



Announcement

Agreement for sale of a portfolio of non-performing loans

Nicosia, 3 August 2020

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 99 branches in Cyprus, of which 15 operate as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 3,566 staff worldwide. At 31 March 2020, the Group's Total Assets amounted to €20.4 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 Holdings Public Limited Company (“BOC Holdings” and, together with its subsidiaries, the “Group”) has reached an agreement with funds affiliated with Pacific Investment Management Company LLC (“PIMCO”), for the sale of a portfolio (the “Portfolio”) of Non Performing Loans with a gross book value of €916 mn^{1,2} (known as “Project Helix 2”, or the “Transaction”).

The Portfolio has a contractual balance of €1.46 bn³ and it comprises 22,224 loans, mainly to Retail and SME clients, secured over 5,616 real estate collaterals. The net book value of the assets being sold amounts to €440 mn¹. The consideration amounts to 46% of the gross book value and 29% of the contractual balance payable in cash, of which 35% is payable at completion and the remaining 65% is deferred without any conditions attached. The deferred component is payable in three broadly equal instalments over 48 months from completion.

The consideration can be increased through an earnout arrangement, depending on the performance of the Portfolio.

The Transaction accelerates the Bank’s strategy of de-risking its balance sheet, by reducing its stock of NPEs by 24%¹ and its NPE ratio by 5 percentage points¹. At completion, the Transaction is expected to have an impact of -34 bps¹ on the Group’s CET 1 ratio. Upon the full repayment of the deferred consideration and without taking account of any positive impact from the earnout, the Transaction is expected to have a +9 bps¹ capital impact on the Group’s CET 1 ratio. The accounting loss attributable to the Transaction is estimated at c.€68 mn recorded in 2Q2020.

The completion of the Transaction is currently estimated to occur in the first half of 2021 and remains subject to a number of conditions, including customary regulatory and other approvals.

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 PIMCO, the purchaser of the Portfolio.

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 third party servicer selected and appointed by the CyCAC. Arrangements in relation to the migration of servicing from the Bank to the servicer, including the timing of the migration, remain under discussion between the parties.

The Transaction represents another milestone in the delivery of the Group’s core strategy of improving asset quality through the reduction of NPEs. Including Helix 2, the NPE reduction in the first six months of 2020 amounted to €1.3 bn, reducing the NPE ratio to 22%. This includes organic NPE reduction of €278 mn and the completion of the sale of €133 mn primarily retail unsecured NPEs (Velocity 2).

The Bank remains fully committed to further de-risking of the balance sheet. In the context of IFRS 9, the Bank estimates additional loan credit losses of €21 mn in 2Q2020, as a result of potential further NPE sales in the future. In 4Q2019 loan credit losses of €75 mn were recorded as a result of the anticipated balance sheet de-risking at the time.

The Group’s CET1 ratio at 30 June 2020 is expected to remain broadly unchanged compared to the CET 1 ratio of 14.3% as at 31 March 2020, taking account of the capital benefit resulting from the amendments to capital regulations introduced in June 2020.

PIMCO is one of the world's premier fixed income investment managers. With its launch in 1971 in Newport Beach, California, PIMCO introduced investors to a total return approach to fixed income investing. In the 45+ years since, the firm continued to bring innovation and expertise to their partnership with clients seeking the best investment solutions. Today PIMCO has offices across the globe and 2,900+ professionals united by a single purpose: creating opportunities for investors in every environment. PIMCO is owned by Allianz SE, a leading global diversified financial services provider.

Panicos Nicolaou, Group Chief Executive Officer, commented:

"I am pleased to announce the signing of Helix 2 today, another significant disposal of non-performing loans by the Bank, despite the challenging market conditions resulting from the outbreak of COVID-19. The combined de-risking actions, including Helix 2, have reduced NPEs in the first six months of 2020 by €1.3 bn. Overall, since the peak in 2014, we have now reduced the stock of NPEs by €12.4 bn⁴ or 83%⁴ to €2.6 bn⁴ and our NPE ratio is reduced to 22%⁴.

We remain committed to further de-risking of the balance sheet and we will continue to seek solutions, both organic and inorganic to achieve this. We will continue to assess the potential to accelerate the decrease in NPEs on our balance sheet through additional sales of NPEs in the future.

This transaction marks further progress against delivering on our strategic objectives of becoming a stronger, safer and more focused institution. We are now better positioned to manage the challenges resulting from the impact of the ongoing COVID-19 crisis, and to support the recovery of the Cypriot economy".

Morgan Stanley & Co. International plc and KPMG LLP acted as financial advisors, Allen & Overy LLP acted as English legal advisors and Chryssafinis & Polyviou LLC acted as Cypriot legal advisors to the Bank in this Transaction.

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

¹ Based on the Group Financial Results for the quarter ended 31 March 2020.

² On balance sheet gross book value of which €903 mn¹ relate to non-performing exposures or "NPEs". The gross book value of €916 mn includes properties of €4 mn that will also be transferred to the buyer.

³ As at the portfolio reference date of 30 September 2019.

⁴ Calculations on a pro forma basis assume completion of the Transaction.