Bank of Cyprus Group

Announcement

Group Financial Results for the year ended 31 December 2012

- **Income statement highlights**
  - Loss after tax €2.214 mn (€1.359 mn for the year 2011)
  - Profit before impairments and restructuring costs €620 mn (€797 mn for the year 2011)
  - Significant increase in provisions driven by the deterioration of the loan portfolio and the declining collateral values
    - Provisions for impairment of loans €2.306 mn (€426 mn for the year 2011)
- **Events following Eurogroup's decisions on Cyprus have significantly impacted the Bank of Cyprus Group**
  - Disposal of the Greek operations, Acquisition of Laiki Bank's operations in Cyprus and the UK and Disposal of retail business in Romania
  - Recapitalisation via a bail-in of depositors. According to the Resolution Authority, the Bank has been recapitalised to a level which can sustain possible future losses on its loan portfolio

Nicosia, 11 October 2013

This announcement should be read in conjunction with the Annual Financial Report of Bank of Cyprus Group for the year 2012.

A. Summary of Group Financial Results for the year 2012

The year 2012 was characterised by the continuing economic recession and the deepening sovereign and financial crisis which led Cyprus to request the provision of financial assistance from other member states of the European Union and the International Monetary Fund.

Amidst these adverse conditions, the Bank of Cyprus Group's ("Bank" or "Group") **profit before impairments and restructuring costs**[1] reached €620 mn, noting a decline of 22% compared to 2011. Provisions for impairment of loans and advances have increased significantly (€2.306 mn in 2012, compared with €426 mn in 2011), reflecting the deterioration in the quality of the loan portfolio and the declining collateral values. **Loss after tax** for 2012, including the impairment of Greek Government Bonds (GGBs) (€188 mn), the impairment of goodwill and other intangible assets (€360 mn) and the restructuring costs (€21 mn), reached €2.214 mn compared to €1.359 mn for 2011.

The non-performing loans[2] ratio at 31 December 2012 reached 23,7%, compared to 10,2% at 31 December 2011. Taking into account the deterioration of its loan portfolio and the declining collateral values, the Group recorded significantly higher levels of provisions for impairment of loans, with accumulated provisions for impairment of loans reaching €3,7 bn and the provision coverage ratio of non-performing loans amounting to 55%.

Despite the prevailing adverse economic conditions which affected the trust and confidence of depositors, the total deposits of the Group as at 31 December 2012 amounted to €28,4 bn, declining by 4% on an annual basis. As at 31 December 2012, the Group's net loans to deposits ratio stood at 86%, while the Group had no Eurosystem funding.

At 31 December 2012, the Group's equity amounted to €258 mn. At 31 December 2012, the Group had Tier 1 capital ratio of 0,6% and a negative Core Tier 1 capital ratio of -1,9%. Following the Eurogroup's decisions on Cyprus, the Bank was placed under Resolution, from 25 March 2013 to 30 July 2013[3], and was recapitalised via a bail-in of depositors 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*. According to the Resolution Authority the Bank has been recapitalised to a level which can sustain possible future losses on its loan portfolio.

The events of March 2013 have adversely impacted the 2012 results with respect to conditions that existed at 31 December 2012, such as the recoverability of deferred tax assets in Greece, expectations about the realisable values from collaterals and the impact on the impairment testing on the assessment of the goodwill of overseas subsidiaries.

[1] Profit before impairments and restructuring costs does not include impairment of loans and advances, GGBs, goodwill and other intangible assets.
[2] Non-performing loans are defined as loans in arrears for longer than three months which are not fully covered by tangible collateral.
[3] On 25 March 2013, the Central Bank of Cyprus in its capacity as Resolution Authority placed the Bank under Resolution and appointed a Special Administrator to implement the restructuring of the Bank. An interim Board of Directors was appointed by the Resolution Authority on 26 April 2013.

The main financial highlights of the Group for 2012 are set out below:

Table 1

Main financial highlights for 2012			
€ mn	**Annual Change**	**2012**	**2011[4]**
Total Income	-12%	1.357	1.541
Profit before impairments and restructuring costs[5]	-22%	620	797
Provisions for impairment of loans and advances	+441%	(2.306)	(426)
Impairment of GGBs and change in fair value of related hedging derivatives and tax	-	(188)	(1.682)
Impairment of goodwill and other intangible assets	-	(360)	-
Restructuring costs	-	(21)	-
Loss after tax	+63%	(2.214)	(1.359)
Basic loss per share (cent)	-8 cent	(144)	(152)
Cost / Income ratio	+6,1 p.p.*	54,3%	48,2%
Net Interest Margin	+ 1 b.p.*	2,99%	2,98%

Table 2

Main financial highlights as at 31.12.2012			
	Annual Change	**31.12.2012**	**31.12.2011**
Total Gross Customer Loans (€ bn)	-3%	28,1	28,9
Total Customer Deposits (€ bn)	-4%	28,4	29,7
Net Loans to Deposits ratio	-6 p.p.*	86%	92%
Non-Performing Loans ratio[6]	+13,5 p.p.*	23,7%	10,2%

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

- **Total income:** Total income for 2012 reached €1.357 mn recording a 12% reduction compared to 2011. Total income was positively affected by profits from financial instruments and negatively affected by the reduced net interest income and the loss from revaluation of investment properties.

  Net interest income for the year 2012 reached €1.011 mn noting a reduction of 13% compared to the previous year, mainly due to lower customer spreads as a result of the increase in impaired loans and the increase in the cost of deposits. Profits from financial instruments for 2012 reached €83 mn (€49 mn for 2011) and include a realised gain of €97 mn from the participation in the repurchase programme by the Greek Republic of the new GGBs. Other income amounted in total, to a net expense of

[4]Restated due to change in accounting policy with respect to IAS 19 'Employee Benefits'.
[5]Profit before impairments and restructuring costs does not include impairment of loans and advances, GGBs, goodwill and other intangible assets.
[6]Non-performing loans are defined as loans in arrears for longer than three months which are not fully covered by tangible collateral.

€19 mn compared to an income of €31 mn for the year 2011, mainly due the o loss on the revaluation of investment properties (primarily repossessed assets) of €25 mn.

- **Total expenses**: Total expenses for 2012 reached €737 mn recording a small decrease (1%) compared to 2011. Staff costs have been reduced by 8% year on year reaching €397 mn, as a result of the lower employee retirement benefit costs in Cyprus (due to the change of the main retirement benefit plan from a defined benefit plan to a defined contribution plan). Other operating expenses reached €340 mn in 2012 compared to €312 mn in 2011, noting an increase of 9%, mainly due to higher legal claims costs.

- **Efficiency:** The cost to income ratio for 2012 increased to 54,3% from 48,2% in 2011, due to the decrease of total income.

- **Profit before impairments and restructuring costs**: Profit declined by 22% compared to 2011 and reached €620 mn, mainly due to lower income compared to 2011.

- **Provisions for impairment of loans and advances:** The ongoing deterioration of the economic environment in Cyprus and Greece has significantly affected the quality of the loan portfolio, with non-performing loans increasing by €3,7 bn during 2012, thus resulting in a significant increase in the provisions for impairment of loans which reached €2.306 mn for 2012, compared to €426 mn for 2011, noting an increase of 441%. The Bank in its provisioning assessment took into consideration the further expected decline in collateral values following March 2013 events.

- **Impairment of GGBs, goodwill and other intangibles:** Impairment of GGBs and change in fair value of related hedging derivatives and tax for the year 2012 amounted to €188 mn compared to €1.682 mn for the year 2011. In addition, following a goodwill impairment testing, the Bank fully impaired goodwill and other intangibles that arose from the acquisition of Uniastrum Bank in Russia and Bank of Cyprus Ukraine, totaling €360 mn.

- **Restructuring costs:** Restructuring costs totaling €21 mn, include an €11 mn expense relating to the voluntary retirement scheme in Greece and costs of €10 mn relating to the preparation of the restructuring plan and the diagnostic stress test exercise performed by PIMCO on behalf of the Cypriot Authorities and the Troika.

- **Interest margin:** The Group's net interest margin was maintained at 2,99% for 2012 (2,98% for 2011). The net interest margin for the last quarter of 2012 declined to 2,55% from 2,91% in the third quarter of 2012 as increased impaired loans resulted in lower recognised interest income.

- **Loans and deposits:** As at 31 December 2012, Group gross loans and deposits were €28,1 bn and €28,4 bn respectively.

- **Funding structure**: The Group's net loans to deposits ratio reached 86% at 31 December 2012. As at 31 December 2012, the Group had no funding from the Eurosystem.

- **Loan portfolio quality**: The non-performing loans ratio reached 23,7% at 31 December 2012 compared to 17,1% at 30 September 2012 and 10,2% at 31 December 2011. The non-performing loans provision coverage ratio (accumulated provisions as a percentage of non-performing loans) was 55% at 31 December 2012 compared to 47% at 30 September 2012 and 51% at 31 December 2011. Impaired loans (loans with a specific provision) and loans past-due for more than 90 days but not impaired, (together referred to as loans in arrears for more than 90 days), accounted for 27,4% of gross loans as at 31 December 2012 compared to 22,9% at 30 September 2012 and 17,2% at 31 December 2011.

B. Events After 31 December 2012

Following Cyprus' request for the provision of financial assistance from other member states of the European Union, 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 reforms. A Memorandum of Understanding (MoU) has been agreed between 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.

The package of measures included in the MoU are aimed at restoring the soundness of the Cypriot financial sector, address the general government deficit, increase the efficiency of public spending, improve the functioning of the public sector and support competiveness and sustainable balanced growth.

In its statement on 25 March 2013[7], Eurogroup noted that the Cyprus Popular Bank Public Co Ltd (second largest bank in Cyprus) would be resolved, that Bank of Cyprus would be recapitalised via a bail-in of its depositors and none of the programme's money would be used for its 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 unsecured deposits into equity[8]. In addition, the holders of ordinary shares and debt securities[9] issued by the Bank as of 29 March 2013 have contributed to the recapitalisation through the absorption of losses. According to the Resolution Authority, the Bank has been recapitalised to a level which can sustain possible future losses on its loan portfolio.

Following the recapitalisation, the share capital of the Bank amounted to €4,7 bn. The shareholding structure of the Bank as at the above date comprised of 81% from shareholders arising from the conversion of deposits to equity, 0,5% from shareholders arising from the conversion of shares and debt securities in issue as of 29 March 2013 and 18,1% held by the Cyprus Popular Bank Ltd (Laiki Bank) as per the *Bank of Cyprus Share Capital Issue for Compensation of Cyprus Popular Bank Public Co Ltd Decree of 2013.*

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

[8]As per 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. Unsecured deposits are also calculated pursuant to the provisions of the Decrees.

[9] Holders of the Bank's subordinated debt and claims as of 29 March 2013 have been affected according to the provisions of the Bailing-in of Bank of Cyprus Public Company Limited Decree of 2013 and the Bailing-in of Bank of Cyprus Public Company Limited Amended (No. 3) Decree of 2013 issued by the Central Bank of Cyprus under its capacity as Resolution Authority on the 29 March 2013 and 30 July 2013 respectively.

Pursuant to the decisions of the Eurogroup and the relevant decrees issued by the Central Bank of Cyprus, in its capacity as Resolution Authority, the Bank has:

- Disposed its loans, fixed assets and deposits of the Group in Greece to Piraeus Bank A.E.[10] Based on preliminary (unaudited) financial information Piraeus Bank acquired assets of €7,9 bn and liabilities of €7,7 bn. The Group made a payment to Piraeus Bank of €1,2 bn, resulting in a loss currently estimated at approximately €1,4 bn. This loss represents future expected losses for three years to June 2015 and other adjustments as determined by the Resolution Authority.
- Acquired from Cyprus Popular Bank Public Company Ltd (Laiki Bank) assets and uninsured deposits in Cyprus as well as Eurosystem funding of €9 bn.[11] The Bank is currently in the process of assessing the fair value of the transferred assets and liabilities for the purposes of accounting for the business combination of the Group with Laiki Bank on 29 March 2013 under IFRS.
- Acquired the business of Laiki Bank's branch in the United Kingdom.[12]
- Disposed the majority of deposits and part of the loans (mainly retail loans) of Bank of Cyprus branch in Romania to Marfin Bank (Romania) SA.[13]

As a result of the above and other actions, the Group's customer deposits totalled €19 bn as at 31 March 2013, with deposits in Cyprus accounting for 85% of the total. The rest of the deposits were primarily in the operations in the United Kingdom (8%) and in Russia (6%). Gross loans amounted to €28 bn, of which 84% were in Cyprus, 7% in Russia and 6% in the United Kingdom.

On 10 September 2013, the Bank held an Annual General Meeting which elected a new Board of Directors.

C. Prospects for 2013

Faced with an unprecedented and intensifying economic crisis, the consequences of the Eurogroup decisions and the events after the balance sheet date as described above, Bank of Cyprus will define its strategy, business model and risk appetite, via a restructuring plan as per the requirements of the MoU between the Republic of Cyprus and the Troika. The plan, which is in the process of being finalised, will be submitted to the Central Bank of Cyprus for approval in October 2013 as per the requirements of the MoU.

The plan will chart the Group's strategy, business model and risk appetite. The recapitalisation of the Bank, and the restructuring currently in progress, aim to create a **healthy financial institution**, able to **best serve client needs** and **contribute to the recovery of the Cyprus economy** by:

- **Rebuilding trust and confidence** of both depositors and investors in the Group.
- 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.

[10] As per the *Sale of the Greek operations of Bank of Cyprus Public Company Ltd Decree of 2013*, issued by the Central Bank of Cyprus in its capacity as Resolution Authority.
[11] As per the *Sale of certain operations of Cyprus Popular Bank Public Co Ltd Decrees of 2013*, issued by the Central Bank of Cyprus in its capacity as Resolution Authority.
[12] As per the *Sale of certain operations in the United Kingdom of Cyprus Popular Bank Public Co Ltd Decree of 2013*, issued by the Central Bank of Cyprus in its capacity as Resolution Authority.
[13] As per the *Sale of certain operations in Romania of Bank of Cyprus Public Company Ltd Decree of 2013*, issued by the Central Bank of Cyprus in its capacity as Resolution Authority.

- **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.

In an effort to improve its operational efficiency after the absorption of the Cypriot operations of Laiki Bank, where branches increased to 203 and staff to about 5.720, the Bank proceeded with decisive measures towards the restructuring of its Cyprus operations. A significant reduction in branch numbers has already been achieved, with the total number of branches in Cyprus decreased to 158. In addition, the Group offered a Voluntary Retirement Scheme (VRS) by which personnel has been reduced by 1.370 to approximately 4.350 (a reduction of full time employees by 25%). Following the VRS and salary cuts in Cyprus, staff costs in Cyprus have been reduced by 35% on an annualised basis for the combined operations of the Bank and Laiki Bank. The above provide a very important step towards the restructuring of the Group's Cyprus operations, the integration of Laiki Bank's operations and the restoration of the Bank's financial strength.

Despite the above measures that support the Bank's pre-provision profitability, provisions for impairment of loans and advances are expected to remain high, as more borrowers are expected to default while collateral values are expected to fall even further, leading to increased non-performing loans and provisions for impairment.

The decisions of the Eurogroup for the recapitalisation of the Bank via a bail-in of depositors and for the resolution of Laiki Bank have significantly dented the trust and confidence of customers towards the 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 manage the risk of an outflow of deposits. In order to improve its liquidity position the Bank is deleveraging through the sale of assets and is stepping up its marketing efforts, both locally and internationally, launching new products to attract new deposits and planning the issue of bonds eligible for European Central Bank (ECB) collateral.

Finally, on 1 August 2013 the Bank was reinstated as an eligible counterparty by the ECB for monetary policy operations. This has resulted in a reduction of Emergency Liquidity Assistance funding, as the Bank has regained access to direct funding from the ECB for monetary policy operations with improved terms that support the Bank's profitability and enhance confidence.

D. Analysis of Results for the year 2012

D.1 Analysis of income

The **net interest income** for 2012 reached €1.011 mn, noting a 13% decrease compared to €1.168 mn for 2011. Net interest income declined in Cyprus by 15% to €514 mn from €609 mn for 2011, and in Greece by 7% to €310 mn from €332 mn for 2011.

The Group's **net interest margin** reached 2,99% for 2012 compared to 2,98% for 2011. The net interest margin for the last quarter of 2012 declined to 2,55% from 2,91% in the third quarter of 2012 due to the increase in impaired loans, resulting into lower recognised interest income.

Net fee and commission income was reduced by 6% compared to 2011 and amounted to €219 mn for 2012.

Foreign exchange income and net gains on other financial instruments for 2012 amounted to €83 mn compared to €49 mn for 2011. These profits include a realised gain of €97 mn for the year 2012, recorded in Greece, from the participation in the repurchase programme of GGBs and a gain of €9 mn for the year 2011 from the sale of the banking subsidiary in Australia.

Other income for the year 2012 amounted in total, to a net expense of €19 mn compared to an income of €31 mn for the year 2011, mainly due to loss on the revaluation of investment properties (primarily repossessed assets) of €25 mn.

D.2 Analysis of expenses

Total expenses for 2012 amounted to €737 mn recording an annual decrease of 1% compared to €744 mn for 2011.The **cost to income ratio** increased by 6,1 percentage points compared to 2011, reaching 54,3%.

Staff costs amounted to €397 mn recording a decrease of 8% compared to 2011, mainly due to the lower employee retirement benefit costs as a result of the change of the main retirement benefit plan in Cyprus from a defined benefit plan to a defined contribution plan.

The Group's **other operating expenses** (excluding staff costs) amounted to €340 mn in 2012 compared to €312 mn in 2011 noting an increase of 9%.

D.3 Impairment of GGBs, Change in Fair Value of Related Hedging Derivatives and the Related Tax

At the exchange of GGBs through the Private Sector Involvement (PSI) (March/April 2012) the Group received new GGBs of nominal value of €709 mn. On the date of exchange, the new GGBs were measured at their fair value at an average price of 21% of their nominal value based on the settlement price of credit default swaps for GGBs at the relevant auction. As a result, in addition to the impairment recognised in 2011, an additional loss before tax of €109 mn was recognised in the results for the year 2012.

In addition to the loss arising on the initial recognition of the new bonds in March/April 2012, an additional loss before tax of €34 mn was recognised relating to changes in the fair value of derivatives used to hedge the interest rate risk of the GGBs. The derivatives have been terminated by April 2012.

In December 2012, the Group participated in the voluntary repurchase of new GGBs by the Hellenic Republic. As a result the Group disposed all of its GGBs and realised a gain of €97 mn, which is included in gains from financial instruments.

During the nine months of 2012 the Group has recognised a deferred tax asset of €223 mn relating to future tax benefits from the utilisation of the impairment losses of GGBs in Greece. This asset has been written off in the last quarter of 2012 as a result of the disposal of the Group's Greek operations in 2013.

D.4 Impairment of goodwill and other intangible assets

Goodwill impairment testing performed as at 31 December 2012 indicated that there was impairment of goodwill as a result of the reduction of expected future cash flows of Uniastrum Bank in Russia and Bank of Cyprus Ukraine, both acquired in 2008. As a result, the Bank fully impaired goodwill and other intangibles that arose from the acquisition for the above subsidiaries amounting to €360mn in the fourth quarter of 2012. It is noted that goodwill impairment has no effect on the Group's liquidity and regulatory capital.

D.5 Restructuring costs

Restructuring costs totalling €21 mn, include a €11 mn expense relating to the voluntary retirement plan in Greece and costs of €10 mn relating to the preparation of the restructuring plan and the stress test exercise carried out by the Central Bank of Cyprus.

E. Loan Portfolio Quality

The quality of the Group's loan portfolio deteriorated significantly during 2012 due to the escalating economic crisis in Cyprus and Greece which led to an increase in unemployment, a significant credit crunch due to shortage of liquidity and the declining property prices which affect the value of collaterals held by the Group.

Non-performing loans (loans in arrears for more than three months which are not fully covered by tangible collateral) increased by €1.842 mn during the 4th quarter of 2012 and totalled €6.660 mn at 31 December 2012.

The ratio of non-performing loans to gross loans of the Group reached 23,7% at 31 December 2012 compared to 17,1% at 30 September 2012 and 10,2% at 31 December 2011. At 31 December 2012, the relevant ratio was 24,2% in Cyprus (31 December 2011: 9,5%) and 26,1% in Greece (31 December 2011: 11,6%). It is noted that the Central Bank of Cyprus has issued a new Directive for the Definition of Non-performing and Restructured Credit Facilities which is effective from 1 July 2013[14].

Impaired loans (loans with a specific provision) and loans past-due for more than 90 days, together referred to as loans in arrears for more than 90 days, accounted for 27,4% of gross loans as at 31 December 2012 compared to 17,2% at 31 December 2011 and 22,9% at 30 September 2012.

Provisions for the impairment of loans and advances have been significantly increased to €2.306 mn for 2012 from €426 mn for 2011, an increase of 441%, recording a higher charge for impairment of loans for the period, which amounted to 8,1% of total loans on an annualised basis for 2012 (year 2011: 1,5%).

Provisions in Cyprus increased to €1.186 mn for 2012 compared to €132 mn for 2011 reflecting the significant increase in non-performing loans (increase of €2,2 bn during 2012). The Bank in its provisioning assessment took into consideration the further expected decline in collateral values following March 2013 events. Provisions in Greece increased to €967 mn for 2012 compared to €217 mn for 2011 due to the further deterioration of the economic environment and the prolonged recession.

[14] For more information on this directive, please see http://www.centralbank.gov.cy/media/pdf/EN_Dir_Non_Performing_Restructured_credit_facilities.pdf

Provisions for impairment of loans as per IFRS (incurred loss model), require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those events be.

The Group's non-performing loans coverage ratio (accumulated provisions / non-performing loans) reached 55% at 31 December 2012, compared to 47% at 30 September 2012 and 51% at 31 December 2011.

F. Balance Sheet Analysis

F.1 Group Loans

As at 31 December 2012, Group loans before provisions amounted to €28,1 bn, recording a decrease of 3% since 31 December 2011 due to deleveraging in Greece, the United Kingdom and Romania.

Table 3

Analysis of Gross Loans by Geographic Sector at 31.12.2012			
	€ mn	**Annual ±%**	**Contribution**
Cyprus	14.873	0%	53%
Greece	9.438	-5%	34%
Russia	2.025	+1%	7%
United Kingdom	834	-19%	3%
Ukraine	331	0%	1%
Romania	550	-6%	2%
Group	**28.051**	**-3%**	**100%**

F.2 Group Deposits

The Group's total deposits at 31 December 2012 reached €28,4 bn recording a decrease of 4% since 31 December 2011.

Table 4

Analysis of Deposits by Geographic Sector at 31.12.2012			
	€ mn	**Annual ±%**	**Contribution**
Cyprus	18.512	-3%	65%
Greece	7.152	-7%	25%
Russia	1.254	-3%	5%
United Kingdom	1.215	0%	4%
Ukraine	95	+13%	0%
Romania	214	+6%	1%
Group	**28.442**	**-4%**	**100%**

F.3 Capital Base

At 31 December 2012, the Group's equity amounted to €258 mn. At 31 December 2012, the Group had Tier 1 capital ratio of 0,6% and a negative Core Tier 1 capital ratio of -1,9%.

The minimum capital adequacy ratios set by the Central Bank of Cyprus for 31 December 2012 are set at 8,7% for Core Tier 1, 10,2% for Tier 1 and 12,2% for the total adequacy ratios. The minimum capital adequacy ratios are currently calculated based on a Central Bank Directive issued in July 2011[15]. The MoU indicates that the Central Bank of Cyprus will increase the minimum Core Tier 1 capital ratio to 9% by 31 December 2013.

The Group participated in a Capital Exercise conducted in 2011 by the European Banking Authority (EBA) in cooperation with the Central Bank of Cyprus (using September 2011 data). On 27 June 2012, in light of the 30 June 2012 deadline for the recapitalisation of banks, the Group announced that it was not able to fully cover the capital shortfall as estimated by the EBA and as a result applied to the Republic of Cyprus for capital support. Furthermore, in June 2012 the Republic of Cyprus applied for the provision of financial assistance from other member states of the European Union and the International Monetary Fund.

The macroeconomic adjustments programme that was discussed between Cyprus and the Troika (comprising European Commission, European Central Bank and International Monetary Fund) was finalised on 25 March 2013, whereby the Cypriot government and the Eurogroup reached an agreement on the key elements of the programme. The financial assistance facility of up to €10 bn granted to Cyprus is conditional upon the implementation of an extensive programme of policy reforms.

In its statement on 25 March 2013[16], Eurogroup noted that the Cyprus Popular Bank Public Co Ltd (second largest bank in Cyprus) would be resolved, that Bank of Cyprus would be recapitalised via a bail-in of its depositors and none of the programme's money would be used for its recapitalisation.

Following the Eurogroup's decisions on Cyprus, the Bank was placed under Resolution, from 25 March 2013 to 30 July 2013[17], and was recapitalised via a bail-in of depositors 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 unsecured deposits into equity[18]. In addition, the holders of ordinary shares and debt securities[19] issued by the Bank as of 29 March 2013 have contributed to the recapitalisation of the Bank through the absorption of losses. According to the Resolution Authority, the Bank has been recapitalised to a level which can sustain possible future losses on its loan portfolio.

[15] See link http://www.centralbank.gov.cy/nqcontent.cfm?a_id=10842&lang=en
[16] See link http://eurozone.europa.eu/newsroom/news/2013/03/eg-statement-cyprus-25-03-13/
[17] On 25 March 2013, the Central Bank of Cyprus in its capacity as Resolution Authority placed the Bank under Resolution and appointed a special administrator to implement the restructuring of the Bank. An interim Board of Directors was appointed by the Central Bank of Cyprus in its capacity as Resolution Authority on 26 April 2013.
[18] As per 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. Unsecured deposits are also calculated pursuant to the provisions of the Decrees.
[19] Holders of the Bank's subordinated debt and claims as of 29 March 2013 have been affected according to the provisions of the Bailing-in of Bank of Cyprus Public Company Limited Decree of 2013 and the Bailing-in of Bank of Cyprus Public Company Limited Amended (No. 3) Decree of 2013 issued by the Central Bank of Cyprus under its capacity as Resolution Authority on the 29 March 2013 and 30 July 2013 respectively.

Table 5

Analysis of Group Income Statement						
€ mn	**2012**	**2011**	**Annual change ±%**	**4Q12**	**3Q12**	**Quarterly change ±%**
Net interest income	1.011	1.168	-13%	202	251	-19%
Net fee and commission income	219	232	-6%	52	55	-5%
Net foreign exchange income and net gains on other financial instruments and disposal of subsidiaries	83	49	+70%	91	9	+859%
Insurance income net of insurance claims	63	61	+3%	15	17	-4%
Other (expenses)/income	(19)	31	-160%	(24)	2	-
Total income	**1.357**	**1.541**	**-12%**	**336**	**334**	**+1%**
Staff costs	(397)	(432)	-8%	(101)	(103)	-2%
Other operating expenses	(340)	(312)	+9%	(131)	(47)	+184%
Total expenses	**(737)**	**(744)**	**-1%**	**(232)**	**(150)**	**+55%**
Profit before impairments and restructuring costs	**620**	**797**	**-22%**	**104**	**184**	**-44%**
Provisions for impairment of loans and advances	(2.306)	(426)	+441%	(1.484)	(254)	+485%
Share of loss of associate	-	(1)	-115%	-	-	-
(Loss)/profit before tax and impairments and restructuring costs	**(1.686)**	**370**	**-556%**	**(1.380)**	**(70)**	**-**
Tax	32	(54)	-158%	23	(8)	-370%
Loss attributable to non - controlling interests	9	7	+31%	3	1	+184%
(Loss)/profit after tax and before impairments and restructuring costs	**(1.645)**	**323**	**-609%**	**(1.354)**	**(77)**	**-**
Restructuring Costs	(21)	-	-	(21)	-	-
Impairment of GGBs and change in fair value of related hedging instruments including taxation	(188)	(1.682)	-	(268)	-	-
Impairment of goodwill and other intangible assets	(360)	**-**	**-**	(360)	-	-
Loss after tax	**(2.214)**	**(1.359)**	**+63%**	**(2.003)**	**(77)**	**-**
Net Interest Margin (NIM)	**2,99%**	**2,98%**	**+1 b.p.***	**2,55%**	**2,91%**	**-36 b.p.***
Cost to Income	**54,3%**	**48,2%**	**+6,1 p.p.***	**69,1%**	**44,8%**	**+24,3 p.p.***

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

Table 6

€ mn	Cyprus			Greece			Russia			Other countries		
	±%	2012	2011	±%	2012	2011	±%	2012	2011	±%	2012	2011
Net interest income	-15%	514	609	-7%	310	332	-7%	120	130	-32%	67	97
Net fee and commission income	-2%	132	135	-10%	47	52	-4%	33	34	-39%	7	11
Net foreign exchange income and (losses)/gains from financial instruments and disposal of subsidiaries	-134%	(13)	39	--	86	1	-26%	6	8	+237%	4	1
Insurance income net of insurance claims	+5%	54	51	-8%	9	10	--	--	--	--	--	--
Other (expenses)/income	-103%	(1)	15	-605%	(30)	6	-88%	1	7	+285%	11	3
Total income	**-19%**	**686**	**849**	**+5%**	**422**	**401**	**-11%**	**160**	**179**	**-22%**	**89**	**112**
Staff costs	-8%	(205)	(223)	-5%	(108)	(114)	-1%	(62)	(62)	-30%	(22)	(33)
Other operating expenses	+24%	(172)	(139)	+9%	(91)	(83)	-10%	(52)	(59)	-20%	(25)	(30)
Total expenses[20]	**+4%**	**(377)**	**(362)**	**+1%**	**(199)**	**(197)**	**-5%**	**(114)**	**(121)**	**-25%**	**(47)**	**(63)**
Profit before impairments and restructuring costs	**-36%**	**309**	**487**	**+9%**	**223**	**204**	**-22%**	**46**	**58**	**-17%**	**42**	**49**
Contribution		*50%*	*61%*		*35%*	*26%*		*8%*	*7%*		*7%*	*6%*
Provisions for impairment of loans and advances	+803%	(1.186)	(132)	+345%	(967)	(217)	+63%	(89)	(54)	+178%	(64)	(23)
Share of loss of associate	-102%	(0)	(1)		--	--	-	--	--	--	(0)	--
(Loss)/profit before tax and before impairments and restructuring costs	**-348%**	**(877)**	**354**	**--**	**(744)**	**(13)**		**(43)**	**4**	**-191%**	**(22)**	**26**
Tax	-212%	43	(38)	+129%	(13)	(6)	-110%	1	(4)	-129%	1	(6)
Non - controlling interests (loss/(profit))	-54%	2	4		--	--	+159%	7	3	--	0	0
(Loss)/profit after tax and before impairments and restructuring costs	**-361%**	**(832)**	**320**	**--**	**(757)**	**(19)**	**-**	**(35)**	**3**	**-209%**	**(21)**	**20**
Net Interest Margin (NIM)	**-35 b.p.**	**2,05%**	**2,40%**	**+36 b.p.**	**3,10%**	**2,74%**	**-59 b.p.**	**5,25%**	**5,84%**	**+14 b.p.**	**2,71%**	**2,57%**
Cost/Income Ratio	**+12,2 p.p.**	**54,9%**	**42,7%**	**-2,1 p.p.**	**47,0%**	**49,1%**	**+4,0 p.p.**	**71,2%**	**67,2%**	**-2,8 p.p.**	**53,8%**	**56,6%**

Geographical Sector Analysis of Results and Other Financial Information

Analysis does not include the impairment of GGBs, goodwill and other intangibles, the changes in fair value of hedging derivatives used to hedge GGBs and related tax

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

[20] Total expenses exclude Restructuring Costs totaling €21 mn, comprising of a €11 mn expense relating to the voluntary retirement plan in Greece and of costs €10 mn relating to the preparation of the restructuring plan and the stress test exercise carried out by the Central Bank of Cyprus.

Table 7

Condensed Balance Sheet			
€ mn	**±%**	**31.12.2012**	**31.12.2011[1]**
Cash and balances with central banks	-7%	1.272	1.375
Placements with banks and reverse repurchase agreements	-38%	1.769	2.844
Debt securities, Treasury bills and equity investments	-48%	1.870	3.567
Net loans and advances to customers	-11%	24.375	27.367
Other assets	-25%	1.746	2.321
Total assets	**-17%**	**31.032**	**37.474**
Amounts due to banks and repurchase agreements	-75%	949	3.852
Customer deposits	-4%	28.442	29.654
Debt securities in issue	-10%	45	50
Other liabilities	-22%	1.127	1.447
Subordinated loan stock	+4%	133	128
Total liabilities	**-13%**	**30.696**	**35.131**
Share capital	+100%	1.795	900
Share premium reserve	-63%	428	1.165
Convertible Enhanced Capital Securities	-50%	429	862
Revaluation and other reserves	--	106	3
Accumulated losses	+272%	(2.500)	(671)
Shareholder's equity	**-89%**	**258**	**2.259**
Non controlling interest	-9%	78	84
Total equity	**-86%**	**336**	**2.343**
Total liabilities and equity	**-17%**	**31.032**	**37.474**

[1] Restated due to change in accounting policy

Notes:

1. All geographical sector analyses are shown following restatements made to bring each sector's capital to the same percentage level of the sector's risk weighted assets as well as to reflect the excess/shortfall liquidity.

2. This announcement should be read in conjunction with the Annual Financial Report of Bank of Cyprus Group for the year 2012 which is available at the Bank of Cyprus Public Company Ltd Registered Office and on the Group's website, as follows:

   - Registered Office: 51 Stassinos Street, Ayia Paraskevi, Strovolos, P.O. Box 24884, 1398 Nicosia, Cyprus Telephone: +357 22 122128, Fax: +357 22 378422
   - Website: www.bankofcyprus.com(Inv. Relations/Financial Information)

3. The detailed presentation of the audited financial results for 2012 has been posted on the Group's website www.bankofcyprus.com(Inv. Relations/Presentations).