



Rating Action: Moody's upgrades Bank of Cyprus' and Hellenic Bank's long-term deposit ratings to Baa3, from Ba1, with positive outlook

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Limassol, October 03, 2023 -- Moody's Investors Service ("Moody's") has today upgraded Bank of Cyprus Public Company Limited's (Bank of Cyprus) and Hellenic Bank Public Company Ltd's (Hellenic Bank) ratings, including their long-term deposit ratings to Baa3 from Ba1 and their Baseline Credit Assessments (BCAs) and Adjusted BCAs to ba2 from ba3.

The outlook on the two banks' long-term deposit and senior unsecured debt ratings is positive.

The main driver for today's rating upgrade is the continued resilience of the Cypriot economy and credit conditions, which are leading to supportive operating conditions for Cypriot banks. This has led Moody's to raise its Macro Profile score for Cyprus to "Moderate", from "Moderate-".

The rating action also captures the continued improvements in Cypriot banks' individual solvency profiles, with further gradual improvements in asset quality and capital metrics, and a significant strengthening in banks' core profitability.

The positive outlooks reflect Moody's expectations that the two banks will maintain solid profitability and capital metrics, and will continue to reduce legacy asset quality risks, countering any new nonperforming loans (NPL) that may stem from the higher interest rate environment and still-high inflation.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

CYPRUS' MACRO PROFILE WAS RAISED TO MODERATE, FROM MODERATE -

The main rating driver for today's upgrades is the strengthened resilience of the Cypriot economy and bank credit conditions leading to a more supportive operating environment for the country's banks.

The Cypriot economy continues to be resilient despite significant external shocks, the latest being the Russia-Ukraine military conflict and related sanctions, and Moody's expects GDP growth of 2.3% in 2023 and 2.8% in 2024 for Cyprus, which is higher than the rating agency's forecast for the euro area (0.7% in 2023 and 1.2% in 2024). Moody's also expects solid medium-term GDP growth of 3.2% on average over 2025-27 supported by significant foreign direct investment projects and investments, with investments and growth further underpinned by sizeable European Union funds and the related reforms spelt out in Cyprus' national recovery and resilience plans.

At the same time, while residual asset risks remain, in the context of still elevated NPLs, the higher interest rate environment and still-high inflation, initial indications are of a limited impact on the Cypriot banks' asset quality profile as banks continue to resolve their legacy asset quality issues leading to further improvements in asset quality metrics in the last few quarters.

As a consequence, Moody's has increased Cyprus' macro profile score by one notch to "Moderate", which in turn translates into upward pressure on rated banks' standalone credit profiles.

BANK-SPECIFIC RATING DRIVERS

BANK OF CYPRUS

— Rationale for Upgrade

The upgrade of Bank of Cyprus' long-term ratings and assessments reflects Cyprus' higher Macro profile of "Moderate", underpinned by the resilience of the Cypriot economy and overall credit conditions, that is in turn reducing risks to the bank's credit profile.

The higher ratings also reflect continued gradual improvements in asset quality and capital metrics, and a significant strengthening in the bank's core profitability. Reported nonperforming exposures (NPEs) declined to 3.6% of gross loans as of June 2023, from 4.0% as of December 2022, and the bank strengthened its coverage to 78% of NPEs as of June 2023. Bank of Cyprus reported a Common Equity Tier 1 (CET1) capital ratio of 16.0% as of June 2023 (which incorporates dividend accruals and the reviewed results for the first half of 2023), up from 15.2% as of year-end 2022, the highest level in recent years. Finally, reported net income to tangible assets strengthened materially to 1.6% during the first six months of 2023, from 0.5% during 2022, supported by the higher interest rate environment and the bank's cost cutting initiatives.

— Rationale for Positive Outlook

The positive outlook on the long-term deposit and senior unsecured debt ratings reflects Moody's expectation that residual asset-quality risks will continue to recede as the bank continues to reduce its stock of foreclosed real estate assets, as the bank maintains solid profitability and capital metrics, and as asset quality metrics remain resilient to the higher inflation and interest rate environment.

Bank of Cyprus' Baa3 long-term deposit ratings continue to be placed two notches above its ba2 BCA, driven by the current protection afforded to depositors from more loss-absorbing junior securities. The positive outlook on the long-term deposit ratings also takes into account that potential future debt issuances by the bank and evolution of its balance sheet could provide a higher buffer for depositors.

HELLENIC BANK

— Rationale for Upgrade

The upgrade of Hellenic Bank's long-term ratings and assessments reflects Cyprus' higher Macro profile of "Moderate", underpinned by the resilience of the Cypriot economy and overall credit conditions, that is in turn reducing risks to the bank's credit profile.

The higher ratings also reflect continued gradual improvements in asset quality and capital metrics, and a significant strengthening in the bank's core profitability. Hellenic Bank's NPEs dropped to 3.3% of gross loans as of June 2023, excluding NPEs that are 90% guaranteed by the government, from 3.6% as at year-end 2022, adjusted for its latest NPE sale. Hellenic Bank's CET1 ratio was at a high 20.8% as of June 2023, up from 19.1% as of year-end 2022. Net income to tangible assets also strengthened significantly to 1.6% during the first six months of 2023, from 0.4% during 2022, supported by the higher interest rate environment and the bank's cost cutting initiatives.

— Rationale for Positive Outlook

The positive outlook on the long-term deposit and senior unsecured debt ratings reflects Moody's expectation that the bank will maintain solid profitability and capital metrics, as asset quality metrics remain broadly stable in spite of the higher interest rate environment and still-high inflation that is weighing on borrowers' loan repayment capacity.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Bank of Cyprus' ratings could be upgraded if the bank maintains solid profitability and capital metrics, it reduces its stock of real estate property and it mitigates the impact of any weaker borrower repayment capacity on its asset-quality metrics. Bank of Cyprus' deposit ratings could also benefit from increased future debt issuances or from a shrinking of its balance sheet, which significantly raise the buffers available to absorb losses.

Given the positive outlook, it is unlikely that there will be a downgrade in Bank of Cyprus' ratings. The positive outlook on the bank's ratings may be changed to stable if Moody's determines that recent asset quality improvements will reverse, the current operating environment will weaken or if the rating agency determines that solid profitability metrics are not sustainable.

Hellenic Bank's ratings could be upgraded if the bank manages to maintain solid profitability, by further enhancing operational efficiencies, growing its lending sustainably and increasing other sources of revenue to counter its high reliance on net interest income. Sustaining recent NPE improvements, improving its NPE coverage ratio and maintaining solid capital levels are also important for an upgrade.

Given the potential acquisition of a majority stake in Hellenic Bank by Greece's Eurobank S.A., the ratings may also be impacted by any upgrade to Eurobank S.A.'s BCA (ba2, deposit rating of Baa3, with a positive outlook).

Given the positive outlook, it is unlikely that there will be a downgrade in Hellenic Bank's ratings. The positive outlook on the bank's ratings may be changed to stable if Moody's expects that recent asset quality improvements will reverse or that the operating environment will weaken, or if the rating agency determines that solid profitability metrics are not sustainable.

LIST OF AFFECTED RATINGS

..Issuer: Bank of Cyprus Holdings Public Ltd Company

Outlook Actions:

....No Outlook

Upgrades:

....Subordinate Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba3 from (P)B1

....Subordinate Medium-Term Note Program (Local Currency), Upgraded to (P)Ba3 from (P)B1

.... Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba2 from (P)Ba3

.... Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)Ba2 from (P)Ba3

....Pref. Stock Non-cumulative (Local Currency), Upgraded to B2 (hyb) from B3 (hyb)

....Subordinate Regular Bond/Debenture (Local Currency), Upgraded to Ba3 from B1

..Issuer: Bank of Cyprus Public Company Limited

Outlook Actions:

....Outlook, Remains Positive

Upgrades:

.... Adjusted Baseline Credit Assessment, Upgraded to ba2 from ba3

.... Baseline Credit Assessment, Upgraded to ba2 from ba3

.... ST Counterparty Risk Assessment, Upgraded to P-2(cr) from P-3(cr)

.... LT Counterparty Risk Assessment, Upgraded to Baa2(cr) from Baa3(cr)

.... ST Counterparty Risk Rating (Foreign Currency), Upgraded to P-2 from P-3

.... ST Counterparty Risk Rating (Local Currency), Upgraded to P-2 from P-3

.... LT Counterparty Risk Rating (Foreign Currency), Upgraded to Baa2 from Baa3

.... LT Counterparty Risk Rating (Local Currency), Upgraded to Baa2 from Baa3

.... ST Bank Deposits (Foreign Currency), Upgraded to P-3 from NP

.... ST Bank Deposits (Local Currency), Upgraded to P-3 from NP

....LT Bank Deposits (Foreign Currency), Upgraded to Baa3 POS from Ba1 POS

....LT Bank Deposits (Local Currency), Upgraded to Baa3 POS from Ba1 POS

....Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)Ba2 from (P)Ba3

....Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba2 from (P)Ba3

.... Junior Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)Ba2 from (P)Ba3

.... Junior Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba2 from (P)Ba3

....Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to Ba2 POS from Ba3 POS

..Issuer: Hellenic Bank Public Company Ltd

Outlook Actions:

....Outlook, Remains Positive

Upgrades:

.... Adjusted Baseline Credit Assessment, Upgraded to ba2 from ba3

.... Baseline Credit Assessment, Upgraded to ba2 from ba3

.... ST Counterparty Risk Assessment, Upgraded to P-2(cr) from P-3(cr)

.... LT Counterparty Risk Assessment, Upgraded to Baa2(cr) from Baa3(cr)

.... ST Counterparty Risk Rating (Foreign Currency), Upgraded to P-2 from P-3

.... ST Counterparty Risk Rating (Local Currency), Upgraded to P-2 from P-3

... LT Counterparty Risk Rating (Foreign Currency), Upgraded to Baa2 from Baa3

... LT Counterparty Risk Rating (Local Currency), Upgraded to Baa2 from Baa3

... ST Bank Deposits (Foreign Currency), Upgraded to P-3 from NP

... ST Bank Deposits (Local Currency), Upgraded to P-3 from NP

...LT Bank Deposits (Foreign Currency), Upgraded to Baa3 POS from Ba1 POS

...LT Bank Deposits (Local Currency), Upgraded to Baa3 POS from Ba1 POS

...Subordinate Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba3 from (P)B1

...Subordinate Medium-Term Note Program (Local Currency), Upgraded to (P)Ba3 from (P)B1

...Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba2 from (P)Ba3

...Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)Ba2 from (P)Ba3

...Junior Senior Unsecured Medium-Term Note Program (Local Currency), Upgraded to (P)Ba2 from (P)Ba3

...Junior Senior Unsecured Medium-Term Note Program (Foreign Currency), Upgraded to (P)Ba2 from (P)Ba3

...Subordinate Regular Bond/Debenture (Local Currency), Upgraded to Ba3 from B1

...Senior Unsecured Regular Bond/Debenture (Local Currency), Upgraded to Ba2 POS from Ba3 POS

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at <https://ratings.moodys.com/rmc-documents/71997>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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