



Announcement

Agreement for sale of a portfolio of non-performing loans

Nicosia, 28 August 2018

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014.

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 122 branches, of which 120 operate in Cyprus, 1 in Romania and 1 in the United Kingdom. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 4,402 staff worldwide. At 30 June 2018, the Group's Total Assets amounted to €23.7 bn and Total Equity was €2.2 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.



Bank of Cyprus
The best Bank in Cyprus 2017

Bank of Cyprus Holdings Public Limited Company (“BOC Holdings” and, together with its subsidiaries, the “Group”) has reached an agreement for the sale of a portfolio (the “Portfolio”) of loans with a gross book value of €2.8 bn^{1,2} (of which €2.7 bn¹ relate to non-performing loans) secured by real estate collateral (“NPLs”) (known as “Project Helix”, or the “Transaction”). The Portfolio will be transferred to a licensed Cypriot Credit Acquiring Company (the “CyCAC”) by Bank of Cyprus Public Company Limited (the “Bank”). The shares of the CyCAC will then be acquired by certain funds affiliated with Apollo Global Management LLC (NYSE:APO) (together with its consolidated subsidiaries “Apollo”), the purchaser of the Portfolio. Funds managed by Apollo will provide equity capital in relation to the financing of the purchase of the Portfolio. The purchaser was selected following a competitive sale process.

The Portfolio has a contractual balance of €5.7 bn³. The net book value of the assets being sold as at 30 June 2018 amounted to €1.5 bn¹ before the impact of the Transaction on the 2Q 2018 income statement. At completion, the Bank will receive gross cash consideration of c.€1.4 bn. The Portfolio comprises 14,024 loans to corporate and SME borrowers, secured over 9,065 properties.

The completion of the Transaction remains subject to a number of conditions precedent, including mainly regulatory and other approvals, including the ECB agreeing to a Significant Risk Transfer (“SRT”) benefit from the Transaction. The Bank intends to participate in the senior debt in relation to such financing in an amount of €450 mn, subject to regulatory approval.

Following a transitional period where servicing will be retained by the Bank, it is intended that the servicing of the Portfolio will be carried out by a long-term servicer. Arrangements in relation to the migration of servicing from the Bank to the long-term servicer, including the timing of the migration, remain under discussion between the parties.

The Transaction accelerates the Bank’s strategy of de-risking its balance sheet, resulting in a non-performing exposure (“NPE”) ratio improvement of c.10 percentage points^{1,4}. The deconsolidation of the Portfolio from the Bank’s balance sheet is expected to have a positive impact on the Bank’s capital ratios of c.60 bps^{1,4}. The accounting loss attributable to the Transaction reported in 2Q2018 is estimated at €135 mn¹, declining to c.€105 mn¹ by the year end, as time value of money of c.€30 mn¹ unwinds.

The Transaction is the first NPL disposal by the Bank and represents a significant milestone in the delivery of the Bank’s strategy of improving asset quality through the reduction of NPEs. Following the completion of Project Helix, the Bank’s gross NPEs will be 65%^{1,4} lower than its peak in 2014.

¹ Based on the Group’s Financial Results for the six months ended 30 June 2018.

² The gross book value of €2.8 bn includes properties of €39 mn that will also be transferred to the buyer.

³ As at the portfolio reference date of 31 March 2018.

⁴ Calculations on a pro forma basis assume completion of the Transaction and Significant Risk Transfer benefit from Helix, which as at the date of this announcement has not been approved by the ECB. Calculations assume no changes in the capital or provisioning levels required as result of the upcoming SREP process or otherwise. Any such changes may be materially adverse.

Apollo is a leading global alternative investment manager with offices in New York, Los Angeles, Houston, Chicago, Bethesda, Toronto, London, Frankfurt, Madrid, Luxembourg, Mumbai, Delhi, Singapore, Hong Kong and Shanghai. Apollo had assets under management (AUM) of approximately \$270 billion as of June 30, 2018 in Private Equity, Credit and Real Assets invested across a core group of nine industries where Apollo has considerable knowledge and resources.

John Patrick Hourican, Group Chief Executive Officer, commented:

“This is a transformative sale for the Bank and is the first meaningful Corporate and SME NPL trade in Cyprus. Since 2014, we have focused on decreasing our stock of NPLs and improving the asset quality of the Bank, and today’s Transaction is a significant step forward on our journey of de-risking the balance sheet and enhancing our capital position. There is of course much more work to be done and we remain as focused as ever on continuing to seek solutions, both organic and inorganic, to further improve the Bank’s asset quality position.”

Morgan Stanley & Co. International plc, KPMG LLP and Alantra Corporate Portfolio Advisors International acted as financial advisors, Allen & Overy LLP acted as lead English legal advisors, Chryssafinis & Polyviou LLC acted as lead Cypriot legal advisors and Ashurst LLP as legal advisors to Bank of Cyprus in this Transaction.

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