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Other Announcements
BANK OF CYPRUS HOLDINGS PLC
BOCH

Important Changes to the Group’s Provisioning Assumptions

Please Find Attached

Attachment:

1. **BOCH Announce**

Non Regulated

Publication Date: 21/08/2017

Bank of Cyprus Holdings

Announcement

Nicosia, 21 August 2017

Bank of Cyprus Group Profile

The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing 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 Bank of Cyprus Group operates through a total of 126 branches, of which 121 operate in Cyprus, 1 in Romania and 4 in the United Kingdom. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,302 staff worldwide. At 31 March 2017, the Group's Total Assets amounted to €22.5 bn and Total Equity was €3.1 bn. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.

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Important Changes to the Group's Provisioning Assumptions

Bank of Cyprus Holdings Public Limited Company (together with Bank of Cyprus Public Company Limited, the "Bank", and its subsidiaries, the "Group") has decided to make certain modifications to its provisioning assumptions and estimates. These changes reinforce the prudential safety of the Group's balance sheet and, ceteris paribus, position the Group to present more normal results into 2018 and beyond.

These changes reflect the Group's reconsideration of its strategy, to more actively explore other innovative strategic solutions to further accelerate balance sheet de-risking and take into consideration the on-going discussion with its supervisor, the European Central Bank ("ECB"), in context of the 2017 Supervisory Evaluation & Review Process ("SREP").

One of the key modifications to be made is the introduction of further discounts in addition to those on the recoverable value of collateral, as well as the prolongation of the assumed time taken to recover this collateral. In modifying its provisioning assumptions, the Group has given consideration to its strategy for reducing delinquent loans, as well as other available evidence. The changes being adopted reflect an increased level of conservatism within an acceptable range and are expected to position cash coverage levels near 50% of non-performing exposures (as per the European Banking Authority's definition, "NPEs").

These changes are expected to result in increased provisions of c.€500 mn in excess of previous guidance and in a reduction in the level of Deferred Tax Assets (DTA) of c.€60 mn. The Group intends to reflect these incremental adjustments in its First Half 2017 Financial Results to be announced on 29 August 2017.

Previously, the Group had guided that it anticipated a near-zero result for the full year with its operating profits being utilised to support further balance sheet de-risking. As a result of these changes to provisioning assumptions and the consequential additional provision charge, the Group expects to announce First Half 2017 Financial Results with a loss of c.€550 mn. In line with previous guidance, the Group expects its operating profits in the second half of 2017 to be utilised to further de-risk its balance sheet.

As a result of the increased balance sheet provisions, the provision coverage level on NPEs as at 30 June 2017 is expected to increase to c.48%[1] from c.42% as at 31 March 2017. The Group's Common Equity Tier 1 (CET1) ratio and Total Capital ratio as at 30 June 2017 (transitional basis) are expected to be reduced to c.12.3%[1] and c.13.7%[1], respectively, but they will continue to be in excess of the current regulatory minimum requirements of 9.5% and 13.0%, respectively.

For the past four quarters, the Group has utilised substantially all its ongoing operating profits to the de-risking of its balance sheet and this was expected to continue for some quarters to come. The decision the Group is taking today represents a significant acceleration of this strategy and concludes the Group's active and ongoing dialogue with the ECB on this matter. This is expected to allow the Group, all other things being equal, to return to a more normal level of performance in 2018, reflecting a more conventional credit charge each quarter going forward, whilst maintaining safe levels of regulatory capital and buffers to achieve other business and de-risking objectives.

Preliminary Assessment of the impact of IFRS 9

The Group continues to develop its processes to enable IFRS 9 to be implemented on 1 January 2018. The Group expects to be in a position to provide a robust estimate on the effect on its CET1 ratio later this year, when the implementation programme, validation and testing is further advanced. The capital impact of any opening IFRS 9 adjustment to

[1] Pro forma numbers based on provisional 30 June 2017 figures

the provision stock is expected to be largely phased-in over a five year period in line with the proposal of the Council of the European Union[2]. The Group expects that the IFRS 9 adjustment will further improve coverage levels to in excess of 50% and is expected to be sensibly accommodated in the 2017 SREP decision. The effect of introducing IFRS 9 on CET1 in 2018 is expected to be small on a phased-in basis. The Group expects the phased-in fully-loaded impact of IFRS 9 to be manageable within its capital plans.

Regulatory Capital

The Group believes that it can accommodate both the changes in its provisioning assumptions and the estimated phased-in impact of IFRS 9 within its current CET1 capital. This is predicated on the ECB's 2017 SREP decision taking account of these deliberate and decisive adjustments and the implementation of the currently proposed IFRS 9 transitional reliefs.

The Group does not expect to have to raise any further equity in the form of Common Equity Tier 1 and expects its post-adjustment equity position to be satisfactory to its supervisors. The Group expects to re-build further strength in its CET1 capital base in 2018 through posting results which reflect a more conventional credit-credit cost.

In January 2017, the Group raised €250 mn of Tier 2 capital. The Group will continue, subject to market conditions, to examine opportunities to raise additional Tier 2 and/or AT1 bonds in the next 12 months. This will further strengthen the Group's capital base well ahead of Minimum Required Eligible Liabilities ("MREL") and create greater versatility into the future.

The Group expects to continue to be able to support the recovery of the Cyprus economy through the provision of new lending.

For further information, please contact Investor Relations at investors@bankofcyprus.com.

[2] Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9 and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States http://data.consilium.europa.eu/doc/document/ST-9480-2017-INIT/en/pdf