Bank of Cyprus Group

Announcement

Trading update relating to Preliminary financial results for year ended 31 December 2015:

- Trading update
- Date of announcement

Nicosia, 2 February 2016

- The Bank has made changes to its provisioning assumptions taking into account the on-going regulatory dialogue with ECB, bolstering its provision coverage levels

- Provisions for impairment of loans expected at €0,6 bn during the fourth quarter of 2015, with a full-year charge of €1 bn, resulting in an expected full-year loss after tax of €0,4 bn

- CET 1 ratio expected to remain strong at approximately 14,0%; The Bank does not need to raise additional capital

- 90+ DPD decreased by €0,7 bn (a 6% decrease) during the fourth quarter of 2015; Provisioning coverage of 90+ DPD to improve to levels approaching 50%

- Customer deposits increased by €0,6 bn (a 4% increase) during the fourth quarter of 2015

- Post 30 September 2015, €1,4 bn of ELA funding has been repaid, reducing to a current level of €3,5 bn

Trading update[1]

As part of its announcement of the financial results for the nine months ended 30 September 2015 on 23 November 2015, Bank of Cyprus Public Company Ltd ("Bank" or "Group") announced that, in light of its on-going regulatory dialogue with the European Central Bank ("ECB") regarding the Supervisory Review Evaluation Process ("SREP"), it would be monitoring and reassessing its provisioning assumptions, estimates and methodologies to determine whether, within the parameters of International Financial Reporting Standards ("IFRS"), there were any changes that it could and should make, taking into consideration the ECB's prudential regulatory expectations.

Having considered the above, the Bank's Board of Directors decided, within the parameters of its existing IFRS methodologies, taking into account the regulatory dialogue with the ECB, to make certain amendments to the assumptions in the Bank's provisioning methodologies. These changes relate to extending recovery periods and applying additional realisation discounts on certain portfolios of problem loans. Provisions are a highly judgmental area under IFRS. The Bank, in changing its provisioning assumptions, has considered its strategy for managing problem loans and other available evidence, reflecting an increased level of conservatism within an acceptable range. Consequently, the Bank expects to increase its provisioning levels by €0,6 bn to a full-year charge[2] of about €1 bn, resulting in an expected full-year loss after tax of €0,4 bn.

These changes will significantly bridge the regulatory dialogue with the ECB and explicitly bolster the Bank's provisioning levels. As a result, provision coverage levels against the Bank's loans in arrears for more than 90 days (90+ DPD)[3] will improve to levels approaching 50% and the Bank's Common Equity Tier 1 capital (CET1) ratio (transitional basis) will continue to be strong at about 14,0%. The Bank's CET1 ratio will remain higher than the minimum required ratio of 11,75% relating to the Pillar II capital requirement, confirming that there is no need for the Group to raise additional capital.

Were the Bank not to make any changes to its provisioning assumptions, the profit after tax for the year 2015 would have been about €100 mn. The Bank's CET1 ratio would, in these circumstances, exceed 16%.

The Bank continues to make good progress in delivering against its strategic objectives. During the fourth quarter of 2015 and during January 2016, the Bank completed the restructuring of a number of large lending exposures. This is expected to result in a €0,7 bn reduction in 90+ DPD for the fourth quarter of 2015 (6% decrease) and further reductions for the early quarters of 2016 are expected as the restructuring efforts continue. The Bank's liquidity position continues to improve, benefiting from continuing deposit inflows, with customer deposits growing by €0,6 bn during the fourth quarter of 2015 (4% increase). €1,4 bn of ELA funding has been repaid post 30 September 2015, reducing it to a current level of €3,5 bn.

Date of announcement

The Board of Directors of the Bank will convene on Thursday, 25 February 2016, to examine the Group's preliminary financial results for the year ended 31 December 2015. The preliminary financial results will be announced on the same day after market close to the Cyprus Stock Exchange and the Athens Exchange.

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[1] The figures in this announcement are preliminary and unaudited. This announcement contains forward-looking statements. Forward-looking statements are statements that are not historical facts; they include statements about our beliefs and expectations and the assumptions underlying them. These statements are based on plans, estimates and projections as they are currently available to the management of the Bank. Forward-looking statements therefore speak only as of the date they are made.
[2] That is Provisions for impairment of customer loans (continuing operations) and gain on derecognition in expected cash flows on acquired loans.
[3] Loans in arrears for more than 90 days (90+ DPD) are defined as loans with specific provisions and loans past-due for more than 90 days.