Bank of Cyprus Holdings

Explanatory Press Release

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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Steady Progress in the Group's Recovery

The Bank of Cyprus Group (Bank of Cyprus Holdings Public Limited Company and together with Bank of Cyprus Public Company Limited, the "Bank", and its subsidiaries, the "Group") continues to make steady progress in its journey back to full strength. Capital levels remain adequate. Deposit levels are stable and now more than fully fund the loan book. Non-performing loan balances have declined steadily over the past nine quarters and provision coverage levels against non-performing loans have steadily risen each quarter. The operating performance of the Group is reasonable and an essential modernisation programme is underway. Management remains entirely focused on completing this journey and recognises that there is more to do before the repair can be declared complete.

Additional Provisions to help accelerate Non-Performing Loan reduction

Today, the Group announced a deliberate additional change to the way it provides against delinquent loans on its balance sheet. This change will result in the Group allocating an additional €500 mn of its capital (through making additional provisions) against these risks. This additional provisioning, as a result of the Group's strategy to better explore other innovative strategic solutions to further accelerate balance sheet de-risking, will also help the Group draw a line under its discussions with the European Central Bank ("ECB") on the levels of provisioning that the ECB expects to see against such non-performing loans. It is too early to go into detail on what these transformational initiatives could include but it suffices to say that detailed work is underway with a number of external counterparties.

No additional Capital required

Although allocating an incremental €500 mn of capital to de-risk the balance sheet through increased provision coverage will result in the Group posting a loss of approximately €550 mn for the half year to 30 June 2017, the reality is that the strength of the Group's capital position has allowed the Group to accommodate this without the need to raise any additional core equity capital. The landmark €1 bn equity raise carried out in the summer of 2014 has to date proven sufficient to support the Group's recovery and allowed it support the recovering Cyprus economy. The Group does not expect to have to raise any further core equity and expects to re-build further strength in its capital base during 2018 through posting results which will reflect a more conventional credit-cycle cost.

Return to profits in 2018

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. This essentially meant that any operating profits made were being utilised to increase provisioning against risk in the balance sheet. Although the Group expects its operating profits in the second half of 2017 to be utilized to further de-risk its balance sheet, management expects a return to more normal provisioning levels in 2018 and, all other things being equal, to more meaningful profitability.

Continued support of the Cyprus Economy

The Group recognises its role in supporting the recovering Cyprus economy through the provision of credit to creditworthy businesses. To this end, the Group has provided approximately €1 bn of new lending to the Cyprus economy in 2016 and a similar level of lending during the first half of 2017. Maintaining a flow of lending, tackling legacy non-performing loans, modernising the Group, sustaining customer confidence and recovering societal trust remain priorities for the Group. The Group will continue all efforts to recover full value from delinquent borrowers.