Bank of Cyprus Group

Announcement

Group Financial Results for the six months ended 30 June 2014

Nicosia, 27 August 2014

Bank of Cyprus Group's CEO Statement:

"We have made good progress in the implementation of our restructuring during the second quarter of 2014, and we continue to deliver against our strategic objectives. Profit after tax excluding one-off items and profit after tax for the six months ended 30 June 2014 totalled €78 mn and €81 mn, respectively. The performance of the Cypriot operations, our core business, remains much stronger than the Group's overall performance, supporting our efforts of shrinking to strength through the disposal of non-core operations and assets.

During the second quarter of 2014 the balance sheet was deleveraged by a further €0,8 bn and the Common Equity Tier 1 capital (CET1) ratio (transitional basis) was increased by 70 basis points to 11,3%. Despite the full abolition of internal restrictive measures as of 30 May 2014, our deposit base is showing stabilising signs. Our improving liquidity position allowed us to release the last tranche of blocked decree deposits on 31 July 2014. The ex-Laiki integration has been completed with the successful IT systems migration in June 2014, ensuring uniform service for all our customers. The Restructuring and Recoveries Division (RRD) is fully operational, with €11,4 bn of large and delinquent loans managed by a dedicated workforce of about 500 people. Despite the difficult legislative framework, the RRD is showing some early successes.

We look forward to the approval by existing shareholders at tomorrow's EGM for the capital increase of €1 bn which will represent a "page turning" moment for the Bank. This capital increase will boost the Bank's CET1 ratio (fully loaded basis) to 15,1%, positioning the Bank at the upper end of the capital league table for European Banks. The success of the private placement among institutional investors from Europe, North America and Russia demonstrates their confidence in the Bank's turnaround and the economic recovery in Cyprus. Existing shareholders were given the opportunity to participate in the capital increase and we are pleased with the interest exhibited during the second phase of the capital increase. This deliberate strengthening of our capital position will allow us to accelerate the implementation of our restructuring, to regain the trust and confidence of depositors and other stakeholders and will provide us with improved funding options in order to normalise the Bank's funding structure. It will also allow the Bank to support the Cypriot economic recovery, through serving our customers and delivering value for our shareholders."

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 280 branches, of which 144 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 6.747 staff worldwide. At 30 June 2014, the Group's Total Assets amounted to €28,6 bn and Total Equity was €2,8 bn.

Notes to the Group Financial Results for the six months ended 30 June 2014:

Following the Eurogroup decisions to recapitalise the Bank 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 no financial statements as at 31 March 2013 and for the three months then ended were possible to be prepared since reliable information was not available due to the increased level of uncertainty and changes which were prevailing at the time of the Eurogroup events to March 2013.

The announcement and the presentation of the financial results for the six months ended 30 June 2014, which have not been reviewed by the Group's external auditors, have been posted on the Group's website www.bankofcyprus.com (Investor Relations).

The Financial Report of the Group for the six months ended 30 June 2014, that will include the Interim Condensed Consolidated Financial Statements which will be reviewed by the Group's external auditors, 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 (Investor Relations) after its approval by the Board of Directors on Friday, 29 August 2014.

A. Summary of Financial Results for the six months ended 30 June 2014

Balance Sheet

- **The Common Equity Tier 1 capital (CET1) ratio (transitional basis) was improved by 70 basis points to 11,3% at 30 June 2014, compared to 10,6% at 31 March 2014. Taking into account the intended €1 bn capital increase,[1] the pro-forma CET1 ratio (fully loaded basis) rises to 15,1%, which is significantly ahead of most of our European peers.**

- **At 30 June 2014, gross loans and deposits were €25,3 bn and €13,8 bn respectively, with the net loans to deposits ratio totalling 148% (compared to 151% at 31 March 2014 and to 145% at 31 December 2013).**

- **Emergency Liquidity Assistance (ELA) has been reduced by €720 mn to €8,78 bn at 30 June 2014, down from €9,51 bn at 31 March 2014 and €9,56 bn at 31 December 2013. ECB funding remained at €1,4 bn at 30 June 2014. Post 30 June 2014, ECB funding was reduced by €450 mn and ELA was reduced by a further €100 mn.**

- **Loans in arrears for more than 90 days (90+ DPD)[2] declined by 1,3% during the second quarter of 2014, totalling €12.591 mn at 30 June 2014 (compared to €12.756 mn at 31 March 2014 and €13.003 mn at 31 December 2013) and representing 49,8% of gross loans (90+ DPD ratio). Adjusting for the disposal of the Ukrainian operations and the loans in Serbia, there was an increase of €0,4 bn in 90+ DPD reflecting the recessionary environment in the Group's home market of Cyprus and the lack of relevant legislative tools to enable the Bank to engage effectively with borrowers. The provision coverage ratio of 90+ DPD totalled 39%, while taking into account tangible collateral at fair value, the 90+ DPD are fully covered.**

Income Statement

- **Net interest income (NII) for the six months ended 30 June 2014 was €546 mn, while the net interest margin (NIM) was 4,12%. NII for the second quarter of 2014 was €279 mn (compared to €267 mn for the first quarter of 2014) and the NIM was 4,26% (compared to 3,99% for the first quarter of 2014).**

- **Total income for the six months ended 30 June 2014 was €650 mn. Total income for the second quarter of 2014 was €310 mn, compared to €340 mn for the first quarter of 2014. Non-interest income for the second quarter of 2014 was €31 mn compared to €73 mn for the first quarter of 2014. Non-interest income for the second quarter of 2014 was negatively affected by the impairment of Laiki related exposures that were transferred to the Bank by application of the decrees issued in March 2013 (totalling €32 mn).**

- **Total expenses for the six months ended 30 June 2014 were €245 mn and the cost to income ratio was 38%. Total expenses for the second quarter of 2014 were €121 mn (compared to €124 mn for the first quarter of 2014). The cost to income ratio for the second quarter of 2014 was 39% compared to 36% in the first quarter due to the lower total income for the second quarter.**

[1] Subject to the approval by existing shareholders of the Bank at the extraordinary general meeting (the "EGM") to be held on 28 August 2014, the approval of the reduction of the nominal value of the ordinary shares of the Bank by the District Court of Nicosia and the filing of the court approval with the Department of the Registrar of Companies and Official Receiver.

[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 but not impaired.

- **Profit before provisions for impairment of customer loans, restructuring costs and discontinued operations for the six months ended 30 June 2014 was €405 mn. Profit before provisions for impairment of customer loans, restructuring costs and discontinued operations for the second quarter of 2014 was €189 mn, compared to €216 mn for the first quarter of 2014.**

- **Provisions for impairment of customer loans for the six months ended 30 June 2014 were €329 mn, with the provisioning charge accounting for 2,5% of gross loans on an annualised basis. Provisions for impairment of customer loans for the second quarter of 2014 were €183 mn (compared to €146 mn for the first quarter of 2014), with the provisioning charge accounting for 2,8% of gross loans on an annualised basis (compared to 2,2% for the first quarter of 2014).**

- **Profit after tax excluding one-off items (relating to restructuring costs, discontinued operations and net profit from disposal of non-core assets) for the six months ended 30 June 2014 totalled €78 mn. Profit after tax excluding one-off items for the second quarter of 2014 totalled €6 mn, compared to a profit of €72 mn for the first quarter of 2014. The performance of the second quarter was negatively affected by the impairment of Laiki related exposures that were transferred to the Bank by application of the decrees issued in March 2013 (totalling €32 mn). Profit after tax excluding one-off items in the Cypriot operations for the six months ended 30 June 2014 totalled €116 mn.**

- **Restructuring costs for the six months ended 30 June 2014 totalled €21 mn.**

- **The overall impact from the disposal of non-core assets (i.e. the Ukrainian operations, the investment in Banca Transilvania, the loans in Serbia and the early repayment of a sovereign bond issued by the Republic of Cyprus) during the second quarter of 2014 was a profit of €60 mn.**

- **Profit after tax attributable to the owners of the Bank for the six months ended 30 June 2014 totalled €81 mn. Profit after tax attributable to the owners of the Bank for the second quarter of 2014 totalled €50 mn, compared to a profit of €31 mn for the first quarter of 2014.**

B. Analysis of Financial Results for the six months ended 30 June 2014

B.1 Balance Sheet Analysis

B.1.1 Capital Base

The Group's shareholders' equity at 30 June 2014 amounted to €2.748 mn, 2% higher compared to 31 March 2014, while **the Group's CET1 ratio (transitional basis) increased to 11,3% compared to 10,6% for 31 March 2014**. The 70 basis points increase in the CET1 ratio during the second quarter of 2014 was driven by the Group's profitability for the quarter which was positively affected by the profit from disposal of non-core assets (Ukrainian operations, investment in Banca Transilvania, loans in Serbia and early repayment of a sovereign bond issued by the Republic of Cyprus) and by the reduction of risk weighted assets due to the on-going deleverage.

Taking into account the intended capital increase of €1 bn[3], the Bank's **pro-forma CET 1 ratio (fully loaded basis)** rises to 15,1%, placing the Bank significantly ahead of its European peers.

As announced on 28 July 2014, the Bank completed the first phase of the phased non-pre-emptive **share capital increase** (the "Capital raising") with the successful private placement (the "Placing") of 4.166.666.667 new ordinary shares at a price per share of €0,24 (the "Placing Price") with total gross proceeds of €1 billion. Phase 1 of the share capital increase was open to qualified investors[4], both new and existing shareholders. The closing of the Placing was subject (among other conditions) to a clawback of up to 20% in favour of the Bank's existing shareholders under phase 2 ("Open Offer") of the Capital Raising. The Open Offer closed for acceptances on 21 August 2014 and the Bank has received valid acceptances in respect of 433.042.768 new ordinary shares of the Bank in aggregate at a price of €0,24 per share with total gross proceeds of €103.930.264. The shares subscribed during, and the gross proceeds of, the Open Offer represent 10,39% of the shares placed in, and the total gross proceeds of €1 billion of, the Placing.

Following the results of the Open Offer, allocations of new ordinary shares of the Bank to investors in the Placing will be reduced on a pro-rata basis by 10,39% in order to accommodate the shares subscribed for by existing shareholders during the Open Offer.

The closing of the Placing and Open Offer is subject to approval by the existing shareholders of the Bank at the extraordinary general meeting of the shareholders (the "EGM") to be held on 28 August 2014, the approval of the reduction of the nominal value of the ordinary shares of the Bank by the District Court of Nicosia and the filing of the court approval with the Department of the Registrar of Companies and Official Receiver.

The Bank will also proceed with an offer of up to €100 mn of new ordinary shares to existing shareholders at €0,24 per share, subject to the EGM approval, following the completion of the Placing and the Open Offer and prior to any listing of the shares on the Cyprus Stock Exchange and the Athens Exchange.

B.1.2 Deposits and Loans

The Group's total deposits were €13,8 bn at 30 June 2014, compared to €14,1 bn at 31 March 2014 and to €15,0 bn at 31 December 2013.

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[3] Subject to the approval by existing shareholders of the Bank at the extraordinary general meeting (the "EGM") to be held on 28 August 2014, the approval of the reduction of the nominal value of the ordinary shares of the Bank by the District Court of Nicosia and the filing of the court approval with the Department of the Registrar of Companies and Official Receiver.

[4] As defined in the EU Prospectus Directive and in Article 2 of the Cyprus Public Offer and Prospectus Law and similarly qualified institutional investors in other jurisdictions.

Customer outflows[5] experienced by the Bank in its Cypriot operations post-March 2013 have significantly abated during the second half of 2013 and into 2014. The deposits of the Cypriot operations were reduced by just 2% during the second quarter of 2014, compared to a reduction of 6% for the first quarter of 2014.

At 30 June 2014, deposits in Cyprus accounted for 85% of Group deposits, deposits in the United Kingdom for 9% and deposits in Russia for 6%. The Bank's deposit market share[6] in Cyprus was 25,5% at June 2014, compared to 26,4% at 31 March 2014 and to 27,5% at 31 December 2013.

Customer deposits remain the primary source of funding and accounted for 48% of assets as at 30 June 2014. Following the disposal of the Ukrainian operations, the sale of the loans in Serbia and the on-going deleverage, the ratio of net loans to deposits totalled 148% at 30 June 2014, compared to 151% at 31 March 2014.

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. As of 30 May 2014, all domestic restrictive measures have been abolished and the only measures currently in place relate to external capital controls. Despite the full relaxation of domestic restrictive measures, our deposit base is showing stabilising signs and there were requests for the opening of new accounts with the Bank.

In addition to the restrictive measures applicable for the Cypriot banking system as a whole, additional restrictive measures applicable to the Bank's deposits affected by the bail-in[7] were introduced. Out of the €2,8 bn initial amount of blocked deposits, deposits totalling €0,93 bn remained blocked in the form of a 12-month term deposit (beginning 1 August 2013) as at 30 June 2014.[8] On 31 July 2014 the Bank released this last tranche of decree deposits, as follows:

- one third of the 12-month decree deposits was immediately released,
- one third was converted into a 3-month time deposit maturing and automatically released on 31 October 2014, and
- one third was converted into a 6-month deposit maturing and automatically released on 31 January 2015.

Following the release of all decree deposits significantly ahead of the Restructuring Plan, as at 27 August 2014 about €0,9 bn term deposits remain blocked and will be automatically released upon maturity as follows: one third of the original 9-month decree deposit maturing on 30 October 2014, one third of the original 12-month decree deposit also maturing on 31 October 2014 and the final one third of the original 12-month decree deposit maturing on 31 January 2015. It is worth noting that the behaviour of depositors with released funds has been very satisfactory and the retention of released deposits has been at a high level.

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

[6] Based on Central Bank of Cyprus data.

[7] 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.* Deposits totalling €2,8 bn (about 37,4% of the uninsured deposits) 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 had the right to renew them for an additional equal term at the same interest rates, depending on market conditions. Once these deposits are unblocked, the funds are subject to the general restrictive measures applicable at the time.

[8] On 30 January 2014, the Bank fully released the 6-month decree deposits maturing on 31 January 2014 and totalling about €0,94 bn. On 30 April 2014 the Bank gradually released the 9-month decree deposits amounting to approximately €0,93 bn and maturing on 30 April 2014. One third of the 9-month decree deposits was immediately released, 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.

Gross loans were €25,3 bn at 30 June 2014 (compared to €26,3 bn at 31 March 2014, €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 €22,2 bn and accounting for 88% of gross loans. The reduction in gross loans during the second quarter of 2014 reflects the disposal of the Ukrainian operations, the loans in Serbia 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 €1,6 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[9] of 39,5% of loans as at 30 June 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.

As part of the restructuring of the Group, management is currently monitoring the loan portfolio of the Group using new business line definitions. An important component of the Group's new operational structure is the establishment of the RRD for the purposes of centralising and streamlining the management of its delinquent loans. The RRD is responsible for the management of all activity relating to corporate exposures greater than €100 mn and debt restructuring and debt collection and recovery on delinquent loans across all customer segments.

The Group's customer exposures in accordance with the new business lines are as follows: corporate loans[10] accounted for 20% of gross loans at 30 June 2014, SME[11] loans accounted for 11%, whereas mortgages and consumer loans accounted for 16% and 8%, respectively. The RRD handles 45% of gross loans which are made up of: Mid and Large Corporates 23%, SMEs 6% and loans in Recoveries 16%.

In terms of exposures by economic sector, loans in the construction sector and in real estate development accounted for 16% and 14% respectively of gross loans at 30 June 2014.

B.1.3 Eurosystem Funding

Following the absorption of Laiki and its Emergency Liquidity Assistance (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 on 30 July 2013, the Bank has raised €1,4 bn of funding under monetary policy operations and has reduced its ELA to €8,78 bn at 30 June 2014. Overall, between April 2013 and June 2014, the Bank managed to reduce its Eurosystem funding (ECB funding and ELA) from €11,4 bn (comprising solely ELA) to €10,2 bn (comprising ELA of €8,78 bn and ECB of €1,4 bn) and at the same time managed to absorb a significant reduction in its deposit base. Post 30 June 2014, ECB funding and ELA were reduced by further €450 mn and €100 mn, respectively.

B.1.4 Loan portfolio quality

The quality of the Group's loan portfolio continues to be challenged by the on-going recession. The RRD is fully operational and is recording some early successes. Nevertheless, the problem loans have been growing due to the recessionary environment in Cyprus and the lack of the appropriate legislation in the hands of the Bank to enable it to engage effectively with borrowers.

Loans past due 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 but not impaired) totalled €12.591

[9] Based on Central Bank of Cyprus data.
[10] Corporate clients for the Cyprus loan portfolio are businesses that have total loans above €6 mn and turnover of above €10 mn. The Corporate sector includes loans booked in the International Business and Wealth Management Divisions.
[11] SME clients for the Cyprus loan portfolio are businesses that have total loans less than €6 mn and turnover less than €10 mn.

mn at 30 June 2014, (compared to €12.756 mn at 31 March 2014 and to €13.003 mn at 31 December 2013) and accounted for 49,8% of gross loans (90+ DPD ratio). Adjusting for the disposal of the Ukrainian operations and the loans in Serbia, there was a €0,4 bn increase in 90+ DPD, mostly in the operations in Cyprus reflecting the recessionary conditions in the domestic economy and the difficult legislative environment.

The provisioning coverage ratio of 90+ DPD[12] totalled 39% at 30 June 2014, at the same level as March 2014, compared to 38% at 31 December 2013. Taking into account tangible collateral at fair value 90+ DPD are fully covered.

Non-performing loans (NPLs) calculated as per the Central Bank of Cyprus (CBC) rules effective from 1 July 2013[13], totalled €14.581 mn at 30 June 2014 (compared to €14.437 mn at 31 March 2014 and to €14.042 mn at 31 December 2013) and accounted for 58% of gross loans. The provisioning coverage ratio of NPLs totalled 33% at 30 June 2014 compared to 35% at 31 March 2014. Taking into account tangible collateral at fair value NPLs are fully covered.

As at 30 June 2014, the difference between NPLs and 90+ DPD totalled €1.990 mn, compared to €1.681 mn at 31 March 2014, 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 NPLs going forward. As at 30 June 2014, the NPLs ratio comprises (a) **Loans that have been restructured and are less than 90 days past due** (9% of gross loans) and (b) **Loans more than 90 days past due or Loans that have been restructured and are more than 90 days past due** (49% of gross loans).

	30.06.2014		**31.03.2014**	
Breakdown of Non performing loans (as per CBC rules)	(€ mn)	% of gross loans	(€ mn)	% of gross loans
Loans that have been restructured and are less than 90 days past due	2.357	9%	2.189	8%
Loans more than 90 days past due or Loans that have been restructured and are more than 90 days past due	12.224	49%	12.248	47%
Non-performing loans (as per CBC rules)	**14.581**	**58%**	**14.437**	**55%**
90+ DPD (as per financial statements definition)	**12.591**	**50%**	**12.756**	**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 six months ended 30 June 2014 were €546 mn and 4,12% 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 36% of the Group's balance sheet was funded by Eurosystem funding (ECB funding and ELA) as at 30 June 2014. NII and NIM for the second quarter of 2014 were €279 mn and 4,26%, respectively (compared to €267 mn and 3,99% for the first quarter of 2014).

[12] Defined as accumulated provisions as a percentage of gross loans in arrears for more than 90 days (90+ DPD).
[13] Non-Performing Loans (NPL) as per the Central Bank of Cyprus Directive: In accordance with the 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 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 income for the six months ended 30 June 2014 was €650 mn. Total income from the second quarter of 2014 was €310 mn, compared to €340 mn for the first quarter of 2014. Non-interest income for the second quarter of 2014 was €31 mn compared to €73 mn for the first quarter of 2014. Non-interest income for the second quarter of 2014 was negatively affected by the impairment of Laiki related exposures that were transferred to the Bank by application of the decrees issued in March 2013 (totalling €32 mn).

Total expenses for the six months ended 30 June 2014 amounted to €245 mn, of which 55% related to staff costs (€135 mn) and 45% to other operating expenses (€110 mn). The cost to income ratio for the six months ended 30 June 2014 was 38%.

B.2.2 Provisions for impairment of customer loans

The provision charge for the six months ended 30 June 2014 was €329 mn, with the annualised charge for impairment of loans amounting to 2,5% of gross loans, compared to an annualised charge of 3,7% for 2013.[14] As at 30 June 2014, accumulated provisions, including the fair value adjustment on initial recognition of the portfolio acquired from Laiki, reached €4.879 mn (compared to €5.029 mn at 31 March 2014 and to €4.979 mn at 31 December 2013) and amounted to 19,3% of gross loans (compared to 18,6% at 31 December 2013). Accumulated provisions, including the fair value adjustment on initial recognition of the portfolio acquired from Laiki, are reduced due to the disposal of the Ukrainian operations and the loans in Serbia.

B.2.3 Profit after tax excluding one-off items

Profit after tax excluding one-off items (relating to restructuring costs, discontinued operations and net profit from disposal of non-core assets) for the six months ended 30 June 2014 totalled €78 mn. Profit after tax excluding one-off items for the second quarter of 2014 totalled €6 mn, compared to a profit of €72 mn for the first quarter of 2014. The performance of the second quarter was negatively affected by the impairment of Laiki related exposures that were transferred to the Bank by application of the decrees issued in March 2013 (totalling €32 mn). Profit after tax excluding one-off items in the Cyprus operations for the six months ended 30 June 2014 totalled €116 mn.

B.2.4 Restructuring costs

Restructuring costs for the six months ended 30 June 2014 totalled €21 mn and primarily relate to external advisors' fees and other expenses, including an accrual for property transfer fees, relating to the Group's restructuring.

B.2.5 Net profit from disposal of non-core assets

The overall impact from the disposal of non-core assets during the second quarter of 2014 was a profit of €60 mn. This is made up of a loss from the disposal of the Ukrainian operations of €114 mn, profit from the disposal of the investment in Banca Transilvania of €47 mn, profit from the disposal of the loans in Serbia of €27 mn and profit from the early repayment of a sovereign bond issued by the Republic of Cyprus of €100 mn.

[14] The provisioning charge ratios are calculated based on the gross loans before the deduction of the fair value adjustment on initial recognition relating to Laiki's loans amounting to €1,6 bn (compared to €1,8 bn at 31 March 2014 and €1,9 bn at 31 December 2013).

B.2.6 Profit after tax

Profit after tax attributable to the owners of the Bank for the six months ended 30 June 2014 totalled €81 mn. Profit after tax attributable to the owners of the Bank for the second quarter of 2014 totalled €50 mn, compared to a profit of €31 mn for the first quarter of 2014.

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.[15]

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

Taking into account, among other considerations, the advisors' [16] and the Management's recommendation, **the Board of Directors has initiated the process of a share capital increase of €1 bn, subject to the approval by existing shareholders at the EGM**. As announced on 28 July 2014 and 22 August 2014, the Bank completed the first two phases of a phased non-pre-emptive capital increase through the issue of 4.166.666.667 new ordinary shares at a price per share of €0,24 with total gross proceeds of €1 bn. 89,61% of the new shares were placed through a private placement to qualified investors[17], with the remaining 10,39% of the shares taken up by existing shareholders through an open offer. The shares were allocated to a broad range of institutional investors from Europe, North America and Russia, including a number of international investors introduced by WL Ross & Co LLC and the European Bank for Reconstruction and Development.

Taking into account the intended capital increase of €1 bn,[18] the Bank's **pro-forma CET 1 ratio (fully loaded basis)** rises to 15,1%, placing the Bank significantly ahead of most of its peers. In addition to significantly strengthening the Bank's capital base, the capital increase provides the following **additional strategic benefits**: (a) pro-actively increases the Bank's ability to confidently meet regulatory tests and withstand potential exogenous shocks, (b) improves stakeholders' confidence in the Bank, (c) expedites the implementation of the Group's Restructuring Plan, (d) improves funding options, facilitating the Bank's access to capital markets, (e) provides a path to the Bank's re-listing of its ordinary shares; and (f) positions the Bank to stimulate and benefit from the recovery of the Cypriot economy.

With the Cypriot operations accounting for 88% 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. Following Troika's fifth review mission there was an

[15] 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.
[16] Apart from the role of HSBC Bank Plc for advising on strategic options, for the capital issue HSBC and Credit Suisse acted as Lead Placing Agents, with Deutsche Bank and VTB Capital acting as Co-Lead Placing Agents. CISCO was the Local Placing Agent.
[17] As defined in the EU Prospectus Directive and in Article 2 of the Cyprus Public Offer and Prospectus Law and similarly qualified institutional investors in other jurisdictions.
[18] Subject to the approval by existing shareholders of the Bank at the extraordinary general meeting (the "EGM") to be held on 28 August 2014, the approval of the reduction of the nominal value of the ordinary shares of the Bank by the District Court of Nicosia and the filing of the court approval with the Department of the Registrar of Companies and Official Receiver.

announcement by Troika[19] stating that "…*the authorities have continued to meet the fiscal targets with significant margin in the first half of the year, as a result of prudent budget execution. In the financial sector, banks are advancing with their restructuring plans and capital raising while supervisory monitoring of their actions and operational capacity to address non-performing loans has been enhanced. Structural reforms are proceeding: the authorities have implemented a welfare reform providing a guaranteed minimum income for all those in need, have commenced the integration of the revenue administration, and have strengthened the administration's powers to fight tax evasion"* . 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. It is imperative, however, that all necessary steps are taken in order to reverse the rising trend of non-performing loans. As per the aforementioned statement by the Troika *"… reversing the rising trend of non-performing loans is critical to restoring credit, economic growth, and the creation of jobs. Putting in place without delay an effective legal framework for foreclosure and insolvency is essential to ensuring adequate incentives to borrowers and lenders to collaborate to reduce the level of non-performing loans. Moreover, the debt-restructuring supervisory framework needs to be further strengthened."*. Failure to implement the policy reforms requested by Troika that could affect and/or delay the disbursement of the financial assistance to Cyprus could derail and affect the execution of our restructuring and have adverse effects on the Bank and the entire financial sector in Cyprus.

The Bank has **completed the ex-Laiki integration** process. As of early June 2014, there was a seamless unification of the IT banking system. Branches in Cyprus have been reduced to 130 down from 203 units back in May 2013.

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 €11,4 bn of large and delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Since it was set up the RRD has put all the mechanisms in place to ensure delinquencies in all portfolios are addressed at the earliest possible stage. However, for the Bank to be successful in tackling its loan portfolio quality problem, there has to be the necessary changes in the legislation for foreclosures and insolvency that would prevent strategic defaults and would introduce the appropriate moral hazard in the relationship between the Bank and the borrowers.

The **provisions for impairment of customer 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. 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.

The Bank is **stepping up its marketing efforts to attract deposits and to improve its funding structure**. Taking into account the intended capital raise, these efforts are expected to be aided due to the expected increase of the confidence of depositors and other stakeholders towards the Bank. On 30 July 2014 the Bank released the last tranche of the decree deposits significantly ahead of the Restructuring Plan. It is worth noting that the behaviour of depositors with released funds has been very satisfactory and the retention of released decree deposits has been at a high level.

The Bank's significantly strengthened capital position will **enhance its funding options and facilitate access to the capital markets**. The Bank currently has in issue a €1 bn covered bond that is placed as collateral with the Central Bank of Cyprus for accessing ELA. There is growing investor interest for the said covered bond and the Bank is considering placing this bond with institutional investors later in the year. Furthermore, depending on market conditions and investor appetite, the Bank will assess the possibility of selling senior unsecured bonds to institutional

[19] See Statement by the European Commission, ECB and IMF on the Fifth Review Mission to Cyprus : http://europa.eu/rapid/press-release_STATEMENT-14-240_en.htm

investors by year-end. **Proceeds from accessing the debt markets shall contribute to the reduction of ELA**. Finally, the ELA is expected to be further reduced by the proceeds from the share capital increase.

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 Group sold its Ukrainian operations, it has disposed its investment in Romanian Banca Transilvania and its loans in Serbia during the second quarter of 2014. The disposals fall under the Group's strategy of focusing on core businesses and markets and disposing of operations that are considered as non-core and are being implemented at a faster pace than what was anticipated in the Restructuring Plan. During the third quarter of 2014, the Bank has signed an agreement for the sale of assets in Romania (related to the owner of the JW Marriott Bucharest Grand Hotel) enhancing its liquidity by €95 mn and achieving a small positive impact to its capital position. In addition to the above, HSBC Bank plc is managing a process on behalf of the Bank for the disposal of the excess loan portfolio in the UK inherited from ex-Laiki and largely comprising of residential and commercial real estate-backed facilities. Finally, HSBC Bank plc is running a similar process for the loan portfolio in the Romanian operations.

D. 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 Jun-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%	2,5%	<1,5%
	90+ Days Past Due € mn	13.003	12.591	<10.000
Funding	Loans to Deposits ratio (net)	145%	148%	<150%
Capital	Common Equity Tier 1 capital ratio	10,4%*	11,3%	>10%
	Leverage ratio (Assets/Equity)	11,1x	10,1x	<12x
Efficiency	Cost-to-Income ratio (ytd)	47%	38%	<45%
	Net Interest Margin (ytd)	3,54%	4,12%	>2,5%
	Number of Branches in Cyprus	133	130	125
	Group Employees in Cyprus	4.247	4.232	<4.100

* As amended following the publication of the final transitional provisions by the CBC

D.1. Commentary about the evolution of Key Performance Indicators

Asset quality

The provisioning coverage of 90+ DPD has increased to 39% at 30 June 2014, up from 38% at 31 December 2013. The annualised provisioning charge for the six months ended 30 June 2014 was 2,5%, compared to a provisioning charge of 3,7% for the year ended 31 December 2013.

Funding

The net Loans to Deposits ratio totalled 148% at 30 June 2014, compared to 145% at 31 December 2013.

Capital

The Common Equity Tier 1 capital ratio increased to 11,3% at 30 June 2014, compared to 10,4% as adjusted in accordance with CRD IV/CRR on transitional basis for 31 December 2013. Taking into account the intended capital increase of €1 bn, the Bank's pro-forma CET1 ratio (fully loaded basis) rises to 15,1%, placing the Bank significantly ahead of peers. The Leverage ratio has improved to 10,1x at 30 June 2014, compared to 11,1x at 31 December 2013.

Efficiency

The cost to income ratio for the six months ended 30 June was 38%, compared to a ratio of 47% for the year ended 31 December 2013. The net interest margin for the six months ended 30 June 2014 was 4,12%, compared to 3,54% for the year ended 31 December 2013. Branches in Cyprus have been reduced to 130 units compared to 133 units as at 31 December 2013. The number of Group employees in Cyprus totalled 4.232 as at 30 June 2014, compared to 4.247 employees at 31 December 2013.

D.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 €11,4 bn of large and delinquent loans in Cyprus with a dedicated workforce of close to 500 people. Since its set up the RRD has 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
The Risk Management Division (RMD) has been strengthened 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 migration was successfully completed 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 also recently signed an agreement for the sale of assets in Romania (related to the owner of the JW Marriott Bucharest Grand Hotel), recording a small positive impact to its capital position. HSBC Bank plc is managing a process on behalf of the Bank for the disposal of the excess loan portfolio in the UK inherited from ex-Laiki and largely comprising of residential and commercial real estate-backed facilities. HSBC Bank plc is running a similar process for the loan portfolio in the Romanian operations.

E. Appendix

Consolidated Income Statement					
€ mn	**1H2014**	**2Q2014**	**1Q2014**	**qoq change ±%**	**4Q2013**
Net interest income	546	279	267	+4%	268
Net fee and commission income	88	43	45	-6%	43
Net foreign exchange gains/(losses) and net profits/(losses) on other financial instruments	(16)	(30)	14	n/a	23
Insurance income net of insurance claims	25	12	13	-9%	14
Other income/(expenses)	7	6	1	+1.351%	(38)
Total income	**650**	**310**	**340**	**-9%**	**310**
Staff costs	(135)	(68)	(67)	+1%	(64)
Other operating expenses	(110)	(53)	(57)	-5%	(62)
Total expenses	**(245)**	**(121)**	**(124)**	**-2%**	**(126)**
Profit before provisions for impairment of customer loans, restructuring costs and discontinued operations	**405**	**189**	**216**	**-13%**	**184**
Provisions for impairment of customer loans	(329)	(183)	(146)	+25%	(229)
Share of profit from associates	4	2	2	-7%	-
Profit/(loss) before tax, restructuring costs and discontinued operations	**80**	**8**	**72**	**-89%**	**(45)**
Tax	(10)	(8)	(2)	+229%	2
Loss attributable to non - controlling interests	8	6	2		5
Profit/(loss) after tax and before restructuring costs, discontinued operations and net profit on disposal of non-core assets	**78**	**6**	**72**	**-91%**	**(38)**
Restructuring costs	(21)	(16)	(5)		(15)
Loss from discontinued operations	(36)	-	(36)		(50)
Net profit on disposal of non-core assets	60	60	-		-
Profit/(loss) after tax	**81**	**50**	**31**	**+60%**	**(103)**

	1H2014	**2Q2014**	**1Q2014**	**qoq change %**	**4Q2013**
Net interest margin	4,12%	4,26%	3,99%	+27 b.p.*	3,80%
Cost to income ratio	38%	39%	36%	+3 p.p.*	41%
Return on average assets	0,6%	0,7%	0,4%		n/a
Return on average equity	6,0%	7,4%	4,7%		n/a
Basic earnings/(losses) per share (cent)	1,7	1,1	0,7	+0,4 cent	(3,2)

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

Condensed Consolidated Balance Sheet			
€ mn	**30.06.2014**	**31.12.2013**	**±%**
Cash and balances with Central Banks	859	1.240	-31%
Placements with banks	1.114	1.290	-14%
Debt securities, Treasury bills and equity investments	3.538	3.433	+3%
Net loans and advances to customers	20.063	21.764	-8%
Other assets	2.984	2.622	+14%
Total assets	**28.558**	**30.349**	**-6%**
Amounts due to banks	219	196	+12%
Funding from Central Banks	10.185	10.956	-7%
Repurchase agreements	583	594	-2%
Customer deposits	13.803	14.971	-8%
Debt securities in issue	5	1	+225%
Other liabilities	944	889	+6%
Subordinated loan stock	5	5	-
Total liabilities	**25.744**	**27.612**	**-7%**
Share capital	4.756	4.684	-
Shares subject to interim orders	0	59	-
Revaluation and other reserves	79	72	-
Accumulated losses	(2.087)	(2.152)	-
Shareholders' equity	**2.748**	**2.663**	**+3%**
Non-controlling interests	66	74	-12%
Total equity	**2.814**	**2.737**	**+3%**
Total liabilities and equity	**28.558**	**30.349**	**-6%**

Key Balance Sheet figures and ratios			
	30.06.2014	**31.12.2013**	**±%**
Gross loans (€ bn)	25,3	26,7	-5%
Customer Deposits (€ bn)	13,8	15,0	-8%
Loans to deposits ratio (net)	148%	145%	+3 p.p.*
90+ DPD ratio	49,8%	48,6%	+1 p.p.*
90+ DPD provision coverage ratio[1]	39%	38%	+1 p.p.*
Capital			
Common Equity Tier 1 capital ratio (CET1)	11,3%	10,4%	+0,9 p.p.*
Total capital ratio (as calculated under CRD IV)	11,3%	10,6%	+0,7 p.p.*
Risk weighted assets (as calculated under CRD IV) (€ mn)	22.485	23.530	-4%

* 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.