provisioning coverage ratio of 90+ DPD⁷ was 37% as at 30 September 2013, compared to 42% at 30 June 2013.

Non-performing loans (NPLs) calculated based on the new definition of the Central Bank of Cyprus effective from 1 July 2013, amounted to 48% as at 30 September 2013, compared to 36% at 30 June 2013.

Loan quality challenges continue into the fourth quarter of 2013. Although the 90+ DPD ratio seems to be stabilising, the new definition NPLs ratio continues to rise reflecting the challenging economic conditions and 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 ratio and the new definition NPLs ratio going forward. As at 30 September 2013, the NPLs ratio comprises Loans restructured and less than 90 days past due (4% of gross loans) and Loans more than 90 days past due or Loans restructured and more than 90 days past due (44% of gross loans).

	30.09.13	30.06.13
Breakdown of New definition Non performing loans (€mn)		
Loans restructured and less than 90 days past due	955	1.148
Loans more than 90 days past due or Loans restructured and more than 90 days past due	12.176	9.064
	13.131	10.212
90+ DPD loans (based on IFRS)	12.983	11.010

New definition of Non-Performing Loans (NPL) as per the Central Bank Directive⁸

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.

⁷ Defined as accumulated provisions as a percentage of gross loans in arrears from more than 90 days.

⁸ For more information on the Directive, please see http://www.centralbank.gov.cy/media/pdf/EN_Dir_Non_Performing_Restructured_credit_facilities.pdf

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) was €726 mn for the nine months ended 30 September 2013. It should be noted that both NII and Net Interest Margin (NIM) of 3,52% continue to be affected by the current situation in Cyprus. NII and NIM for the third quarter of 2013 were €296 mn and 4,02%, respectively.

Total income for the nine months ended 30 September 2013 was negatively affected by losses of €17 mn related to foreign exchange and other financial instruments and by a loss on the revaluation of investment properties (primarily repossessed assets) of €34 mn included in other expenses.

Operating expenses for the nine months ended 30 September 2013 amounted to €423 mn, of which 60% related to staff costs (€257 mn) and 40% to other operating expenses (€166 mn). Following the absorption of Laiki's operations in Cyprus, the Bank proceeded with a rapid branch rationalisation programme with branch numbers reduced from 203 in May 2013 to 133 at 18 December 2013. 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 personnel expenses on annualised basis. The cost to income ratio for the nine months ended 30 September 2013 was 49,1%.

B.3.2 Restructuring expenses

Restructuring costs totalling €142 mn, includes the cost of VRS (€22 mn) which was offered in January 2013 and the cost of VRS (€98 mn) which was 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.

B.3.3 Provisions for the impairment of loans

The increase in loans in arrears is reflected in the provision charge for the impairment of loans of €799 mn for the nine months ended 30 September 2013, with the annualised charge for impairment of loans for the period amounting to 3,8% of gross loans. As at 30 September 2013 accumulated provisions reached €4,8 bn (compared to €4,6 bn at 30 June 2013) and amounted to 18% of gross loans (compared to 16% at 30 June 2013).

The ratios are calculated before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €2 bn.

B.3.4 Loss from continuing operations

Loss from the continuing operations of the Bank of Cyprus Group (defined as the loss before the restructuring expenses, the discontinued operations and the loss on disposal of the Greek

operations) totalled €349 mn for the nine months ended 30 September 2013. Loss from the continuing operations for the third quarter of 2013 totalled €35 mn.

C. Outlook

The Group has prepared a Restructuring Plan which was 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 by year-end, and to identify Key Performance Indicators, that 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 86% and 84% 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 economic recession has been less pronounced than expected and the economy is proving relatively resilient. The second review mission of Troika has concluded that the Cyprus adjustment program is on track, fiscal consolidation is advancing as agreed, structural reforms are progressing and that progress has been made regarding the recapitalisation and restructuring of the financial sector. As a result, the Eurogroup has endorsed the disbursement of the second tranche of financial assistance to Cyprus. 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 and has managed to reduce the number of branches in Cyprus to 133 units down from 203 units back in May 2013. In addition, another 6 branches are expected to close during 2014. The next milestone regarding the ex-Laiki integration process is the unification of the IT banking system which is scheduled to be completed by the end of the first half of 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, as more borrowers default and collateral values decline further. 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 ratio stabilising during the fourth quarter. Nevertheless, it is too early to assess whether these actions are sufficiently effective. Furthermore, the new definition NPLs ratio continued to rise during the fourth quarter, 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.

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 a 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 and for a large portfolio of non-core assets.

The Bank aims to restore confidence in the Cyprus Banking system in general and in the Bank in particular. Following its exit from Resolution, the Bank was reinstated by the ECB as an eligible counterparty for monetary policy operations and has switched part of its ELA funding into funding under monetary policy operations. During the third quarter of 2013, the Bank managed to absorb a significant reduction in deposits without having to increase its reliance on Eurosystem funding. The Bank is stepping up its marketing efforts, both locally and internationally, and has launched new products to attract new deposits. During October 2013, the Bank launched a new retail deposits product, with about 65% of new deposit accounts being 12 month deposits, indicating that customers are entrusting their savings to the Bank for longer term.

Notes to the 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 Company 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 Financial Report of the Group for the nine months ended 30 September 2013 is 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. The Report as well as the detailed presentation of the financial results for the nine months ended 30 September 2013 have been posted on the Group's website www.bankofcyprus.com.

D. Appendix¹

Analysis of Group Income Statement				
€mn	9M2013	9M2012	Annual change ±%	3Q2013
Net interest income	726	555	+31%	296
Net fee and commission income	125	133	-6%	41
Net foreign exchange expenses and net (losses)/profits on other financial instruments	(17)	2	-	9
Insurance income net of insurance claims	51	48	+7%	12
Other (expenses)/income	(24)	5	-	3
Total income	861	743	+16%	361
Staff costs	(257)	(217)	+18%	(83)
Other operating expenses	(166)	(136)	+22%	(54)
Total expenses	(423)	(353)	+20%	(137)
Profit before impairments and restructuring costs	438	390	+13%	224
Provisions for impairment of loans and advances	(799)	(386)	+107%	(261)
Share of profit/(loss) from associates	2	-	-	(1)
(Loss)/profit before tax and impairments and restructuring costs	(359)	4	-	(38)
Tax	3	(8)	-	1
Loss attributable to non - controlling interests	7	5	-	2
(Loss)/profit after tax and before discontinued operations, impairments and restructuring costs	(349)	1	-	(35)
Restructuring Costs	(142)	-	-	(107)
Loss from discontinued operations	(90)	(292)	-	-
Loss on disposal of the Greek operations	(1.366)	-	-	-
Impairment of GGBs and change in fair value of hedging instruments including taxation	-	80	-	-
Loss after tax	(1.947)	(211)	-	(142)

Performance Summary				
	9M2013	9M2012	Annual change ±%	3Q2013
Net Interest margin	3,52%	2,96%	+0,56 p.p.*	4,02%
Cost to income ratio	49,1%	47,6%	+1,5 p.p.*	38,1%
Provision coverage on 90+ DPD loans ²	37%	35%	+2 p.p.*	37%

* p.p. = percentage points, 1 percentage point = 1%

Condensed Balance Sheet			
€mn	30.09.13	31.12.12	±%
Cash and balances with central banks	1.227	1.272	-4%
Placements with banks	1.351	1.769	-24%
Debt securities, Treasury bills and equity investments	3.505	1.870	+87%
Net loans and advances to customers	22.575	24.375	-7%
Other assets	2.739	1.746	+57%
Total assets	31.397	31.032	+1%
Amounts due to banks	424	341	+24%
Funding from central banks	11.157	-	-
Repurchase agreements	615	608	+1%
Customer deposits	15.468	28.442	-46%
Debt securities in issue	1	45	-99%
Other liabilities	935	1.127	-17%
Subordinated loan stock	7	133	-95%
Total liabilities	28.607	30.696	-7%
Share capital	4.674	1.795	+160%
Shares subject to interim orders	60	-	-
Share premium	-	428	-100%
Convertible Enhanced Capital Securities	-	429	-
Revaluation and other reserves	41	106	-62%
Accumulated losses	(2.066)	(2.500)	-17%
Shareholders' equity	2.709	258	+948%
Non-controlling interests	81	78	+5%
Total equity	2.790	336	+731%
Total liabilities and equity	31.397	31.032	+1%

Key Balance Sheet figures and ratios			
	30.09.13	31.12.12	±%
Gross customer loans (€ bn)	27,4	28,1	-2%
Customer Deposits (€ bn)	15,5	28,4	-46%
Net loans to deposits ratio	146%	86%	+60 p.p.*
90+ DPD ratio	47%	27%	+20 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	10,4%	0,9%	+9,5 p.p.*
Risk weighted assets (€ mn)	22.970	21.580	+6%

* p.p. = percentage points, 1 percentage point = 1%

Group Deposits by Geography			
€mn	30.09.13	31.12.12	Change ±%
Cyprus: Non-IBU	8.948	10.741	-17%
Cyprus: IBU	4.054	7.771	-48%
Cyprus –Total	13.002	18.512	-30%
United Kingdom	1.285	1.215	+6%
Russia	1.078	1.254	-14%
Greece	--	7.152	-100%
Other countries	103	309	-67%
Total Deposits	15.468	28.442	-46%
As percentage of Total Deposits			
Cyprus: Non-IBU	57,8%	37,8%	+20,0 p.p.*
Cyprus: IBU	26,3%	27,3%	-1,0 p.p.*
Cyprus –Total	84,1%	65,1%	+19,0 p.p.*
United Kingdom	8,3%	4,3%	+4,0 p.p.*
Russia	7,0%	4,4%	+2,6 p.p.*
Greece	--	25,1%	--
Other countries	0,6%	1,1%	-0,5 p.p.*
Total Deposits	100%	100%	--

* p.p. = percentage points, 1 percentage point = 1%

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.