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Indicative Results

BANK OF CYPRUS HOLDINGS PLC

BOCH

Preliminary Group Financial Results for the year ended 31 December 2020

Preliminary Group Financial Results for the year ended 31 December 2020

Attachment:

1. **Preliminary Group Financial Results for the year ended 31 December 2020**

Regulated

Publication Date: 24/02/2021

Bank of Cyprus Holdings

Announcement

Preliminary Group Financial Results for the year ended 31 December 2020

Nicosia, 24 February 2021

Key Highlights for the year ended 31 December 2020

Achievements in 2020

Successful navigation through the pandemic with clear priorities

- Protection of staff and customer health, while ensuring operational resilience of the Bank
- c.€1.4 bn new lending to support the recovery of the Cypriot economy
- Payment holidays until end of 2020 to >25,000 customers (€5.9 bn)

Significant progress on balance sheet de-risking despite challenging environment

- €2.1 bn NPE reduction, pro forma for NPE sales; €1.5 bn NPE sales and €0.6 bn organic
- Gross NPE ratio reduced to 16% (7% net) and NPE coverage increased to 59%, both pro forma for NPE sales
- RWA intensity reduced to 53%, pro forma for NPE sales

Asset quality management throughout the pandemic

- Provision of support to impacted customers to alleviate short term cash flow burden
- Close monitoring of loans in moratoria
- Encouraging performance since the end of moratorium (31 December 2020); €3.6 bn had an instalment due by 15 February 2021, and 95% of those resumed payments

Careful cost management

- Total operating expenses (excl. special levy and contributions to SRF and DGF) in FY2020 down 12% yoy
- Cost to income ratio (excl. special levy and contributions to SRF and DGF) at 60% for FY2020, broadly flat yoy
- Digitally engaged customers increased to 75%, up 6 p.p. yoy

Launch of New Strategic Plan and Medium Term Targets

- Single digit NPE ratio by the end of 2022
- Return on Tangible Equity (ROTE) of c.7%

Key Highlights for the quarter ended 31 December 2020

Positive Organic Performance in 4Q2020

- New lending of €374 mn in 4Q2020, up 30% qoq, reflecting early recovery post 1H2020 lockdown
- Total income of €142 mn up 3% qoq; Operating profit of €45 mn
- Cost of risk of 99 bps
- Organic profit after tax of €2 mn
- Exceptional items of €51 mn, including provisions / net loss relating to NPE sales (incl. restructuring expenses) of €42 mn
- Loss after tax of €49 mn for 4Q2020 and €171 mn for FY2020, post exceptional items

Operating Efficiency

- Total operating expenses (excluding special levy and contributions to SRF and DGF) of €91 mn for 4Q2020, up 7% qoq
- Cost to income ratio (excluding special levy and contributions to SRF and DGF) at 64% for 4Q2020

Good Capital, Strong Liquidity

- CET1 ratio of 15.2% and Total Capital ratio of 18.7%, on a transitional basis and pro forma for NPE sales
- Deposits at €16.5 bn, broadly flat yoy and qoq
- Significant surplus liquidity of €4.2 bn (LCR at 254%)

Significant Progress in Balance Sheet Repair

- €0.5 bn NPE sale (Helix 2 Portfolio B) signed in January 2021; €1.5 bn NPE sales since December 2019
- NPEs reduced by €2.1 bn to €1.8 bn (€0.7 bn net) in FY2020, pro forma for NPE sales
- Gross NPE ratio reduced to 16% (7% net) and coverage maintained at 59%, pro forma for NPE sales

Group Chief Executive Statement

"In this challenging year, we have successfully navigated the on-going COVID-19 pandemic by continuing to focus on providing support to our customers, colleagues and community. This remains our main priority.

Supporting our customers, colleagues and community

Throughout the year we supported our customers and granted payment holidays to over twenty-five thousand customers representing loans of €5.9 bn, all of which have expired on 31 December 2020. We continue to closely monitor the performance of these loans in the new year and we remain cautiously optimistic as results to mid-February 2021 are encouraging. We also granted c.€1.4 bn new loans in 2020, while maintaining our strict lending criteria.

Financial performance in 2020

Despite the challenging environment, we have sustained our focus on the further strengthening of our balance sheet and improvement in our asset quality, where we have made material progress. We reached agreement for the sale of a €0.9 bn NPE portfolio in August 2020 and a further €0.5 bn NPE portfolio in January 2021, representing a further milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs. Combined with a further c.€600 mn organic reduction in NPEs, and a smaller NPE sale earlier in the year, the pro forma NPE reduction for 2020 amounted to c.€2.1 bn, reducing NPEs to €1.8 bn and the NPE ratio from 30% to 16%. Overall, since the peak in 2014, we have now reduced the stock of NPEs by €13.2 bn or 88% and the NPE ratio by 47 percentage points, from 63% to 16%, pro forma for NPE sales.

During the fourth quarter of the year, we generated total income of €142 mn and a positive operating result of €45 mn. Cost of risk was maintained at 99 bps. Q4 had an underlying profit of €2 mn. The overall result for the quarter was a loss after tax of €49 mn and for the year a loss after tax of €171 mn, when including the impact of NPE sales.

During the fourth quarter of the year we also extended a further €374 mn in new loans, up by 30% compared to the previous quarter, as new demand increased post initial lockdown, supported by Government schemes.

In 2020 we reduced our total operating expenses (excluding levies and contributions) by €45 mn or 12% on the prior year, reflecting our on-going efforts to contain costs. Looking into the medium term, we will ensure our annual cost base remains below €350 mn, whilst further investment in our digital capabilities takes place in the near term.

The Bank's capital position remains good and comfortably in excess of our regulatory requirements. As at 31 December 2020, our capital ratios (on a transitional basis) were 18.7% for the Total Capital ratio and 15.2% for CET1 ratio, both pro forma for NPE sales. Our liquidity position also remains strong and we continue to operate with a significant surplus of €4.2 bn (LCR at 254%). Deposits on our balance sheet remained broadly flat in the quarter and in the year at €16.5 bn.

Shaping our business for the future

With our third quarter results we outlined our medium term strategic targets to which we remain committed. This includes completing the de-risking of our balance sheet, represented by a target of achieving a single digit NPE ratio by the end of 2022 and an NPE ratio of c.5% in the medium term. We aim to achieve this through both organic and inorganic actions, and therefore we will continue to assess the potential to accelerate NPE reduction through additional sales. We remain committed to enhancing shareholder value through the generation of a Return on Tangible Equity of c.7% in the medium term.

Outlook

The restrictive measures imposed in the fourth quarter have extended into the new year and are expected to lead to some temporary loss of momentum in the economic recovery in early 2021. However, the development of effective vaccines is encouraging and successful vaccination programmes both in Cyprus and abroad should act as strong catalysts for both global and local economic recovery.

Our vision for the future of the Bank is clear, as is our understanding of how we will deliver that vision. Significant progress has been made in repositioning the Bank, however we know there is more to be done, with a focus on driving down costs through effective digitisation and automation, and enhancing revenues by capitalising on our market leading positions across our businesses. We remain confident that the initiatives we are focused on will allow us to create shareholder value in the medium term."

Panicos Nicolaou

A. Preliminary Group Financial Results – Statutory Basis

Unaudited Consolidated Income Statement for the year ended 31 December 2020

	2020	2019
	€000	€000
Turnover	**765,095**	910,576
Interest income	**389,179**	454,997
Income similar to interest income	**47,530**	53,180
Interest expense	**(61,991)**	(93,493)
Expense similar to interest expense	**(44,720)**	(48,708)
Net interest income	**329,998**	365,976
Fee and commission income	**151,091**	171,715
Fee and commission expense	**(6,417)**	(9,821)
Net foreign exchange gains	**16,535**	26,596
Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	**1,721**	18,675
Insurance income net of claims and commissions	**56,063**	57,660
Net (losses)/gains from revaluation and disposal of investment properties	**(1,499)**	2,249
Net gains on disposal of stock of property	**8,189**	25,952
Other income	**14,957**	28,938
	570,638	687,940
Staff costs	**(201,052)**	(306,713)
Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies	**(33,656)**	(43,609)
Other operating expenses	**(188,560)**	(242,622)
	147,370	94,996
Net gains on derecognition of financial assets measured at amortised cost	**2,949**	8,187
Credit losses to cover credit risk on loans and advances to customers	**(275,080)**	(232,451)
Credit losses of other financial instruments	**(4,585)**	(4,790)
Impairment of non-financial assets	**(37,586)**	(26,081)
Loss before share of profit from associates and remeasurement	**(166,932)**	(160,139)
Remeasurement of investment in associate upon classification as held for sale	**-**	(25,943)
Share of profit from associates	**69**	5,513
Loss before tax	**(166,863)**	(180,569)
Income tax	**(7,920)**	112,831
Loss for the year	**(174,783)**	(67,738)
Attributable to:		
Owners of the Company	**(171,532)**	(70,275)
Non-controlling interest	**(3,251)**	2,537
Loss for the year	**(174,783)**	(67,738)
Basic and diluted loss per share attributable to the owners of the Company (€ cent)	**(38.5)**	(15.8)

A. Preliminary Group Financial Results – Statutory Basis (continued)

Unaudited Consolidated Balance Sheet as at 31 December 2020

	2020	2019
Assets	**€000**	€000
Cash and balances with central banks	**5,653,315**	5,060,042
Loans and advances to banks	**402,784**	320,881
Derivative financial assets	**24,627**	23,060
Investments	**1,876,009**	1,682,869
Investments pledged as collateral	**37,105**	222,961
Loans and advances to customers	**9,886,047**	10,721,841
Life insurance business assets attributable to policyholders	**474,187**	458,852
Prepayments, accrued income and other assets	**249,877**	243,930
Stock of property	**1,349,609**	1,377,453
Deferred tax assets	**341,360**	379,126
Investment properties	**128,088**	136,197
Property and equipment	**272,474**	288,054
Intangible assets	**185,256**	178,946
Investments in associates and joint venture	**2,462**	2,393
Non-current assets and disposal groups held for sale	**630,931**	26,217
Total assets	**21,514,131**	21,122,822
Liabilities		
Deposits by banks	**391,949**	533,404
Funding from central banks	**994,694**	-
Repurchase agreements	**-**	168,129
Derivative financial liabilities	**45,978**	50,593
Customer deposits	**16,533,212**	16,691,531
Insurance liabilities	**671,603**	640,013
Accruals, deferred income, other liabilities and other provisions	**359,892**	324,246
Pending litigation, claims, regulatory and other matters	**123,615**	108,094
Subordinated loan stock	**272,152**	272,170
Deferred tax liabilities	**45,982**	46,015
Total liabilities	**19,439,077**	18,834,195
Equity		
Share capital	**44,620**	44,620
Share premium	**594,358**	1,294,358
Revaluation and other reserves	**209,153**	210,701
Retained earnings	**982,513**	490,286
Equity attributable to the owners of the Company	**1,830,644**	2,039,965
Other equity instruments	**220,000**	220,000
Total equity excluding non-controlling interests	**2,050,644**	2,259,965
Non-controlling interests	**24,410**	28,662
Total equity	**2,075,054**	2,288,627
Total liabilities and equity	**21,514,131**	21,122,822

B. Preliminary Group Financial Results – Underlying Basis

Unaudited Consolidated Income Statement

€ mn	FY2020	FY2019[1]	4Q2020	3Q2020	2Q2020	1Q2020	(4q vs 3q) ±%	(FY) Yoy ±%
Net interest income	330	344	80	82	83	85	-2%	-4%
Net fee and commission income	144	150	38	35	33	38	8%	-4%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	15	38	1	2	6	6	-62%	-62%
Insurance income net of claims and commissions	56	58	14	13	18	11	14%	-3%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	7	32	5	2	(1)	1	96%	-79%
Other income	15	29	4	3	4	4	22%	-48%
Total income	**567**	**651**	**142**	**137**	**143**	**145**	3%	-13%
Staff costs	(195)	(220)	(50)	(49)	(47)	(49)	1%	-11%
Other operating expenses	(145)	(165)	(41)	(35)	(34)	(35)	16%	-12%
Special levy and contribution to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)	(30)	(25)	(6)	(9)	(6)	(9)	-29%	22%
Total expenses	**(370)**	**(410)**	**(97)**	**(93)**	**(87)**	**(93)**	4%	-10%
Operating profit	**197**	**241**	**45**	**44**	**56**	**52**	2%	-18%
Loan credit losses	(149)	(146)	(31)	(31)	(23)	(64)	1%	2%
Impairments of other financial and non-financial assets	(42)	(22)	(6)	(7)	(25)	(4)	-6%	86%
Provisions for litigation, claims, regulatory and other matters	(7)	(10)	(3)	0	(2)	(2)	-	-31%
Total loan credit losses, impairments and provisions	**(198)**	**(178)**	**(40)**	**(38)**	**(50)**	**(70)**	6%	11%
(Loss)/profit before tax and non-recurring items	**(1)**	**63**	**5**	**6**	**6**	**(18)**	-21%	-
Tax	(8)	(3)	(1)	(2)	(3)	(2)	-23%	-
(Loss)/profit attributable to non-controlling interests	3	(2)	(1)	0	4	(0)	-	-
(Loss)/profit after tax and before non-recurring items (attributable to the owners of the Company)	**(6)**	**58**	**3**	**4**	**7**	**(20)**	-32%	-
Advisory and other restructuring costs – organic	(10)	(22)	(1)	(3)	(3)	(3)	-68%	-52%
(Loss)/profit after tax – organic (attributable to the owners of the Company)	**(16)**	**36**	**2**	**1**	**4**	**(23)**	72%	-
Provisions/net loss relating to NPE sales, including restructuring expenses[2]	(146)	(92)	(42)	3	(104)	(3)	-	58%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(6)	(81)	(6)	-	-	-	-	-
(DTC levy)/reversal of impairment of DTA and impairment of other tax receivables	(3)	88	(3)	-	-	-	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	-	(21)	-	-	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(171)**	**(70)**	**(49)**	**4**	**(100)**	**(26)**	-	144%

B. Preliminary Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios[3]	**FY2020**	**FY2019[1]**	**4Q2020**	**3Q2020**	**2Q2020**	**1Q2020**	(4q vs 3q) ±%	(FY) Yoy ±%
Net Interest Margin (annualised)	1.84%	1.90%	1.75%	1.79%	1.88%	1.95%	-4 bps	-6 bps
Cost to income ratio	65%	63%	69%	68%	61%	64%	+1 p.p.	+2 p.p.
Cost to income ratio excluding special levy and contributions to SRF and DGF	60%	59%	64%	62%	57%	58%	+2 p.p.	+1 p.p.
Operating profit return on average assets (annualised)	0.9%	1.1%	0.8%	0.8%	1.1%	1.0%	-	-0.2 p.p.
Basic (losses)/earnings per share attributable to the owners of the Company - organic (€ cent)	(3.66)	7.97	0.42	0.24	0.82	(5.14)	0.18	(11.63)
Basic (losses)/earnings per share attributable to the owners of the Company (€ cent)	(38.45)	(15.75)	(11.20)	0.91	(22.35)	(5.81)	(12.11)	(22.70)

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. 'Provisions/net (loss)/profit relating to NPE sales, including restructuring expenses' refer to the net loss on transactions completed during each year/period, net loan credit losses on transactions under consideration, as well as the restructuring costs relating to these trades. For further details please refer to Section B.3.4. 3. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Commentary on Underlying Basis

The financial information presented in this Section provides an overview of the preliminary Group financial results for the year ended 31 December 2020 on the 'underlying basis' which the management believes best fits the true measurement of the performance and position of the Group.

Reconciliations between statutory basis and underlying basis are included in section B.1 'Unaudited reconciliation of the Income Statement for the year ended 31 December 2020 between statutory basis and underlying basis' below and will also be available in the Annual Financial Report for the year ended 31 December 2020 under 'Definitions and Explanations on Alternative Performance Measures', to allow for the comparability of the underlying basis to statutory information.

With respect to the 'Balance Sheet Analysis', please note the following in relation to the disclosure of pro forma figures and ratios with respect to Project Helix 2 (as explained in the paragraph below). All relevant figures are based on 31 December 2020 financial results, unless otherwise stated. Numbers on a pro forma basis are based on the 31 December 2020 underlying basis figures and are adjusted for Project Helix 2, and assume its completion, which remains subject to customary regulatory and other approvals. Where numbers are provided on a pro forma basis this is stated.

Project Helix 2 refers to the agreement the Group reached in August 2020 with funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), for the sale of a portfolio of loans with gross book value of €0.9 bn (Helix 2 Portfolio A), as well as to the agreement the Group reached with PIMCO in January 2021 for the sale of an additional portfolio of loans with gross book value of €0.5 bn (Helix 2 Portfolio B). Further details are provided in Section B.2.5 'Loan Portfolio quality'.

B. Preliminary Group Financial Results – Underlying Basis (continued)

Unaudited Consolidated Balance Sheet

€ mn	31.12.2020	31.12.2019	±%
Cash and balances with central banks	5,653	5,060	12%
Loans and advances to banks	403	321	26%
Debt securities, treasury bills and equity investments	1,913	1,906	0%
Net loans and advances to customers	9,886	10,722	-8%
Stock of property	1,350	1,378	-2%
Investment properties	128	136	-6%
Other assets	1,550	1,574	-2%
Non-current assets and disposal groups held for sale	631	26	-
Total assets	**21,514**	**21,123**	**2%**
Deposits by banks	392	533	-27%
Funding from central banks	995	-	-
Repurchase agreements	-	168	-100%
Customer deposits	16,533	16,692	-1%
Subordinated loan stock	272	272	0%
Other liabilities	1,247	1,169	7%
Total liabilities	**19,439**	**18,834**	**3%**
Shareholders' equity	**1,831**	**2,040**	**-10%**
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	**2,051**	**2,260**	**-9%**
Non-controlling interests	24	29	-15%
Total equity	**2,075**	**2,289**	**-9%**
Total liabilities and equity	**21,514**	**21,123**	**2%**

Key Balance Sheet figures and ratios	**31.12.2020** (proforma)[1]	**31.12.2020** (as reported)[2]	**31.12.2019**	±[2]
Gross loans (€ mn)	**10,907**	**12,261**	12,822	-4%
Allowance for expected loan credit losses (€ mn)	**1,033**	**1,902**	2,096	-9%
Customer deposits (€ mn)	**16,533**	**16,533**	16,692	-1%
Loans to deposits ratio (net)	**60%**	**63%**	64%	-1 p.p.
NPE ratio	**16%**	**25%**	30%	-5 p.p.
NPE coverage ratio	**59%**	**62%**	54%	+8 p.p.
Leverage ratio	**8.8%**	**8.8%**	10.0%	-0.5 p.p.
Capital ratios and risk weighted assets	**31.12.2020** (proforma)[1]	**31.12.2020** (as reported)[2]	**31.12.2019**	±[2]
Common Equity Tier 1 (CET1) ratio (transitional for IFRS 9)[3]	**15.2%**	**14.8%**	14.8%	-
Total capital ratio	**18.7%**	**18.4%**	18.0%	+40 bps
Risk weighted assets (€ mn)	**11,380**	**11,635**	12,890	-10%

1. Pro forma for the sale of NPEs (Project Helix 2, Portfolios A and B) of €1.3 bn on the basis of 31 December 2020 figures; calculations on a pro forma basis assume completion of Project Helix 2 (Portfolios A and B), which remains subject to customary regulatory and other approvals. 2. As reported: Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". 3.The CET1 fully loaded ratio as at 31 December 2020 amounts to 12.9% and 13.3% pro forma for Helix 2 (Portfolios A and B) (compared to 12.8% and 12.9% pro forma for Helix 2 Portfolio A as at 30 September 2020 and 13.1% as at 31 December 2019). p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.1 Unaudited reconciliation of the Income Statement for the year ended 31 December 2020 between statutory and underlying basis

€ mn	Underlying basis	NPE Sales	Tax related items	Other	Statutory basis
Net interest income	330	-	-	-	330
Net fee and commission income	144	-	-	-	144
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries	15	-	-	3	18
Insurance income net of claims and commissions	56	-	-	-	56
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	7	-	-	-	7
Other income	15	-	-	-	15
Total income	**567**	**-**	**-**	**3**	**570**
Total expenses	**(370)**	**(26)**	**(3)**	**(23)**	**(422)**
Operating profit	**197**	**(26)**	**(3)**	**(20)**	**148**
Loan credit losses	(149)	(120)	-	(3)	(272)
Impairments of other financial and non-financial assets	(42)	-	-	-	(42)
Provisions for litigation, claims, regulatory and other matters	(7)	-	-	7	-
Loss before tax and non-recurring items	**(1)**	**(146)**	**(3)**	**(16)**	**(166)**
Tax	(8)	-	-	-	(8)
Loss attributable to non-controlling interests	3	-	-	-	3
Loss after tax and before non-recurring items (attributable to the owners of the Company)	**(6)**	**(146)**	**(3)**	**(16)**	**(171)**
Advisory and other restructuring costs-organic	(10)	-	-	10	-
Loss after tax - organic* (attributable to the owners of the Company)	**(16)**	**(146)**	**(3)**	**(6)**	**(171)**
Provisions/net loss relating to NPE sales, including restructuring expenses	(146)	146	-	-	-
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(6)	-	-	6	-
DTC levy	(3)	-	3	-	-
Loss after tax (attributable to the owners of the Company)	**(171)**	**-**	**-**	**-**	**(171)**

*This is the loss after tax (attributable to the owners of the Company), before the provisions/net loss relating to NPE sales, including restructuring expenses, as well as before the restructuring costs relating to the voluntary staff exit plan (VEP) and the DTC levy.

The reclassification differences between the statutory basis and underlying basis mainly relate to the impact from 'non-recurring items' and are explained as follows:

NPE sales

- Total expenses include restructuring costs of €5 mn and operating expenses of €21 mn mainly relating to the agreements for the sale of portfolios of NPEs and are presented within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.
- Loan credit losses under the statutory basis include the loan credit losses relating to Project Helix 2 of €99 mn recorded upon the closing of the transaction for each portfolio, as well as additional loan credit losses of €21 mn recorded in 2Q2020 within the context of IFRS 9, as a result of potential further NPE sales anticipated at the time; these are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales, including restructuring expenses' under the underlying basis.

B.1 Unaudited reconciliation of the Income Statement for the year ended 31 December 2020 between statutory and underlying basis (continued)

Tax related items

- Levy in the form of a guarantee fee relating to the revised income tax legislation of €3 mn, which has been disclosed within 'DTC levy' under the underlying basis, is disclosed within 'Special levy on deposits on credit institutions in Cyprus, contribution to Single Resolution Fund and other levies' under the statutory basis.

Other reclassifications

- Advisory and other restructuring costs of approximately €10 mn included in 'Other operating expenses' under the statutory basis are separately presented under the underlying basis since they represent one off items.
- Provisions for litigation, claims, regulatory and other matters amounting to €7 mn included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis, since they mainly relate to cases that arose outside the normal activities of the Group.
- Restructuring costs relating to voluntary staff exit plan (VEP) amounting to €6 mn and included within 'Staff costs' under the statutory basis, are separately presented under the underlying basis, since they represent one-off items
- Net gains on loans and advances to customers at FVPL of c.€3.5 mn included in 'Loan credit losses' under the underlying basis are included in 'Net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis. Their classification under the underlying basis is done in order to align them to the net losses on loans and advances to customers at amortised cost.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,051 mn at 31 December 2020, compared to €2,106 mn at 30 September 2020 and €2,260 mn at 31 December 2019. Shareholders' equity totalled €1,831 mn at 31 December 2020, compared to €1,886 mn at 30 September 2020 and €2,040 mn at 31 December 2019.

The **Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 14.8% at 31 December 2020 and 15.2% pro forma for the Project Helix 2 Portfolios A and B sale agreements reached in 3Q2020 and 1Q2021 respectively (referred to as "pro forma for Helix 2"), compared to 14.6% at 30 September 2020 (and 14.7% pro forma for the Project Helix 2 Portfolio A sale agreement signed in 3Q2020 (referred to as "pro forma for Helix 2A")) and to 14.8% at 31 December 2019. During 4Q2020, the CET1 ratio was positively impacted by the amendments to the capital regulations introduced in June 2020 in response to COVID-19 by c.23 bps (net positive impact). The main driver behind this increase has been the introduction of the prudential treatment of software assets in December 2020 which had a positive impact of 18 bps during the quarter, while amendments to the IFRS 9 dynamic component introduced since June 2020, contributed an additional 10 bps to CET1 in 4Q2020.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios is phased-in gradually. The amount added each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed back to CET1 at the end of the five years. The impact on the capital position for the year 2018 was 5% of the impact on the impairment amounts from the initial application of IFRS 9, which increased to 15% (cumulative) for the year 2019, 30% (cumulative) for the year 2020 and 50% (cumulative) for the year 2021. This will increase to 75% (cumulative) for the year 2022 and will be fully phased in (100%) by 1 January 2023. **The CET1 ratio on a transitional basis of the Group** stood at 14.4% on **1 January 2021** and 14.7% pro forma for Helix 2.

In **June 2020, Regulation (EU) 2020/873,** regarding certain adjustments in response to the COVID-19 pandemic, came into force, extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1, such as allowing to temporarily add back unrealised gains or losses on certain financial instruments measured at fair value through other comprehensive income. Further details are set out further below under 'Implications on capital from the Outbreak of COVID-19'.

The **CET1 ratio on a fully loaded basis** amounted to 12.9% as at 31 December 2020 and 13.3% pro forma for Helix 2, compared to 12.8% as at 30 September 2020 (and 12.9% pro forma for Helix 2A) and to 13.1% as at 31 December 2019. On a transitional basis and on a fully phased-in basis, after the transition period is complete, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The **Total Capital ratio** stood at 18.4% as at 31 December 2020 and 18.7% pro forma for Helix 2, compared to 18.1% as at 30 September 2020 (and 18.2% pro forma for Helix 2A) and to 18.0% as at 31 December 2019.

The Group's capital ratios are above the Supervisory Review and Evaluation Process (SREP) requirements.

In the context of ECB's capital easing measures for COVID-19, in April 2020, the Bank received **an amendment to the December 2019 SREP decision effective as of 12 March 2020**, reducing the Group's **minimum phased-in Common Equity Tier 1 (CET1) capital ratio to 9.7%** (comprising a 4.5% Pillar I requirement, a 1.7% Pillar II requirement, the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%), following the frontloading of the new rules on the Pillar II Requirement composition, to allow banks to use Additional Tier 1 (AT1) capital and Tier 2 (T2) capital to meet Pillar II Requirements and not only by CET1, initially scheduled to come into effect in January 2021.

The SREP **Total Capital Requirement** remained unchanged **at 14.5%,** comprising an 8.0% Pillar I requirement (of which up to 1.5% can be in the form of AT1 capital and up to 2.0% in the form of T2 capital), a 3.0% Pillar II requirement (in the form of CET1), the Capital Conservation Buffer of 2.5% and the Other Systemically Important Institution Buffer of 1.0%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. Pillar II add-on capital requirements derive from the context of the SREP, which is a point in time assessment, and are therefore subject to change over time.

In November 2020, the Group received communication from the ECB according to which no SREP decision will be issued for the 2020 SREP cycle and that the 2019 SREP will remain in force, hence leaving the Group's capital requirements unchanged, as well as other requirements established by the 2019 SREP decision (as amended in April 2020). The communication follows relevant announcement by the ECB earlier in the year that ECB will be taking a pragmatic approach towards the SREP for the 2020 cycle.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

In accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, the CBC is the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the **O-SII buffer requirement** for these systemically important banks. The Group has been designated as an O-SII and the O-SII buffer currently set by the CBC for the Group is 2%. This buffer is being phased-in gradually, having started from 1 January 2019 at 0.5% and increasing by 0.5% every year thereafter, until being fully implemented (2.0%). In April 2020, the CBC decided to delay the phasing-in (0.5%) of the O-SII buffer on 1 January 2021 and 1 January 2022 by 12 months. Consequently, the O-SII buffer will be fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set.

Further analysis on the recent developments on the regulatory capital ratios due to the COVID-19 outbreak is set out further below under 'Implications on capital from the Outbreak of COVID-19'.

The European Banking Authority (EBA) final guidelines on SREP and supervisory stress testing and the Single Supervisory Mechanism's (SSM) 2018 SREP methodology provide that own funds held for the purposes of Pillar II Guidance cannot be used to meet any other capital requirements (Pillar I, Pillar II requirements or the combined buffer requirement), and therefore cannot be used twice. Following the 2019 SREP decision, the new provisions became effective since January 2020.

Based on the SREP decisions of prior years, the Company (Bank of Cyprus Holdings PLC) and the Bank were under a regulatory prohibition for equity dividend distribution and therefore no dividends were declared or paid during 2019. Following the 2020 SREP communication, the Company and the Bank are still under equity dividend distribution prohibition as the 2019 SREP decision remains in force. This prohibition does not apply if the distribution is made via the issuance of new ordinary shares to the shareholders, which are eligible as CET1 capital. No prohibition applies to the payment of coupons on any AT1 capital instruments issued by the Company or the Bank.

The ECB, as part of its supervisory role, has completed an onsite inspection and review on the value of the Group's foreclosed assets with reference date 30 June 2019. The findings relate to a prudential charge of up to 46 bps, the majority of which is expected to be taken at 30 June 2021, depending on the Bank's progress in disposing the properties impacted by the prudential charge.

Share premium reduction

Bank

The Bank, having obtained approval by its shareholders, the ECB and the Court of Cyprus, implemented a capital reduction process in October 2020, which resulted in the reclassification of c.€619 mn of the Bank's share premium balance as distributable reserves. Such reduction of capital did not have any impact on regulatory capital or the total equity position of the Bank or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the Capital Requirements Regulation (EU) No. 575/2013 (CRR), which provides that coupons on AT1 capital instruments may only be funded from distributable items.

Company

The Company, following relevant resolution of its shareholders at the May 2020 AGM and subsequent approval by the ECB and the Irish High Court, implemented a capital reduction process in November 2020, which resulted in the reclassification of €700 mn of the Company's share premium balance as distributable reserves. Such capital reduction did not have any impact on regulatory capital or the total equity position of the Company, the Bank or the Group.

The distributable reserves provide the basis for the calculation of distributable items under the CRR, which provides that coupons on AT1 capital instruments may only be funded from distributable items.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Project Helix 2

In August 2020, the Group signed an agreement (the 'agreement') for the sale of a portfolio of loans with gross book value of €0.9 bn as at 30 June 2020, known as Project 'Helix 2 Portfolio A'. Loan credit losses in relation to the agreement of c.€68 mn, including transaction costs were recognised during 2Q2020.

In January 2021, the Group amended and restated the agreement to incorporate the sale of an additional portfolio of loans with gross book value of €0.5 bn as at 30 September 2020, known as Project 'Helix 2 Portfolio B'. Loan credit losses in relation to the agreement for Project 'Helix 2 Portfolio B' of c.€27 mn, including transaction costs were recognised during 4Q2020.

The completion of Helix 2 Portfolio B will be aligned with the completion of Helix 2 Portfolio A and is currently estimated to occur early in 2H2021. The completion remains subject to a number of conditions, including customary regulatory and other approvals.

The expected capital impact of Project Helix 2 (Portfolios A and B) at completion, and including the losses already recognised in 2Q2020 and 4Q2020, is a negative impact of 42 bps on the Group's CET1 ratio. The expected overall capital impact of Project Helix 2 (Portfolios A and B), upon the full payment of the deferred considerations and without taking into consideration any positive impact from the earnout, is a positive impact of 24 bps on the Group's CET 1 ratio.

Legislative amendments for the conversion of DTA to DTC

Legislative amendments allowing for the conversion of specific deferred tax assets (DTA) into deferred tax credits (DTC) became effective in March 2019. The law amendments cover the utilisation of income tax losses transferred from Laiki Bank to the Bank in March 2013. The introduction of CRD IV in January 2014 and its subsequent phasing-in led to a more capital-intensive treatment of this DTA for the Bank. The law amendments resulted in an improved regulatory capital treatment, under CRR, of the DTA amounting to c.€285 mn or a CET1 uplift of c.190 bps in March 2019.

The Group understands that, in response to concerns raised by the European Commission with regard to the provision of state aid arising out of the treatment of such tax losses, the Cyprus Government is considering the adoption of modifications to the Law, including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already acknowledged, to maintain the conversion of such DTAs into tax credits.

The Group, in anticipation of modifications in the Law, acknowledges that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The determination and conditions of such amount will be prescribed in the Law to be amended and the amount determined by the Government on an annual basis. Amendments to the Law will need to be adopted by the Cyprus Parliament and published in the Official Gazette of the Republic for the amendments to be effective. The Group, however, understands that contemplated amendments to the Law may provide that the minimum fee to be charged will be 1.5% of the annual instalment and can range up to a maximum amount of €10 mn per year. The Group estimates that such increased fees could range up to €5.3 mn per year (for each tax year in scope i.e. since 2018) although the Group understands that such fee may fluctuate annually as to be determined by the Ministry of Finance. To this respect, an amount of €3 mn has been recorded in 4Q2020 to bring the total amount provided for years 2018-2020 to €16 mn, being the maximum expected increased amount for these years (€13 mn in 4Q2019 and €19 mn in FY2019).

Voluntary Staff Exit Plans

In December 2020, the Group completed a targeted voluntary staff exit plan (VEP) at a total cost of €6 mn, recorded in the consolidated income statement in 4Q2020, resulting in a negative impact of c.5 bps on the Group's CET1 ratio. In October 2019, the Group completed a voluntary staff exit plan (VEP) at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019, resulting in a negative impact of c.60 bps on the Group's CET1 ratio. For further information please refer to Section B.3.2 'Total expenses'.

Sale of investment in CNP Cyprus Insurance Holdings Ltd

In October 2019, the sale of the Group's investment in its associate CNP Cyprus Insurance Holdings Limited ("CNP") was completed, resulting in a positive impact of c.30 bps on both the Group's CET1 and Total Capital ratios, mainly from the release of risk weighted assets. The shareholding had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013 and was sold to CNP Assurances S.A. for a cash consideration of €97.5 mn.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Project Helix

In June 2019, Project Helix was completed resulting in a positive impact of c.140 bps on both the Group's CET1 and Total Capital ratios, mainly from the release of risk weighted assets. Project Helix had an overall net positive impact on the Group capital ratios of c.60 bps.

Implications on capital from the Outbreak of COVID-19

The Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. In early 2020, the ECB announced a package of positive measures that should help to support the capital position of banks, in order to secure favourable conditions of financing for the economy with the aim to mitigate the effects of the crisis. Specifically, the measures increased the Group's capital base available to absorb potential losses due to the crisis. In addition, the early adoption of CRD V for the composition of the Pillar II Requirement provides flexibility regarding the Group's compliance with the minimum capital requirement of Pillar II.

In the context of the ECB's capital easing measures for COVID-19, in April 2020, the Bank received an amendment to the December 2019 SREP decision effective as of 12 March 2020, reducing the Group's **minimum phased-in CET1 capital ratio to 9.7%**. In addition, in March 2020, the ECB announced that banks are temporarily allowed to operate below the level of Pillar II Guidance (P2G), the capital conservation buffer (CCB) and the countercyclical buffer. The CBC has set the level of the countercyclical buffer for Cyprus at 0% for the years 2020 and 2019. In July 2020, the ECB committed to allow banks to operate below the P2G and the combined buffer requirement until at least end of 2022, without automatically triggering supervisory actions. In addition, in April 2020, the CBC decided to delay the phasing-in of the O-SII buffer. Further details are given above.

In **June 2020, Regulation (EU) 2020/873,** in response to the COVID-19 pandemic, came into force, bringing forward some of the capital-relieving measures that were due to come into force at a later stage and introducing modifications as part of the wider efforts of competent authorities to provide the support necessary to the institutions. The main amendments affecting the Group's own funds relate to the acceleration of the implementation of the new SME discount factor under CRR II introduced in June 2020, instead of June 2021, extending the IFRS 9 transitional arrangements and introducing further relief measures to CET1, advancing the application of prudential treatment of software assets as amended by CRR II, and introducing temporary treatment of unrealized gains and losses to exposures to central governments, regional governments or local authorities, measured at fair value through other comprehensive income.

With respect to the SME discount factor, banks will be required to hold less capital against SMEs as revised capital discount factors come into effect. These changes became effective in June 2020 and added 44 bps to capital in 2020 upon implementation (i.e. as at 30 June 2020).

The amendments to the existing IFRS 9 transitional arrangements relate to the extension of the transitional period for the recalculation of the transitional adjustment on credit losses on Stages 1 and 2 loans (dynamic component). A 100% add back of IFRS 9 provisions is allowed for the years 2020 and 2021 reducing to 75% in 2022, to 50% in 2023 and to 25% in 2024. The calculation at each reporting period is to be made against Stage 1 and Stage 2 provisions as at 1 January 2020, instead of 1 January 2018. The calculation of the static component has not been amended. These amendments became effective in June 2020 and added 20 bps to capital as at 31 December 2020.

In relation to the prudential treatment of intangibles, software assets will no longer be deducted in full in CET1 calculations, subject to certain criteria. The new amendments came into force during 4Q2020 and added 18 bps to capital as at 31 December 2020.

Finally, institutions may remove from the calculation of their CET1 the amount of unrealised gains and losses accumulated since 31 December 2019 for certain financial instruments accounted for as 'fair value changes of debt instruments measured at fair value through other comprehensive income' in the balance sheet, corresponding to exposures to central governments, to regional governments or to local authorities and to public sector entities, excluding those financial assets that are credit-impaired, subject to a scaling factor set at 100% from January to December 2020, at 70% from January to December 2021 and at 40% from January to December 2022. The Bank applies the temporary relief as of 3Q2020 and the relief contributed 2 bps to capital as at 31 December 2020.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.2. Regulations and Directives

B.2.2.1 Revised rules on capital and liquidity (CRR II and CRD V)

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Being a Regulation, CRR II is directly applicable in each member state. Member states are required to transpose the CRD V into national law. To date, this transposition has not yet taken place. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities, MREL), but most changes will start to apply from mid-2021. Certain aspects of CRR II are dependent on final technical standards to be issued by the EBA and adopted by the European Commission. The key changes introduced consist of, among others, changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of requirements for MREL and a binding Leverage Ratio requirement and Net Stable Funding Ratio (NSFR) requirement.

B.2.2.2 Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016 EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD II came into effect and must be transposed into national law. To date, this transposition has not yet taken place. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

In February 2021, the Bank received notification from the Single Resolution Board (SRB) of the draft decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank, determined as the preferred resolution point of entry.

As per the draft decision, the minimum MREL requirement is set at 23.32% of risk weighted assets and 5.91% of leverage ratio exposure (LRE) and must be met by 31 December 2025. Furthermore, the Bank must comply by 1 January 2022 with an interim requirement of 14.94% of risk weighted assets and 5.91% of LRE. The own funds used by the Bank to meet the combined buffer requirement (CBR) will not be eligible to meet its MREL requirements expressed in terms of risk-weighted assets. Once the above-mentioned decision becomes final (expected within March 2021), these requirements will replace those that were previously applicable.

The MREL ratio of the Bank as at 31 December 2020, calculated according to SRB's eligibility criteria currently in effect and based on the Bank's internal estimate, stood at 15.36% of risk weighted assets (and at 14.92% of risk weighted assets as at 1 January 2021) and at c.10% of LRE (and at c.10% of LRE as at 1 January 2021). Pro forma for NPE sales, the MREL ratio of the Bank as at 31 December 2020, calculated on the same basis, stood at 15.81% of risk weighted assets (and at 15.36% of risk weighted assets as at 1 January 2021). The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, currently at 3.5% and expected to increase to 4% on 1 January 2022.

The MREL requirement is in line with the Bank's expectations and funding plans, and in this context, the Bank will consider initiating its MREL issuance, as part of its overall capital and funding strategy.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity

Funding

Funding from Central Banks

At 31 December 2020, the Bank's funding from central banks amounted to €995 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III (compared to funding from central banks of €997 mn as at 30 September 2020 and no funding from central banks as at 31 December 2019). In June 2020, the Bank borrowed €1 bn from the fourth TLTRO III operation, despite its comfortable liquidity position, given the favourable borrowing rate, in combination with the relaxation of collateral terms.

Deposits

Customer deposits totalled €16,533 mn at 31 December 2020 (compared to €16,384 mn at 30 September 2020 and €16,692 mn at 31 December 2019), remaining broadly flat in the quarter and since the year end.

The Bank's deposit market share in Cyprus reached 35.0% as at 31 December 2020, at similar levels as at 30 September 2020 and 31 December 2019. Customer deposits accounted for 77% of total assets and 85% of total liabilities at 31 December 2020 (compared to 79% of total assets and 89% of total liabilities at 31 December 2019).

The net Loans to Deposit ratio (L/D) stood at 63% as at 31 December 2020 (at the same level as at 30 September 2020 and compared to 64% as at 31 December 2019). The L/D ratio had reached a peak of 151% as at 31 March 2014.

Subordinated Loan Stock

At 31 December 2020 the Bank's subordinated loan stock (including accrued interest) amounted to €272 mn (compared to €267 mn at 30 September 2020 and €272 mn at 31 December 2019) and relates to unsecured subordinated Tier 2 Capital Notes of nominal value €250 mn, issued by the Bank in January 2017.

The Group is currently evaluating opportunities for a potential Tier 2 capital transaction given the terms and maturity profile of the Bank's existing €250 mn 10NC5 Tier 2 notes, subject to market conditions and applicable regulatory authorisations.

Liquidity

At 31 December 2020 the Group Liquidity Coverage Ratio (LCR) stood at 254% (compared to 256% at 30 September 2020 and 208% at 31 December 2019), above the minimum regulatory requirement of 100%.

The liquidity surplus in LCR at 31 December 2020 amounted to €4.2 bn (compared to €4.1 bn at 30 September 2020 and €3.2 bn at 31 December 2019). The increase in 2020 is driven mainly by the borrowing of €1 bn TLTRO III in June 2020.

The Net Stable Funding Ratio (NSFR) has not yet been introduced. It will be enforced as a regulatory ratio under CRR II in June 2021, with the limit set at 100%. At 31 December 2020, the Group's NSFR, on the basis of Basel III standards, stood at 139% (compared to 135% at 30 September 2020 and 127% at 31 December 2019).

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity (continued)

Regulatory measures to mitigate the impact of COVID-19 crisis on banks' liquidity position

Resulting from the outbreak of COVID-19, the ECB has adopted a broad set of policy measures to mitigate the economic impact of the crisis and to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy. The main measures which have a direct or indirect impact on the liquidity position of banks are summarised below:

- The ECB allows banks to operate below the defined level of 100% of the LCR until at least end-2021.

- Collateral easing measures: The package included a set of collateral easing measures, which resulted in increasing the banks' borrowing capacity at the ECB operations and improving the liquidity buffers due to the lower haircuts applied to the ECB eligible collateral the bank holds, that consist of bonds and Additional Credit Claims (ACC). The collateral easing packages are designed mainly as temporary measures, that will remain in place until June 2022 and will be reassessed before then. Furthermore, the ECB enlarged the scope of the ACC framework, increasing the universe of eligible loans. In addition, the ECB announced changes in collateral rules, temporarily accepting collateral with a rating below investment grade, up to a certain rating level.

- Favourable terms of LTRO operations: the package contained measures to provide liquidity support to the euro area financial system. Such measures include a series of LTROs which ran from March to June 2020 so participants could shift their outstanding LTRO amounts to TLTRO III, as well as significant amendments in the terms and characteristics of TLTRO III, including a very low interest rate applicable to the TLTRO III funding, provided the lending performance target during the specified periods is achieved. Furthermore, additional longer-term refinancing operations, called Pandemic Emergency longer-term refinancing operations (PELTROs), with low rates, were introduced.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loans

Group gross loans totalled €12,261 mn at 31 December 2020, compared to €12,309 mn at 30 September 2020 and €12,822 mn at 31 December 2019. Gross loans of the Group's Cyprus operations totalled €12,196 mn at 31 December 2020 accounting for 99% of Group gross loans. Pro forma for Helix 2, gross loans are reduced by €1,354 mn to €10,907 mn as at 31 December 2020.

New loans granted in Cyprus reached €1,351 mn for FY2020, compared to €2,045 mn for FY2019, down by 34% yoy, impacted by the outbreak of COVID-19. New loans granted in Cyprus reached €374 mn for 4Q2020, compared to €288 mn for 3Q2020 (up by 30% qoq) and to €443 mn for 4Q2019 (down by 16% yoy). The qoq increase reflects demand for new loans in 4Q2020 picking up post the COVID-19 lockdown in 1H2020, supported by Government schemes.

At 31 December 2020, the Group net loans and advances to customers totalled €9,886 mn (compared to €10,047 mn at 30 September 2020 and €10,722 mn at 31 December 2019). In addition, at 31 December 2020 net loans and advances to customers of €493 mn were classified as held for sale in line with IFRS 5 and relate to Project Helix 2 (€485 mn, comprising €310 mn relating to Portfolio A and €175 mn to Portfolio B) and Helix Tail (€8 mn), compared to €349 mn as at 30 September 2020 relating to Project Helix 2 (€340 mn) and Helix Tail (€9 mn) and to €26 mn as at 31 December 2019 relating to Helix Tail and Velocity 2.

The Bank is the single largest credit provider in Cyprus with a market share of 41.9% at 31 December 2020, compared to 41.5% at 30 September 2020 and to 41.1% at 31 December 2019.

B.2.5 Loan portfolio quality

Tackling the Group's loan portfolio quality remains a top priority for management. The Group has continued to make steady progress across all asset quality metrics and the loan restructuring activity has continued despite challenges brought upon by COVID-19. The Group has been successful in engineering restructuring solutions across the spectrum of its loan portfolio. The Group's near-term priorities include completing the balance sheet de-risking, whilst managing the post-pandemic NPE inflow.

Loan moratorium

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Over 25,000 customers were approved, relating to **gross loans of c.€5.9 bn as at 31 December 2020** (comprising gross loans to private individuals of €2.1 bn and gross loans to businesses of €3.8 bn), representing 64% of total gross loans excluding the legacy book.

The payment holiday for all of these loans expired on 31 December 2020 and the performance of these loans since the end of the moratorium is encouraging. €3.6 bn of these loans had an instalment due by 15 February 2021, and **95%** of those resumed payments. Close monitoring of the credit quality of these loans continues and customers with early arrears are offered solutions.

Specifically, 82% of loans to **private individuals** with payment deferrals that expired on 31 December 2020 had an instalment due by 15 February 2021, and **93%** of those resumed payments. At the same time reclassifications of c.€240 mn loans were made from Stage 1 to Stage 2 in FY2020, mainly due to the significant increase in credit risk resulting from the deterioration of the macro assumptions, and management overlays.

Similarly, 51% of loans to **businesses** with payment deferrals that expired on 31 December 2020 had an instalment due by 15 February 2021, and **97%** of those resumed payments, whilst reclassifications of c.€450 mn loans were made from Stage 1 to Stage 2 in FY2020.

Overall, regarding the economic effects of COVID-19, the impact of IFRS 9 Forward Looking Information (FLI) driven by the deterioration of the macroeconomic outlook, resulted in a €54 mn charge included in FY2020 loan credit losses. The loan credit losses charge (**cost of risk**) for FY2020 accounted for 1.18% of gross loans, of which 43 bps reflect the deterioration of the macroeconomic outlook in FY2020 (compared to a loan credit losses charge of 1.12% for FY2019).

Finally, the provision coverage of Stage 3 loans with payment deferrals that expired on 31 December 2020 of c.26% is considered to be adequate, as it is higher than the coverage of re-performing NPEs (NPEs in the pipeline to exit, subject to meeting all exit criteria) of c.20%.

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Loan moratorium (continued)

The table below presents the loan payment deferrals that expired on 31 December 2020, by IFRS 9 staging.

IFRS 9 staging for expired loan payment deferrals (€ bn)		
€ bn	**31.12.2020**	31.12.2019
Stage 1	3.96	4.35
Stage 2	1.58	1.14
Stage 3	0.33	0.46
Total	**5.87**	5.95

A second scheme for the suspension of loan repayments for interest and principal (loan moratorium) was launched in January 2021 for customers impacted by the second lockdown. Payment deferrals are offered to the end of June 2021, however, the total months under loan moratorium, when including the loan moratorium offered in 2020, cannot exceed a total of nine months. The application period expired on 31 January 2021 and applications relating to a total amount of loans of €27 mn have been received. Until mid-February 2021, loans of c.€17 mn have been approved for the second moratorium. Close monitoring of the credit quality of loans in moratoria continues.

Following the outbreak of COVID-19, the sectors most adversely affected are tourism, trade, transport and construction. The Group has a well – diversified performing loan portfolio. For further information on the Group's non-legacy loan book exposure to tourism and trade and the performance of these loans after the expiry of the loan moratorium, please refer to Section D. Business Overview.

For further information please refer to the presentation for the Preliminary Group Financial Results for the year ended 31 December 2020 (slides 11 to 14).

Non-performing exposure reduction

During FY2020, and pro forma for Helix 2, non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €2.1 bn, comprising organic NPE reductions of €0.6 bn and NPE sales of €1.5 bn to €1,760 mn at 31 December 2020 (compared to €3,880 mn at 31 December 2019), and the NPE ratio was reduced by 14 p.p. from 30% to 16%.

During 4Q2020, NPEs were reduced by **€152 mn (5%) during 4Q2020** (comprising organic NPE reductions of €85 mn and further NPE reductions of €67 mn relating to the NPE sales lockbox), compared to a reduction of €230 mn in 3Q2020 (comprising organic NPE reductions of €208 mn and further NPE reductions of €22 mn relating to the NPE sales lockbox), to €3,086 mn at 31 December 2020 (compared to €3,238 mn at 30 September 2020 and €3,880 mn at 31 December 2019). Pro forma for Helix 2, NPEs are reduced by a further €1.3 bn to €1,760 mn on the basis of 31 December 2020 figures.

The NPEs account for 25% of gross loans as at 31 December 2020, compared to 26% as at 30 September 2020 and 30% at 31 December 2019, on the same basis, i.e. including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". Pro forma for Helix 2 the NPE ratio is reduced to 16% on the basis of 31 December 2020 figures.

The NPE coverage ratio increased to 62% at 31 December 2020, compared to 60% at 30 September 2020 and 54% at 31 December 2019, on the same basis, i.e. including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". When taking into account tangible collateral at fair value, NPEs are fully covered. Pro forma for Helix 2 the NPE coverage ratio is maintained at 59% on the basis of 31 December 2020 figures.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Non-performing exposure reduction (continued)

As of 1 January 2021, the new regulation on Definition of Default has been implemented, affecting NPE exposures and the calculation of Days-Past-Due (please refer to Section F. Definitions & Explanations for the changes in the definition). The impact of these changes on the Group on 1 January 2021 is immaterial.

	31.12.2020 pro forma		**31.12.2020**		30.9.2020	
	€ mn	**% gross loans**	**€ mn**	**% gross loans**	€ mn	% gross loans
NPEs as per EBA definition	**1,760**	**16.1%**	**3,086**	**25.2%**	3,238	26.3%
Of which, in pipeline to exit:						
-NPEs with forbearance measures, no arrears[1]	**245**	**2.2%**	**303**	**2.5%**	312	2.5%

Project Helix 2

In August 2020, the Group signed an agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn related to non-performing exposures) as at 30 June 2020, **known as Project Helix 2 Portfolio A**. This portfolio had a contractual balance of €1.46 bn as at the reference date of 30 September 2019 and comprises loans to mainly retail and small-to-medium-sized enterprises, secured by real estate collateral. This portfolio is classified as a disposal group held for sale since 30 June 2020 and it includes other assets (comprising properties and cash already received since the reference date) amounting to c.€34 mn as at 30 June 2020.

The gross consideration amounts to 46% of the gross book value as at 30 June 2020 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 Portfolio A.

In January 2021, the Group reached agreement with the buyer of Project Helix 2 Portfolio A for the sale of an additional portfolio of loans with gross book value of €545 mn (of which €529 mn related to non-performing exposures) as at 30 September 2020, **known as Project Helix 2 Portfolio B**. The gross book value of €545 mn includes other assets (comprising properties and cash already received since the reference date) amounting to €26 mn as at 30 September 2020. This portfolio had a contractual balance of €783 mn as at the reference date of 30 September 2019 and comprises loans to mainly retail and small-to-medium-sized enterprises, secured by real estate collateral. This portfolio is classified as a disposal group held for sale since 31 December 2020.

The gross consideration amounts to 44% of the gross book value as at 30 September 2020 and 31% of the contractual balance as at the reference date (30 September 2019), payable in cash, of which 50% is payable at completion and the remaining 50% is deferred up to December 2025 without any conditions attached. The consideration can be increased through an earnout arrangement, depending on the performance of Portfolio B.

The completion of Helix 2 Portfolio B will be aligned with the completion of Helix 2 Portfolio A and is currently estimated to occur early in 2H2021. The completion of Project Helix 2 remains subject to a number of conditions, including customary regulatory and other approvals.

Following a transitional period where servicing will be retained by the Bank, it is intended that the servicing of both portfolios will be carried out by a third party servicer selected and appointed by the purchaser.

Project Helix 2 (Portfolios A and B) accelerates the Group's strategy of de-risking its balance sheet, by reducing its stock of NPEs by 43% to €1,760 mn pro forma on the basis of the 31 December 2020 figures, and its NPE ratio by 9 p.p., to 16% pro forma on the basis of the 31 December 2020 figures.

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Project Velocity 2

In May 2020, the Group completed the sale of a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €398 mn and gross book value of €144 mn as at the reference date of 31 August 2019 **(known as Project Velocity 2)** to B2Kapital Cyprus Ltd. This portfolio comprised c.10.000 borrowers, including c.8.400 private individuals and c.1.600 small-to-medium-sized enterprises. The gross book value of this portfolio as at the date of disposal was €133 mn. The sale was broadly neutral to both the profit and loss and to capital.

Project Helix

In June 2019, the Group announced the completion of Project Helix, that referred to the sale of a portfolio of loans with a gross book value of €2.8 bn (of which €2.7 bn related to non-performing loans) secured by real estate collateral to certain funds affiliated with Apollo Global Management LLC, the agreement of which was announced on 28 August 2018. Cash consideration of c.€1.2 bn was received on completion, reflecting adjustments resulting from, inter alia, loan repayments received on the Helix portfolio since the reference date of 31 March 2018. The participation of the Bank in the senior debt in relation to financing Project Helix was syndicated down from the initial level of €450 mn to c.€45 mn, representing c.4% of the total acquisition funding. Upon completion, the NPE ratio was reduced by c.11 p.p. to 33% as at 30 June 2019, c.70% lower than its peak in 2014.

Project Velocity 1

In June 2019, the Group completed the sale of a non-performing loan portfolio of primarily retail unsecured exposures, with a contractual balance of €245 mn and a gross book value of €34 mn as at the reference date of 30 September 2018 **(known as Project Velocity 1)** to APS Delta s.r.o. This portfolio comprised 9,700 heavily delinquent borrowers, including 8,800 private individuals and 900 small-to-medium-sized enterprises. The gross book value of this portfolio as at the date of disposal was €30 mn. The sale was broadly neutral to both the profit and loss and to capital.

Additional strategies to accelerate de-risking

The Group remains committed to assess the potential to accelerate the decrease in NPEs through further NPE sales in the future and in the context of IFRS 9, other than the loan credit losses relating to Project Helix 2 of €99 mn recorded upon the closing of the transaction for each portfolio, the Bank recognised additional loan credit losses of €21 mn in 2Q2020 as a result of potential further NPE sales anticipated at the time. In December 2019, additional loan credit losses of €75 mn had been recognised as a result of the anticipated balance sheet de-risking at the time.

As at 31 December 2020, a portfolio of credit facilities related to Project Helix of mainly secured non-performing exposures (known as '**Helix Tail**') with gross book value of €34 mn (compared to €37 mn as at 30 September 2020 and €46 mn as at 31 December 2019), continues to be classified as a disposal group held for sale.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.6 Real Estate Management Unit (REMU)

The focus for the **Real Estate Management Unit (REMU)** is on the disposal of on-boarded properties resulting from debt for asset swaps. The Group completed disposals of €80 mn in FY2020 (compared to €207 mn in FY2019), resulting in a profit on disposal of €9 mn for FY2020 (compared to a profit on disposal of €32 mn for FY2019).

During the year ended 31 December 2020, the Group executed sale-purchase agreements (SPAs) for disposals with contract value of €91 mn (492 properties), compared to €345 mn (558 properties) for FY2019, excluding the sale of Cyreit. In addition, the Group had signed SPAs for disposals of assets with contract value of €53 mn as at 31 December 2020, compared to €54 mn as at 30 September 2020 and €36 mn as at 31 December 2019.

REMU on-boarded €146 mn of assets in FY2020 (down by 26% yoy), via the execution of debt for asset swaps and repossessed properties.

Project Helix 2

Stock of property with a carrying value of €59 mn as at 31 December 2020 (compared to €11 mn as at 30 September 2020) is classified as non-current assets and disposal groups held for sale as it is included in the Helix 2 portfolio, comprising stock of property with carrying value of €33 mn relating to Helix 2 Portfolio A and €26 mn relating to Helix 2 Portfolio B.

Completion of sale of Cyreit

In 2Q2019, the Group completed the sale of its entire holding in the investment shares of the Cyreit Variable Capital Investment Company PLC (Cyreit) (21 properties), recognising a loss of c. €1 mn. The total proceeds from the disposal of Cyreit were €160 mn.

Completion of Project Helix

With the completion of Project Helix in 2Q2019, properties with a carrying value of €109 mn, in the Project Helix portfolio, were derecognised as of 30 June 2019.

Assets held by REMU

As at 31 December 2020, assets held by REMU had a carrying value of €1,457 mn (comprising properties of €1,350 mn classified as 'Stock of property' and €107 mn as 'Investment properties'), compared to €1,467 mn as at 30 September 2020 (comprising properties of €1,358 mn classified as 'Stock of property' and €109 mn as 'Investment properties') and to €1,490 mn as at 31 December 2019 (comprising properties of €1,378 mn classified as 'Stock of property' and €112 mn as 'Investment properties').

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €21 mn as at 31 December 2020 (at the same levels as at 30 September 2020 and compared to €24 mn as at 31 December 2019), relate to legacy properties held by the Bank before the set-up of REMU in January 2016.

Assets held by REMU (Group) **€ mn**	**FY2020**	**FY2019**	**4Q2020**	**3Q2020**	qoq ±%	yoy ±%
Opening balance	**1,490**	1,530	**1,467**	1,456	1%	-3%
On-boarded assets (including construction cost)	**146**	196	**72**	44	60%	-26%
Sales	**(80)**	(207)	**(32)**	(24)	35%	-61%
Net impairment loss	**(40)**	(24)	**(2)**	(9)	-78%	63%
Transfer to non-current assets and disposal groups held for sale	**(59)**	(5)	**(48)**	-	-	-
Closing balance	**1,457**	1,490	**1,457**	1,467	-1%	-2%

B.2. Balance Sheet Analysis (continued)

B.2.6 Real Estate Management Unit (REMU) (continued)

Analysis by type and country **31 December 2020 (€ mn)**	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	**158**	**24**	**0**	**182**
Offices and other commercial properties	**240**	**26**	**5**	**271**
Manufacturing and industrial properties	**74**	**29**	**0**	**103**
Hotels	**24**	**1**	**-**	**25**
Land (fields and plots)	**606**	**6**	**2**	**614**
Golf courses and golf-related property	**262**	**-**	**-**	**262**
Total	**1,364**	**86**	**7**	**1,457**

31 December 2019 (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	182	26	0	208
Offices and other commercial properties	200	29	6	235
Manufacturing and industrial properties	73	32	0	105
Hotels	24	0	-	24
Land (fields and plots)	628	7	3	638
Golf courses and golf-related property	280	-	-	280
Total	1,387	94	9	1,490

B.2.7 Non-core overseas exposures

The remaining non-core overseas net exposures (including both on-balance sheet and off-balance sheet exposures) at 31 December 2020 are as follows:

€ mn	**31 December 2020**	**31 December 2019**
Greece	**121**	139
Romania	**21**	25
Russia	**10**	19
Total	**152**	183

The Group continues its efforts for further deleveraging and disposal of non-essential assets and operations in Greece, Romania and Russia.

In addition to the above, as at 31 December 2020, there were overseas exposures of €270 mn in Greece, relating to both loans and properties (at the same level as at 30 September 2020 and compared to €265 mn at 31 December 2019), not identified as non-core exposures, since they are considered by management as exposures arising in the normal course of business.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	FY2020	FY2019[1]	4Q2020	3Q2020	2Q2020	1Q2020	(4q vs 3q) ±%	(FY) Yoy ±%
Net interest income	330	344	80	82	83	85	-2%	-4%
Net fee and commission income	144	150	38	35	33	38	8%	-4%
Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	15	38	1	2	6	6	-62%	-62%
Insurance income net of claims and commissions	56	58	14	13	18	11	14%	-3%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	7	32	5	2	(1)	1	96%	-79%
Other income	15	29	4	3	4	4	22%	-48%
Non interest income	237	307	62	55	60	60	11%	-23%
Total income	567	651	142	137	143	145	3%	-13%
Net Interest Margin (annualised)[2]	1.84%	1.90%	1.75%	1.79%	1.88%	1.95%	-4 bps	-6 bps
Average interest earning assets (€ mn)[2]	17,917	18,051	18,181	18,191	17,690	17,539	0%	-1%

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Net interest income (NII) and net interest margin (NIM) for FY2020 amounted to €330 mn and 1.84% respectively, down by 4% year on year, mainly due to the lower volume of new loans and continued pressure on lending yields. NII and NIM for 4Q2020 amounted to €80 mn (compared to €82 mn for 3Q2020) and 1.75% (compared to 1.79% for 3Q2020) respectively, as pressure on lending yields continues.

Average interest earning assets for FY2020 amounted to €17,917 mn, down by 1% yoy. Quarterly average interest earning assets for 4Q2020 amounted to €18,181 mn, compared to €18,191 mn for 3Q2020 (flat qoq).

Non-interest income for FY2020 amounted to €237 mn (compared to €307 mn in FY2019, down by 23% yoy), comprising net fee and commission income of €144 mn, net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €15 mn, net insurance income of €56 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €7 mn and other income of €15 mn. The yoy decrease is mainly driven by lower net gains on disposal of stock of properties (REMU gains), lower revaluations gains on financial instrument transactions and lower other income, negatively impacted by COVID-19. Non-interest income for 4Q2020 amounted to €62 mn (compared to €55 mn for 3Q2020) up by 11% qoq, positively impacted by higher net fee and commission income, as transactional volumes gradually recovered post the COVID-19 lockdown in 1H2020, and higher net gains from revaluation of investment properties (REMU gains).

Net fee and commission income for FY2020 amounted to €144 mn, compared to €150 mn for FY2019, reflecting the COVID-19 lockdown in 1H2020. **Net fee and commission income** for 4Q2020 amounted to €38 mn, compared to €35 mn for 3Q2020, driven mainly by increase in transactional volumes which gradually recovered post the COVID-19 lockdown in 1H2020.

Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €15 mn for FY2020 (comprising net foreign exchange gains of €17 mn and net revaluation losses on financial instrument transactions of €2 mn) decreased by 62% yoy. The yoy decrease is mainly driven by lower net revaluation gains and lower net foreign exchange gains in FY2020 resulting from the COVID-19 lockdown in 1H2020. Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €1 mn for 4Q2020 (comprising net foreign exchange gains of €2 mn and net revaluation losses on financial instrument transactions of €1 mn) decreased by 62% qoq, driven by lower net foreign exchange gains in 4Q2020.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Net insurance income of €56 mn for FY2020 (compared to €58 mn for FY2019), down by 3% yoy, reflecting the net impact of the reduction of net claims in the general insurance business positively impacted by the COVID-19 lockdown in 1H2020, and the negative impact of the change in the valuation assumptions in the life insurance business.

Net insurance income of €14 mn for 4Q2020 (compared to €13 mn for 3Q2020), up by 14% qoq, being the net result of higher profit from new business and lower claims in the life insurance business, and lower profits due to specific large claims in the general insurance business.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for FY2020 amounted to €7 mn (comprising a profit on disposal of stock of properties of €9 mn and loss from revaluation of investment properties of €2 mn), compared to €32 mn in FY2019, impacted by the COVID-19 lockdown in 1H2020.

Net gains from revaluation and disposal of investment properties and on disposal of stock of properties for 4Q2020 amounted to €5 mn (comprising a profit on disposal of stock of properties of c.€2 mn and net gains from revaluation of investment properties of c.€2 mn, mainly relating to specific properties in Greece), compared to €2 mn in 3Q2020. REMU profit remains volatile.

Total income for FY2020 amounted to €567 mn, compared to €651 mn for FY2019 (down by 13% yoy). Total income for 4Q2020 amounted to €142 mn, compared to €137 mn for 3Q2020.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	FY2020	FY2019[1]	4Q2020	3Q2020	2Q2020	1Q2020	(4q vs 3q) ±%	(FY) Yoy ±%
Staff costs	(195)	(220)	(50)	(49)	(47)	(49)	1%	-11%
Other operating expenses	(145)	(165)	(41)	(35)	(34)	(35)	16%	-12%
Total operating expenses	**(340)**	**(385)**	**(91)**	**(84)**	**(81)**	**(84)**	7%	-12%
Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)	(30)	(25)	(6)	(9)	(6)	(9)	-29%	22%
Total expenses	**(370)**	**(410)**	**(97)**	**(93)**	**(87)**	**(93)**	4%	-10%
Cost to income ratio[2]	65%	63%	69%	68%	61%	64%	+1 p.p.	+2 p.p.
Cost to income ratio excluding special levy and contributions to SRF and DGF[2]	60%	59%	64%	62%	57%	58%	+2 p.p.	+1 p.p.

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Total expenses for FY2020 were €370 mn (compared to €410 mn for FY2019 and down by 10% yoy), 53% of which related to staff costs (€195 mn), 39% to other operating expenses (€145 mn) and 8% (€30 mn) to special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF). The yoy decrease is driven by both lower other operating expenses and lower staff costs, reflecting on-going efforts to contain costs.

Total operating expenses for FY2020 were €340 mn, compared to €385 mn for FY2019 (down by 12% yoy). Total operating expenses for 4Q2020 were €91 mn, compared to €84 mn for 3Q2020 (up by 7% qoq).

Staff costs of €195 mn for FY2020 decreased by 11% yoy (compared to €220 mn in FY2019), mainly driven by cost savings following the completion of the voluntary staff exit plan (VEP) in 4Q2019, through which c.11% of the Group's full-time employees were approved to leave at a total cost of €81 mn, recorded in the consolidated income statement in 4Q2019. The annual savings net of the impact from the renewal of the collective agreement for 2020, are estimated at €23 mn or 11% of staff costs. Staff costs of €50 mn for 4Q2020 increased by 1% qoq (compared to €49 mn in 3Q2020).

In December 2020, the Group completed a targeted voluntary staff exit plan (VEP) with a total cost of €6 mn, recorded in the consolidated income statement in 4Q2020 (as a non-recurring item in the underlying basis). The gross annual savings are estimated at c.€2 mn or c.1% of staff costs. The renewal of the collective agreement for 2021 remains under discussion.

The Group employed 3,572 persons as at 31 December 2020 (compared to 3,577 as at 30 September 2020 and 3,672 as at 31 December 2019, including c.100 persons relating to Project Helix who were transferred to the buyer upon full migration in January 2020). The staff costs related to these persons (in FY2019) are included under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis.

Other operating expenses for FY2020 were €145 mn, lower by 12% yoy from €165 mn in FY2019, mainly due to lower consultancy, marketing and property-related expenses in FY2020, resulting from the focus of management to contain costs and savings from the COVID-19 lockdown in 1H2020. Other operating expenses for 4Q2020 were €41 mn, compared to €35 mn for 3Q2020, up by 16% qoq mainly due to seasonally higher marketing, property and professional fees.

Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF) for FY2020 was €30 mn, compared to €25 mn in FY2019 (increased by 22% yoy). Special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF) for 4Q2020 was €6 mn, compared to €9 mn in 3Q2020 (down by 29% qoq). The increase of c.€5 mn yoy and the decrease of €3 mn qoq is driven by the contribution of the Bank to the Deposit Guarantee Fund (DGF) first recorded in 2020, of which €3 mn relates to 1H2020 and €3 mn relates to 2H2020, and was recorded in 1Q2020 and 3Q2020 respectively, in line with IFRSs.

As from 1 January 2020 and until 3 July 2024 the Bank is subject to contribution to the Deposit Guarantee Fund (DGF) on a semi-annual basis. The contributions are calculated based on the Risk Based Methodology (RBM) as approved by the management committee of the Deposit Guarantee and Resolution of Credit and Other Institutions Schemes (DGS) and is publicly available on the CBC's website. In line with the RBM, the contributions are broadly calculated on the covered deposits of all authorised institutions and the target level is to reach at 0.8% of these deposits by 3 July 2024.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses (continued)

The **cost to income ratio excluding special levy and contributions to Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF)** for FY2020 was 60%, broadly flat yoy. The cost to income ratio excluding special levy and contributions to SRF and DGF for 4Q2020 was 64%, compared to 62% in 3Q2020, reflecting a higher quarterly increase in total operating expenses compared to total income.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 (Loss)/profit before tax and non-recurring items

€ mn	FY2020	FY2019[1]	4Q2020	3Q2020	2Q2020	1Q2020	(4q vs 3q) ±%	(FY) Yoy ±%
Operating profit	**197**	**241**	**45**	**44**	**56**	**52**	2%	-18%
Loan credit losses	(149)	(146)	(31)	(31)	(23)	(64)	1%	2%
Impairments of other financial and non-financial assets	(42)	(22)	(6)	(7)	(25)	(4)	-6%	86%
Provisions for litigation, claims, regulatory and other matters	(7)	(10)	(3)	0	(2)	(2)	-	-31%
Total loan credit losses, impairments and provisions	**(198)**	**(178)**	**(40)**	**(38)**	**(50)**	**(70)**	6%	11%
(Loss)/profit before tax and non-recurring items	**(1)**	**63**	**5**	**6**	**6**	**(18)**	-21%	-
Cost of risk[2]	**1.18%**	**1.12%**	**0.99%**	**0.97%**	**0.76%**	**2.00%**	+2 bps	+6 bps

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale". p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Operating profit for FY2020 was €197 mn, compared to €241 mn for FY2019, down by 18% yoy. Operating profit for 4Q2020 was €45 mn, compared to €44 mn for 3Q2020 (up by 2% qoq).

The **loan credit losses** for FY2020 totalled €149 mn, compared to €146 mn for FY2019. The loan credit losses for 4Q2020 totalled €31 mn, flat qoq. Regarding the economic effects of COVID-19, the impact of IFRS 9 Forward Looking Information (FLI) driven by the deterioration of the macroeconomic outlook, resulted in a €11 mn charge included in 4Q2020 loan credit losses (compared to charges of €5 mn, €10 mn and €28 mn included in 3Q2020, 2Q2020 and 1Q2020 loan credit losses respectively).

The loan credit losses charge (**cost of risk**) for FY2020 accounted for 1.18% of gross loans, of which 43 bps reflect the deterioration of the macroeconomic outlook in FY2020 (compared to a loan credit losses charge of 1.12% for FY2019).

At 31 December 2020, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €1,902 mn (compared to €1,933 mn at 30 September 2020 and €2,096 mn at 31 December 2019) and accounted for 15.5% of gross loans (compared to 15.7% at 30 September 2020 and 16.3% at 31 December 2019). The decrease in the allowance for expected loan credit losses in 4Q2020 amounted to €31 mn (compared to a decrease of €110 mn in 3Q2020).

Impairments of other financial and non-financial assets for FY2020 amounted to €42 mn (compared to €22 mn for FY2019) and for 4Q2020 to €6 mn (compared to €7 mn for 3Q2020).

Provisions for litigation, claims, regulatory and other matters for FY2020 totalled €7 mn, compared to €10 mn for FY2019. Provisions for litigation, claims, regulatory and other matters for 4Q2020 were €3 mn, compared to nil for 3Q2020.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.4 (Loss)/profit after tax (attributable to the owners of the Company)

€ mn	FY2020	FY2019[1]	4Q2020	3Q2020	2Q2020	1Q2020	(4q vs 3q) ±%	(FY) Yoy ±%
(Loss)/profit before tax and non-recurring items	**(1)**	**63**	**5**	**6**	**6**	**(18)**	-21%	-
Tax	(8)	(3)	(1)	(2)	(3)	(2)	-23%	-
(Loss)/profit attributable to non-controlling interests	3	(2)	(1)	0	4	(0)	-	-
(Loss)/profit after tax and before non-recurring items (attributable to the owners of the Company)	**(6)**	**58**	**3**	**4**	**7**	**(20)**	-32%	-
Advisory and other restructuring costs – organic	(10)	(22)	(1)	(3)	(3)	(3)	-68%	-52%
(Loss)/profit after tax – organic (attributable to the owners of the Company)	**(16)**	**36**	**2**	**1**	**4**	**(23)**	72%	-
Provisions/net loss relating to NPE sales, including restructuring expenses[2]	(146)	(92)	(42)	3	(104)	(3)	-	58%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(6)	(81)	(6)	-	-	-	-	-
(DTC levy)/reversal of impairment of DTA and impairment of other tax receivables	(3)	88	(3)	-	-	-	-	-
Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates	-	(21)	-	-	-	-	-	-
(Loss)/profit after tax (attributable to the owners of the Company)	**(171)**	**(70)**	**(49)**	**4**	**(100)**	**(26)**	-	144%

1. The interest income, non-interest income, staff costs, other operating expenses and loan credit losses related to Project Helix are disclosed under 'Provisions/net loss relating to NPE sales, including restructuring expenses' in the underlying basis, in order to separate out the impact of this non-recurring transaction. 2. 'Provisions/net (loss)/profit relating to NPE sales, including restructuring expenses' refer to the net loss on transactions completed during each year/period, net loan credit losses on transactions under consideration, as well as the restructuring costs relating to these trades. For further details please see below. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

The **tax charge** for FY2020 is €8 mn, compared to €3 mn for FY2019. The tax charge for 4Q2020 is €1 mn, compared to €2 mn for 3Q2020.

Loss after tax and before non-recurring items (attributable to the owners of the Company) for FY2020 was €6 mn, compared to a profit of €58 mn for FY2019. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 4Q2020 was €3 mn, compared to a profit of €4 mn for 3Q2020.

Advisory and other restructuring costs - organic for FY2020 amounted to €10 mn, compared to €22 mn for FY2019. Advisory and other restructuring costs - organic for 4Q2020 amounted to €1 mn, compared to €3 mn for 3Q2020.

Loss after tax arising from the organic operations (attributable to the owners of the Company) for FY2020 amounted to €16 mn, compared to a profit of €36 mn for FY2019. Profit after tax arising from the organic operations (attributable to the owners of the Company) for 4Q2020 amounted to €2 mn, compared to €1 mn for 3Q2020.

Provisions/net loss relating to NPE sales, including restructuring expenses for FY2020 amounts to €146 mn (compared to €92 mn for FY2019). Provisions/net loss relating to NPE sales, including restructuring expenses, for 4Q2020 was €42 mn (compared to a reversal of provisions of €3 mn for 3Q2020) and related mainly to loan credit losses in relation to NPE sales. Restructuring costs relating to NPE sales of c.€1.5 mn for 4Q2020 were included (Nil for 3Q2020).

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) amounted to €6 mn for 4Q2020 and FY2020. For further details please refer to Section B.3.2 'Total expenses'.

B. Preliminary Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.4 (Loss)/profit after tax (attributable to the owners of the Company) (continued)

The DTC levy was €3 mn for 4Q2020 and FY2020, and relates to a levy in the form of a guarantee fee relating to the revised Income Tax legislation. The **reversal of impairment of DTA and impairment of other tax receivables** was €88 mn for FY2019, comprising the net positive impact of €96 mn following amendments to the Income Tax legislation in Cyprus adopted in March 2019, and an impairment of €8 mn relating to Greek tax receivables adversely impacted from legislative changes. The carrying value of the remaining receivable as at 31 December 2020 was €5 mn (at the same level as at 30 September 2020 and 31 December 2019). For further information please refer to 'Legislative amendments for the conversion of DTA to DTC' within Section B.2.1. 'Capital base'.

Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates totalled €21 mn for FY2019, comprising a loss on remeasurement of investment in associate upon classification as held for sale of €26 mn and a share of profit from associates of €5 mn. In October 2019, the Group completed the sale of its entire shareholding of 49.9% in its associate CNP Cyprus Insurance Holdings Limited (CNP) that had been acquired as part of the acquisition of certain operations of Laiki Bank in 2013, for a cash consideration of €97.5 mn.

Loss after tax attributable to the owners of the Company for FY2020 was €171 mn, compared to a loss of €70 mn for FY2019. Loss after tax attributable to the owners of the Company for 4Q2020 was €49 mn, compared to a profit of €4 mn for 3Q2020.

C. Operating Environment

The Cyprus economy declined steeply by 5.1% in 2020 according to the Cyprus Statistical Service. However, this has been a better performance than initially anticipated and better than most other EU countries particularly in the south. The decline was driven by the trade and tourism sectors, construction activity, industry and entertainment related services sectors. In the tourism sector in particular, total arrivals declined by 84% in 2020. On the expenditure side, the contraction was driven by a drop in net exports and gross investment, whereas total consumption made a positive contribution.

In the labour market, the unemployment rate increased modestly to 7.3% for the first nine months of 2020 according to Eurostat, from 7.1% in 2019. Consumer prices declined by 0.6% on average in 2020, owing to the sharp decline in global energy prices, the hit on domestic demand caused by the COVID-19 pandemic and the cut to the VAT rate for the tourism and hospitality sector. The current fiscal and monetary stimulus have not fed into higher prices and inflation is likely to rise in the second half of 2021 as economic activity accelerates and the temporary reduction in the VAT is reversed.

The Cyprus Government's fiscal package in 2020 in response to the COVID-19 pandemic was large, exceeding 4% of GDP, according to recent estimates, and included income support for households, wage subsidies for businesses and grants to small businesses and the self-employed.

A debt moratorium for interest and principal repayments on loans for individuals and businesses was also put in place until the end of 2020. In January 2021, a second moratorium for the period until end-June 2021 was launched for borrowers impacted by the second lockdown. Eligible borrowers are entitled to a total moratorium of up to 9 months, inclusive of any time spent under the first moratorium during 2020.

In the banking sector there has been significant progress since the crisis in 2013. Capital adequacy has improved substantially, and non-performing exposures have dropped steeply. The ratio of NPEs to gross loans was 20.9% at the end of October 2020, or 18.1% for companies and 26.4% for households. However, banking remains vulnerable to the economic conditions amidst prevailing uncertainties and slow progress on further reform.

Cyprus will benefit considerably from the EU's €750 bn Next Generation funds. On a net basis, Cyprus expects to obtain grants of upto €1.1 bn or about 5% of GDP, in the budget period 2021-2027. However, the effectiveness of the funds in the medium and the long-term will depend on the implementation of long-delayed structural reforms, such as improving the efficiency of the judiciary and of the public and local administration.

Naturally, public finances deteriorated markedly in 2020 as a result of the Government's measures for the COVID-19 pandemic and the economic slump that ensued in the year. It is estimated that the budget deficit deteriorated from a surplus of 1.5% of GDP in 2019 to a deficit of c.4.4% of GDP in 2020 according to official statistics published by the Cyprus Statistical Service for the period January-November 2020. With restrictions tightened since early October 2020 in response to a second wave of the pandemic, the Government will be providing additional support to the economy, for at least until the end of March 2021. As a result, the trend of lower revenues and higher spending will continue through the first quarter of 2021 at least. The Government's budget position is expected to improve and the deficit to gradually shrink in the medium term as the economy recovers and spending is scaled back. Public debt has risen to about 115% of GDP (Moody's Investors Service). However, this is seen as temporary driven by fiscal measures to mitigate the effects of the COVID-19 pandemic. The underlying fundamentals remain favourable and the downward trajectory is expected to resume as growth returns. Cyprus' debt profile has improved considerably in recent years by proactive debt management. Average maturity has lengthened to around eight years and debt service costs have dropped. In addition, the Government holds significant cash buffers, at least equivalent to nine months of financing needs, reducing short-term refinancing risk.

The monetary response of the European Central Bank (ECB) to the COVID-19 pandemic, has been extremely accommodative. In addition to negative interest rates and a renewed quantitative easing, most importantly, the ECB introduced the Pandemic Emergency Purchase Programme (PEPP) and boosted its refinancing operations for commercial banks. The ECB also eased the rules around its collateral framework. The ECB provided further stimulus in December 2020, including a €500 bn increase in the size of the PEPP to €1.85 trillion and extending its duration until March 2022. The ECB remains strongly committed to preventing financial fragmentation in the Eurozone by keeping interest rates low and the risk of a sovereign debt crisis marginal.

The current account also deteriorated sharply in 2020 driven by a substantial drop in net exports. However, the current account deficit is expected to shrink gradually over the medium term as exports earnings recover and as EU recovery funds are credited to the secondary income account of the balance of payments.

Cyprus' reliance on external demand for tourism and travel, means that economic recovery will be rather prolonged. Real GDP is forecast to grow by 3.2% in 2021 and by another 3.1% in 2022 according to the European Commission (European Economic Forecast, Winter 2021). Thus, real GDP can be expected to recover to pre-pandemic levels within 2022.

C. Operating Environment (continued)

The medium-term forecasts for the Cyprus economy are subject to downside and upside risks. On the upside, the anticipated recovery in the EU may be stronger. On the downside, vaccinations may take longer to complete and may not be as effective as now anticipated, especially if virus mutations spread. In this context it will take longer for tourism activity to recover leading to a more permanent loss of productive capacity. At the same time, fiscal policies may prove less effective in the future, and more difficult to reverse, ushering in a longer period of budget imbalances and rising debt ratios. This may have implications for debt servicing costs. The UK after Brexit may take longer to normalise its economy which may give rise to a period of poor performances and exchange rate pressures. Geopolitical tensions in the eastern Mediterranean may escalate, delaying hydrocarbons exploitation.

Sovereign ratings

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system.

Moody's Investors Service maintains a long-term credit rating of Ba2 since July 2018 and a positive outlook since September 2019. More recently in January 2021, Moody's issued a revised credit opinion on the Cyprus Sovereign, maintaining the positive rating outlook. This was driven by the substantial reduction of non-performing exposures and a favourable outlook on public debt reduction expected to resume after the COVID-19 crisis. The large increase in debt related to the COVID-19 pandemic is expected to be transitory in part because of Cyprus' large fiscal surplus going into the pandemic.

Fitch Ratings maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018, affirmed in April and October 2020. Its outlook was upgraded to positive in October 2019 and revised to stable in April 2020, reflecting the significant impact the global COVID-19 pandemic might have on the Cyprus economy and fiscal position. **S&P Global Ratings** maintains an investment grade rating of BBB- with a stable outlook since September 2018. The rating and the outlook were affirmed in March and September 2020. In November 2020**, DBRS Ratings** affirmed the Republic of Cyprus's Long-Term Foreign and Local Currency – Issuer Ratings at BBB (low) with a stable trend.

D. Business Overview

Credit ratings

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In January 2021, Fitch Ratings affirmed their long-term issuer default rating of B- (negative outlook). In April 2020, Fitch Ratings revised their outlook to negative, reflecting the significant impact the outbreak of COVID-19 might have on the Cypriot economy and consequently on the Bank. In November 2020, Moody's Investors Service affirmed the Bank's long-term deposit rating of B3 (positive outlook). In July 2020, Standard and Poor's affirmed their long-term issuer credit rating on the Bank of 'B+' (stable outlook).

COVID-19 impact

The Group continues to deliver on its strategic priorities while supporting its customers, colleagues and community in which it operates through the COVID-19 crisis, ensuring at the same time that all of its branches operate in accordance with the guidelines and recommendations issued by the Ministry of Health.

The Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. The changed economic environment in the first half of the year 2020 resulted in lower levels of economic activity and credit formation, which gradually recovered in the third quarter of the year. The restrictive measures imposed in the fourth quarter for the management of the second wave have extended into the new year and are expected to lead to some temporary loss of momentum in the economic recovery in early 2021.

At the same time, statistics are encouraging as Cyprus ranks first among EU countries in terms of testing for COVID-19 and fifth globally for the management of the pandemic (Lowy Institute). In addition, the development of effective vaccines is encouraging and successful vaccination programmes both in Cyprus and abroad should act as strong catalysts for both global and local economic recovery. In fact, the Cyprus Government expects to have vaccines for 70% of the population over 18 years old available by the end of June 2021.

In common with other European banks, the prolonged low interest rate environment also continues to present a challenge to the Group's profitability. As a consequence of the pandemic, the Bank has updated its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses in 1Q2020 in line with the relevant regulatory guidance, resulting in increased organic loan credit losses for 1Q2020 of €28 mn. During the year, these assumptions were updated increasing the respective organic loan credit losses to a total of €54 mn for the FY2020. At 31 December 2020, the Bank expected, under the base scenario, the Cypriot economy to contract by 5.8% in 2020, with gradual recovery from 2021 onwards, with GDP growth of 4.0% expected for 2021. The Bank's projections are broadly in line with those published by the CBC, the Cyprus Ministry of Finance, the European Commission and the Economics Research Centre of the University of Cyprus.

Upon the outbreak of COVID-19 in March 2020, the Pandemic Incident Management Plan of the Group was invoked and a dedicated team (Pandemic Incident Management Team) has been monitoring the situation domestically and globally and providing guidance on health and safety measures, travel advice and business continuity for the Group. Local government guidelines are being followed in response to the virus.

In accordance with the Pandemic Plan, the Group adopted a set of measures to ensure minimum disruption to its operations. The Pandemic Incident Management Team and the Crisis Management Committee are still closely monitoring the dynamic COVID-19 pandemic developments and status. The measures comprise rules for quarantine for vulnerable employees due to health conditions and for those returning from epicentres of the infection. The Group replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. Staff of critical functions have been split into separate locations. In addition, to ensure continuity of business, a number of employees have been working from home and the remote access capability has been upgraded significantly. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers.

Also, the potential economic implications for the sectors where the Group is active in have been assessed and possible mitigating actions for supporting the economy have been identified, such as supporting viable affected businesses and households with new lending to cover liquidity, working capital, capital expenditure and investments related to the activity of the borrower.

The package of policy measures announced by the ECB and the European Commission, as well as the unprecedented fiscal and other measures of the Cyprus Government, have helped and should continue to help reduce the negative impact and support the recovery of the Cypriot economy.

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. Over 25,000 customers were approved, relating to gross loans of c.€5.9 bn as at 31 December 2020 (comprising gross loans to private individuals of €2.1 bn and gross loans to businesses of €3.8 bn), representing 64% of total gross loans excluding the legacy book.

D. Business Overview (continued)

COVID-19 impact (continued)

The payment holiday for these loans expired on 31 December 2020 and the performance of these loans since the end of the moratorium is encouraging. €3.6 bn of these loans had an instalment due by 15 February 2021 and 95% of those resumed payments. Close monitoring of the credit quality of these loans continues and customers with early arrears are offered solutions.

A second scheme for the suspension of loan repayments for interest and principal (loan moratorium) was launched in January 2021 for customers impacted by the second lockdown. Payment deferrals are offered to the end of June 2021, however, the total months under loan moratorium, when including the loan moratorium offered in 2020, cannot exceed a total of nine months. The application period expired on 31 January 2021 and applications relating to a total amount of loans of €27 mn have been received. Until mid-February 2021, loans of c.€17 mn have been approved for the second moratorium. Close monitoring of the credit quality of loans in moratoria continues.

Following the outbreak of COVID-19, the sectors most adversely affected are tourism, trade, transport and construction. The Group has a well – diversified performing loan portfolio.

As at 31 December 2020, the Group's non-legacy loan book exposure to tourism was limited to €1.1 bn (out of a total non-legacy loan book of €9.2 bn), of which c.90% were under payment deferrals that expired at the end of 2020. About one third of these had instalments due by 15 February 2021 and 98% of those resumed payments. It is important to note, that the majority of 'accommodation' customers entered the crisis with significant liquidity, following strong performance in recent years. The reduction in international tourist arrivals in 2020, was partly offset by domestic tourism, a trend expected to continue in 2021. A recovery in tourist activity is expected from 2H2021 and will be linked with international vaccination programmes, noting that countries such as the UK and Israel (accounting for over 40% of tourist arrivals) are well-progressed in their vaccination programmes.

Respectively, the Group's non-legacy loan book exposure to trade was €0.9 bn, of which 53% were under payment deferrals that expired at the end of 2020. In fact, 68% of these had instalments due by 15 February 2021 and 97% of those resumed payments. It is important to note that c.30% of the exposure to trade relates to lower-risk essential retail services, not materially impacted by COVID-19.

Strategic priorities for the medium term

The Bank's medium-term strategic priorities remain clear, with a sustained focus on **strengthening its balance sheet, and improving asset quality and efficiency, whilst maintaining a good capital position**, in order to continue to play a vital role in supporting the recovery of the Cypriot economy. The Group continues to explore opportunities to **grow revenues in a more capital efficient way and to improve efficiency through its digital transformation programme** in order to provide products and services while reducing operating costs.

Tackling the Bank's loan portfolio quality is of utmost importance for the Group. Despite the challenging market conditions resulting from the outbreak of COVID-19, the Group signed an agreement for the sale of a portfolio of loans with gross book value of c.€898 mn (of which €886 mn related to non-performing exposures) as at 30 June 2020, known as Project Helix 2 Portfolio A and also signed an agreement for the sale of an additional portfolio of loans with gross book value of c.€545 mn (of which €529 mn related to non-performing exposures) as at 30 September 2020, known as Project Helix 2 Portfolio B.

Project Helix (Portfolios A and B) represents a further milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs. Combined with a further €600 mn organic reduction in NPEs, and a smaller NPE sale earlier in the year, the pro forma NPE reduction for 2020 amounted to c.€2.1 bn, reducing NPEs to €1.8 bn and the NPE ratio to 16%. Overall, since the peak in 2014, the stock of NPEs has been reduced by €13.2 bn or 88% and the NPE ratio by 47 percentage points, from 63% to 16%, on the same basis.

Project Helix 2 marks further progress against delivering on the Group's strategic objectives of becoming a stronger, safer and more efficient institution. The Group is 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.

The Group remains committed to further de-risking of the balance sheet and will continue to seek solutions to achieve this. The Group will continue to assess the potential to accelerate the decrease in NPEs on the balance sheet through additional sales of NPEs. At the same time, following the outbreak of COVID-19 and the expiration of the loan moratorium at the end of the year 2020, the Group remains focused on arresting any potential asset quality deterioration and early managing arrears.

The foreclosure process which had been suspended following the outbreak of COVID-19, from 18 March 2020 until 31 August 2020 in line with the decision of the Association of Cyprus Banks, resumed on 1 September 2020. On 29 December 2020 the Cyprus Parliament enacted via legislation the suspension of foreclosures until 31 March 2021 of primary residences with value up to €350 thousand and of premises of the borrower if they relate to "very small businesses" as defined by the legislation.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

The Group continues to provide high quality new loans via prudent underwriting standards and 99% of new exposures in Cyprus since 2016 were performing at the start of the loan moratorium. Growth in new lending in Cyprus has been focused on selected industries more in line with the Bank's target risk profile, and following the outbreak of COVID-19, the focus remains to support the Cypriot economy in order to overcome this crisis. During the quarter ended 31 December 2020, new lending amounted to €374 mn, increased by 30% qoq, as new demand increased post the COVID-19 lockdown in 1H2020, supported by Government schemes. The pipeline for new housing loans is strong at over €130 mn as at mid-February.

Aiming at supporting investments by SMEs and mid-caps to boost the Cypriot economy, and create new jobs for young people, the Bank continues to provide joint financed schemes. To this end, the Bank continues its partnership with the European Investment Bank (EIB), the European Investment Fund (EIF) and the Cyprus Government.

The Group is currently evaluating opportunities for a potential Tier 2 capital transaction given the terms and maturity profile of the Bank's existing €250 mn 10NC5 Tier 2 notes, subject to market conditions and applicable regulatory authorisations. Separately the Group continues to evaluate opportunities to initiate its MREL issuance as part of its overall capital and funding strategy.

The accelerated de-risking of the balance sheet increases pressure on revenues in the near term. There are multiple initiatives underway to increase net interest income and less capital-intensive non-interest income, with a focus on fees, insurance and non-banking business.

There are efforts underway to improve credit spreads, despite competition pressures. Over the medium-term, the Group aims to grow its performing book by c.10%, as well as to carefully grow shipping and international corporate lending.

At the same time, in order to further optimise its funding structure, the Bank continues to focus on the shape and cost of deposit franchise, taking advantage of the increased customer confidence towards the Bank. The cost of deposits has been reduced by 71 bps to 5 bps over the last three years. The reduction in the cost of deposits amounts to 11 bps in FY2020, compared to a reduction of 25 bps in FY2019. Moreover, liquidity fees for specific customer groups were introduced in March 2020. The introduction of liquidity fees to a broader group of corporate clients, that was delayed due to the COVID-19 pandemic, was implemented as of 1 February 2021. Separately, a new price list for charges and fees was also implemented as of 1 February 2021, with the positive impact from both initiatives to be estimated at c.€13 mn per annum. Transactional fee volumes are expected to recover to pre-COVID-19 levels, as the Cypriot economy recovers.

In the medium-term, the Group aims to increase the average product holding through cross selling to the under-penetrated customer base, as well as to introduce the Digital Economy Platform to generate new revenue sources, through leveraging the Bank's market position, knowledge and digital infrastructure.

Management is placing emphasis on diversifying income streams by optimising fee income from international transaction services, wealth management and insurance. The Group's insurance companies, EuroLife Ltd and General Insurance of Cyprus Ltd (GIC) operating in the sectors of life and general insurance respectively, are leading players in the insurance business in Cyprus, and have been providing a stable, recurring fee income, further diversifying the Group's income streams. The insurance income net of claims and commissions for FY2020 amounted to €56 mn, (down 3% yoy), contributing to 24% of non-interest income. Furthermore, there are initiatives underway to enhance revenues from the insurance business in the medium-term, in order to deliver sustainable profitability and shareholder returns. Specifically, EuroLife Ltd is aiming to improve total regular income mainly by extending its customer base and using a new distribution philosophy; whereas GIC is aiming to increase its gross written premiums mainly by leveraging on the Bank's customer base through revamping its bancassurance channel, and by focusing on high margin products. Efficiencies through enhancing digital capabilities are also expected in the medium-term.

The Digital Transformation Programme that started in 2017 has begun to deliver an improved customer experience (see section below), whilst the branch footprint rationalisation to date, further improved the Bank's operating model. The number of branches was reduced by 18% in 2019 and the branch network is now less than half the size it was in 2013.

Management remains focused on further improvement in efficiency, through further branch footprint rationalisation, further exit solutions to release full time employees, containment of restructuring costs following the completion of balance sheet de-risking, enhancement of procurement control, as well as reduction of total operating expenses by c.10% compared to FY2019 over the medium term despite inflation, facilitated by the Digital Transformation Programme.

Digital Transformation

As part of its vision to be the leading financial hub in Cyprus, the Bank continues its Digital Transformation Programme, which focuses on three strategic pillars: developing digital services and products that enhance the customer experience, streamlining internal processes, and introducing new ways of working to improve the workplace environment.

D. Business Overview (continued)

Digital Transformation (continued)

In recent months, a number of new features have been introduced in the Bank's mobile banking app. Users can now use the app to apply and obtain an eIDAS-certified digital signature, which enables them to electronically sign any document on multiple devices at their convenience. Also, 1bank subscribers can now communicate with a Call Centre agent during working hours via the mobile chat in order to ask questions and receive answers / resolve issues. As of September 2020, users have the option to receive push notifications via the mobile app instead of SMS messages for card purchases and ATM withdrawals. Push notifications are an instant, more secure channel that incurs no message specific cost to the bank. Moreover, as of December 2020, users receive push notifications on their mobile phones to authorize online card transactions through the app (instead of SMS OTP), thus providing even greater security. In addition to using the mobile banking app, Visa cardholders can make secure and fast payments without having to carry their mobile phone, using their Garmin or Fitbit smartwatch.

The adoption of digital products and services continued to grow and gained momentum in 2020. As at the end of January 2021, 85.4% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by 21 p.p from 65% in September 2017 when the digital transformation programme was initiated). Active mobile banking users and active QuickPay users have grown by 20% and 76% respectively in the last 12 months. The highest number of active users to date was recorded in January 2021 with 91 thousand active QuickPay users. The highest number of payments was recorded in December 2020 with 228 thousand transactions.

In 2020, as a result of the COVID-19 restrictive measures, a reduction has been observed in cash withdrawals and deposits performed through the branch network. There was an increase in the adoption of digital products and services and in digital subscriber penetration as more customers have gained access to digital channels and more cards have been issued. As at the end of January 2021, 74.5% of customers were considered as digitally engaged (up by 15 p.p. from 60% since the digital transformation programme was initiated in September 2017). A further increase is expected in 2021 driven by the increase in the number of subscribers and the number of cards that have been issued.

As part of the Bank's ambition to be one of the cornerstones of the digital economy, customers have been enabled to authorise the release of their identification details to the Government, using the 1bank credentials thus enabling a digital registration on the Government Gateway Portal (Ariadni), where they can use electronic services that are made available by the Government of Cyprus (up until now citizens needed to be physically present to identify themselves).

In addition, Bank of Cyprus is the first Bank in the EU to offer its customers the ability to obtain a Qualified Digital Signature through the BoC mobile app without the need of physical presence. A Qualified Digital Signature has the same legal effect as the physical signature and thus can be used to sign digitally any document. Signing can be done substantially faster than before and offers an enhanced customer experience. The Bank currently offers the signing of some of the Bank's documentation with the use of a Digital Signature and has a roadmap in place to gradually offer the digital signing of the majority of the Bank's documents.

Furthermore, as part of the Digital Transformation Programme, major changes are underway in relation to enabling a modern and more efficient workplace. New technologies and tools have been introduced that will drastically change the employee experience, improving collaboration and knowledge sharing across the organisation. For instance, the rollout of Microsoft Surface portable devices has been initiated to the employees whose role demands high mobility, allowing them to work seamlessly wherever they are. Further enhancements will be implemented in 2021 and the full impact will be seen over the coming months.

E. Strategy and Outlook

The strategic objectives for the Group are to become **a stronger, safer and a more efficient institution capable of supporting the recovery of the Cypriot economy** and delivering appropriate shareholder returns in the medium term.

The key pillars of the Group's strategy are to:

- **Complete balance sheet de-risking**
- **Grow revenues in a more capital efficient way;** by enhancing revenue generation via growth in performing book and less capital-intensive banking and financial services operations (Insurance and Digital economy)
- **Improve operating efficiency;** by achieving leaner operations through digitisation and automation
- **Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda;** by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities

KEY STRATEGIC PILLARS	ACTION TAKEN IN 2020 and to date	PLAN OF ACTION
Complete balance sheet de-risking	• Agreement for the sale of NPE portfolios totaling €1.3 bn, on the basis of 31 December 2020 figures. Combined with a further c.€600 mn organic reduction in NPEs, and a smaller NPE sale earlier in the year, the pro forma NPE reduction for 2020 amounted to c.€2.1 bn, reducing NPEs to €1.8 bn and the NPE ratio from 30% to 16%. • *For further information, please refer to Section B.2.5 'Loan Portfolio Quality' and Section D 'Business Overview'*	• Gross NPE reduction in 2021, through both organic and inorganic actions, expected to more than offset NPE inflows • Continue to assess potential to accelerate NPE reduction through additional NPE sales
Grow revenues in a more capital efficient way; by enhancing revenue generation via growth in performing book, and less capital-intensive banking and financial services operations (Insurance and Digital economy)	• Liquidity fees for specific customer groups were introduced in March 2020 • Liquidity fees to a broader group of corporate clients, that was delayed due to the COVID-19 pandemic, was implemented as of 1 February 2021 • New price list for charges and fees was implemented as of 1 February 2021 • *For further information, please refer to Section D 'Business Overview'*	• **Mitigating actions against NII challenges put in place**, e.g. growing performing book and pricing away/price correctly deposits • **Enhance fee and commission income**, e.g. on-going review of price list for charges and fees, increase average product holding through cross selling, new sources of revenue through introduction of Digital Economy Platform • **Profitable insurance business with further opportunities to grow,** e.g. focus on high margin products, leverage on Bank's strong franchise and customer base for more targeted cross selling enabled by DT

E. Strategy and Outlook (continued)

KEY STRATEGIC PILLARS	ACTION TAKEN IN 2020 and to date	PLAN OF ACTION
Improve operating efficiency; by achieving leaner operations through digitisation and automation	• Targeted voluntary staff exit plan in 4Q2020 • Reduced operating expenses in FY2020 by 12% yoy • Further developments in the Digital Transformation Programme • *For further information, please refer to Section D 'Business Overview'*	• Offer exit solutions to release full time employees • Achieve further branch footprint rationalisation • Contain restructuring costs following completion of balance sheet de-risking • Enhance procurement control • Reduce total operating expenses by c.10% over the medium term despite inflation
Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda; by building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities	• *Please refer to slide 38 in the Preliminary FY2020 Group Financial Results Investors Presentation*	• Enhanced structure and corporate governance • Focus on our people • Priority on ESG agenda

Although there remains uncertainty in the broader economic environment as a result of the pandemic, the Management remains confident in delivering on the strategic objectives for the Group.

The Group's near-term priorities include completing the balance sheet de-risking, whilst managing the post-pandemic NPE inflow; positioning the Bank on the path for sustainable profitability; ensuring the cost base remains appropriate, whilst further investing in the digital transformation programme in the near term in order to modernise the Bank's franchise (in fact, the cost to income ratio is expected to rise in the near term as revenues remain under pressure and operating expenses increase due to higher digitisation investment costs, and to reduce to mid-50s% in the medium term); addressing the challenges from low rates and surplus liquidity; and evaluating opportunities for a potential Tier 2 capital transaction given the terms and maturity profile of the Bank's existing €250 mn 10NC5 Tier 2 notes, subject to market conditions and applicable regulatory authorisations, whilst separately continuing to evaluate opportunities to initiate its MREL issuance as part of its overall capital and funding strategy.

The medium-term priorities include delivering sustainable profitability and shareholder returns, enhancing revenues by capitalising on the Group's market leading position; enhancing operating efficiency; and optimising capital management.

E. Strategy and Outlook (continued)

The Group's medium-term strategic targets are set out below against the actual metrics for the year ended 31 December 2020.

Key Metrics		2020	Strategic Targets for	
			2022	Medium-Term
Profitability	Return on Tangible Equity (ROTE)[1]	n/a		~7%
	Total operating expenses[2]	€340 mn		<€350 mn
Asset Quality	NPE ratio	16% pro forma for NPE sales	<10%	~5%
	Cost of risk	118 bps		70-80 bps
Capital	Supported by CET1 ratio of	15.2% transitional and pro forma for NPE sales	At least 13%	

1. Return on Tangible Equity (ROTE) is calculated as Profit after Tax divided by Shareholders' equity minus intangibles assets.

2. Total operating expenses comprise staff costs and other operating expenses. Total operating expenses do not include the special levy or contributions to the Single Resolution Fund (SRF) or Deposit Guarantee Fund (DGF) and do not include any advisory or other restructuring costs.

Maintaining a strong capital base has been a key priority for management over the past few years and this remains equally important for the Group going forward. The business plan is based on maintaining a CET1 ratio of at least 13% over the entire period of the plan. The Group's capital is to be supported by organic capital generation and by focus on less capital-intensive businesses, the further reduction of high intensity risk weighted assets and the Helix 2 risk weighted asset benefit upon full repayment of deferred consideration. At the same time, factors that could potentially have a negative impact on the Group's capital ratios include the IFRS 9 phasing-in, any potential regulatory impacts, as well as one-off cost optimisation charges. Until the completion of the de-risking and the restructuring of the business, there may be volatility in the capital ratios due to the timing of potential future impacts from regulatory changes and one-off restructuring costs.

The Group has a clear strategy in place, leveraging on its strong customer base, its renewed customer trust, its market leadership position, and further developing digital knowledge and infrastructure, in order to complete the turnaround of its business and set the Bank on a path for profitability and delivering value for shareholders.

F. Definitions & Explanations

Advisory and other restructuring costs	Comprise mainly: fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities.
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprises (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale), (ii) the residual fair value adjustment on initial recognition of loans and advances to customers, (iii) allowance for expected credit losses for off-balance sheet exposures (financial guarantees and commitments) disclosed on the balance sheet within other liabilities, and (iv) the aggregate fair value adjustment on loans and advances to customers classified and measured at FVPL.
AT1	AT1 (Additional Tier 1) is defined in accordance with Articles 51 and 52 of the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 capital ratio (transitional basis)	CET1 capital ratio (transitional basis) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
CET1 fully loaded (FL) ratio	The CET1 fully loaded (FL) ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Contribution to DGF	Relates to the contribution made to the Deposit Guarantee Fund.
Contribution to SRF	Relates to the contribution made to the Single Resolution Fund.
Cost to Income ratio	Cost-to-income ratio comprises total expenses (as defined) divided by total income (as defined).
Data from the Statistical Service	The latest data from the Statistical Service of the Republic of Cyprus, Cyprus Statistical Service, was published on 16 February 2021.
Digital transactions ratio	This is the ratio of the number of digital transactions performed by individuals and legal entity customers to the total number of transactions. Transactions include deposits, withdrawals, internal and external transfers. Digital channels include mobile, browser and ATMs.
Digitally engaged customers ratio	This is the ratio of digitally engaged individual customers to the total number of individual customers. Digitally engaged customers are the individuals who use the digital channels of the Bank (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard.
ECB	European Central Bank
Gross loans	Gross loans comprise: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment Gross loans are reported before the residual fair value adjustment on initial recognition relating to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €230 mn at 31 December 2020 (compared to €243 mn at 30 September 2020 and €271 mn at 31 December 2019). Additionally, gross loans include loans and advances to customers classified and measured at fair value through profit and loss adjusted for the aggregate fair value adjustment of €326 mn at 31 December 2020 (compared to €334 mn at 30 September 2020 and €427 mn at 31 December 2019).
Group	The Group consists of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or the "Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" and the Bank's subsidiaries.
Legacy exposures	Legacy exposures are exposures relating to (i) Restructuring and Recoveries Division (RRD), (ii) Real Estate Management Unit (REMU), and (iii) non-core overseas exposures

F. Definitions & Explanations (continued)

Leverage ratio	The leverage ratio is the ratio of tangible total equity (including Other equity instruments) to total assets as presented on the balance sheet.
Loan credit losses (PL) (previously 'Provision charge')	Loan credit losses comprise: (i) credit losses to cover credit risk on loans and advances to customers, (ii) net gains on derecognition of financial assets measured at amortised cost and (iii) net gains on loans and advances to customers at FVPL.
Loan credit losses charge (previously 'Provisioning charge') (cost of risk)	Loan credit losses charge (cost of risk) (year to date) is calculated as the annualised 'loan credit losses' (as defined) divided by average gross loans (the average balance is calculated as the average of the opening balance and the closing balance).
Market Shares	Both deposit and loan market shares are based on data from the CBC. The Bank is the single largest credit provider in Cyprus with a market share of 41.9% at 31 December 2020, compared to 41.5% at 30 September 2020, 41.7% at 30 June 2020, 41.0% at 31 March 2020, 41.1% at 31 December 2019, 40.8% at 30 September 2019, 41.3% at 30 June 2019, 46.7% at 31 March 2019, 45.4% at 31 December 2018 and as at 30 September 2018, 38.6% at 30 June 2018 and 37.4% at 31 March 2018. The market share on loans was affected as at 30 June 2019 following the derecognition of the Helix portfolio upon the completion of Project Helix announced on 28 June 2019. The market share on loans was affected during the quarter ended 31 March 2019 following a decrease in total loans in the banking sector of €1 bn, mainly attributed to reclassification, revaluation, exchange rate and other adjustments (CBC). The market share on loans was affected as at 30 September 2018 following a decrease in total loans in the banking sector, mainly attributed to €6 bn non-performing loans of Cyprus Cooperative Bank (CyCB) which remained to SEDIPES as a result of the agreement between CyCB and Hellenic Bank. The market share on loans was affected as at 30 June 2018 following a decrease in total loans in the banking sector of €2.1 bn, due to loan reclassifications, revaluations, exchange rate or other adjustments (CBC).
Net fee and commission income over total income	Fee and commission income less fee and commission expense divided by total income (as defined).
Net Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the 'quarterly average interest earning assets' (as defined).
Net loans and advances to customers	Comprise gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding credit losses on off-balance sheet exposures).
Net loan to deposit ratio	Net loan to deposit ratio is calculated as gross loans (as defined) net of allowance for expected loan credit losses (as defined) divided by customer deposits.
Net Stable Funding Ratio (NSFR)	The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF), on the basis of Basel III standards. Its calculation is a SREP requirement. The EBA NSFR will be enforced as a regulatory ratio under CRR II in June 2021.
New lending	New lending includes the average YTD change (if positive) for overdraft facilities.
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains and net gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), Insurance income net of claims and commissions, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.

F. Definitions & Explanations (continued)

Non-performing exposures (NPEs)

According to the EBA standards and ECB's Guidance to Banks on Non-Performing loans, NPEs are defined as those exposures that satisfy one of the following conditions:

(i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
(ii) Defaulted or impaired exposures as per the approach provided in the CRR, which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.
(iii) Material exposures as set by the CBC, which are more than 90 days past due.
(iv) Performing forborne exposures under probation for which additional forbearance measures are extended.
(v) Performing forborne exposures under probation that present more than 30 days past due within the probation period.

Exposures include all on and off balance sheet exposures, except those held for trading, and are categorised as such for their entire amount without taking into account the existence of collateral.

The following materiality criteria are applied:

- When the problematic exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.

- Material arrears/excesses are defined as follows:
  - Retail exposures: Total arrears/excesses amount greater than €100
  - Exposures other than retail: Total arrears/excesses are greater than €500

  and the amount in arrears/excess in relation to the customer's total exposure is at least 1%.

NPEs may cease to be considered as non-performing only when all of the following conditions are met:

(i) The extension of forbearance measures does not lead to the recognition of impairment or default.
(ii) One year has passed since the forbearance measures were extended.
(iii) Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
(iv) No unlikely-to-pay criteria exist for the debtor.
(v) The debtor has made post-forbearance payments of a non-insignificant amount of capital (different capital thresholds exist according to the facility type).

New default definition effective from 1 January 2021

From 1 January 2021 two regulatory guidelines come into force that affect NPE classification and Days-Past-Due calculation. Specifically, the RTS on the Materiality Threshold of Credit Obligations Past Due (EBA/RTS/2016/0), and the Guideline on the Application of the Definition of Default under article 178 (EBA/RTS/2016/07).

As a result of the above, the following changes will come into effect:

1. New Days-past-Due (DPD) counter: The new counter will begin counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than the first day of presenting any amount of arrears in excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality thresholds. Payments to the exposure that do not impact the materiality of the remaining arrears / excesses will not impact the counter.

F. Definitions & Explanations (continued)

Non-performing exposures (NPEs) (continued/)	**New default definition effective from 1 January 2021** (continued) 2. The NPE exit criteria will change and will now include: (i) a 3 month probation period for non-forborne exposures (ii) the exit of non-performing forborne accounts will become aligned with the distressed restructuring exit criteria i.e. a period of one year has passed since the latest of the following events: a. The restructuring date b. The date the exposure is classified as non-performing c. The payment of interest and capital for at least 12 months **3.** As per the new definition of default, the 20% materiality threshold and the NPE due to >90 DPD will no longer apply for non-retail exposures i.e. any non-performing exposure of the customer, for any reason, will result in a non-performing classification at customer level.
Non-recurring items	Non-recurring items as presented in the 'Consolidated Condensed Interim Income Statement – Underlying basis' relate to the following items, as applicable: (i) advisory and other restructuring costs - organic, (ii) restructuring costs – Voluntary Staff Exit Plan (VEP), (iii) Provisions/net loss relating to NPE sales, including restructuring expenses, (iv) Loss on remeasurement of investment in associate upon classification as held for sale (CNP) net of share of profit from associates, and (v) (DTC levy)/reversal of impairment of DTA and impairment of other tax receivables.
NPE coverage ratio (previously 'NPE Provisioning coverage ratio')	The NPE coverage ratio is calculated as the allowance for expected loan credit losses (as defined) over NPEs (as defined).
NPE ratio	NPEs ratio is calculated as the NPEs as per EBA (as defined) divided by gross loans (as defined).
NPE sales	NPE sales refer to sales of NPE portfolios completed in each period and contemplated sale transactions, as well as potential further NPE sales, at each reporting date, irrespective of whether or not they met the held for sale classification criteria at the reporting dates. They include both Project Helix and Project Helix 2, as well as other portfolios.
Operating profit	Comprises profit before Total loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined).
Profit/(loss) after tax – organic (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined, except for the 'advisory and other restructuring costs – organic').
Project Helix	Project Helix refers to the sale of a portfolio of loans with a gross book value of €2.8 bn completed in June 2019. For further information please refer to section B.2.5 Loan portfolio quality.

F. Definitions & Explanations (continued)

Project Helix 2	Project Helix 2 refers to the portfolio of loans with a gross book value of €898 mn as at 30 June 2020 for which an agreement for sale was reached in August 2020 (Portfolio A) and to the portfolio of loans with a gross book value of €545 mn as at 30 September 2020 for which an agreement for sale was reached in January 2021 (Portfolio B). For further information please refer to section B.2.5 Loan portfolio quality.
Quarterly average interest earning assets	This relates to the average of 'interest earning assets' as at the beginning and end of the relevant quarter. Average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable. Interest earning assets include: cash and balances with central banks, plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Special levy	Relates to the special levy on deposits of credit institutions in Cyprus.
Total Capital ratio	Total capital ratio is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Total expenses	Total expenses comprise staff costs, other operating expenses and the special levy and contributions to the Single Resolution Fund (SRF) and Deposit Guarantee Fund (DGF). It does not include 'advisory and other restructuring costs-organic', or any restructuring costs relating to the Voluntary Staff Exit Plan, or any restructuring costs relating to NPE sales. 'Advisory and other restructuring costs-organic' amounted to €1 mn for 4Q2020 (compared to €3 mn for 3Q2020, €3 mn for 2Q2020, €3 mn for 1Q2020 and €8 mn for 4Q2019). Restructuring costs relating to NPE sales amounted to c.€1.5 mn for 4Q2020 (compared to Nil for 3Q2020, €1 mn for 2Q2020, €3 mn for 1Q2020 and €10 mn for 4Q2019). Restructuring costs relating to the Voluntary Staff Exit Plan amounted to €6 mn for 4Q2020 and FY2020 (compared to €81 mn for 4Q2019 and FY2019).
Total income	Total income comprises net interest income and non-interest income (as defined).
Total loan credit losses, impairments and provisions	Total loan credit losses, impairments and provisions comprises loan credit losses (as defined), plus impairments of other financial and non-financial assets, plus provisions for litigation, claims, regulatory and other matters.
Underlying basis	This refers to the statutory basis after being adjusted for certain items as explained in the Basis of Presentation.
Write offs	Loans together with the associated loan credit losses are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, “BOC Holdings” or “the Company”, its subsidiary Bank of Cyprus Public Company Limited, the “Bank” or “BOC PCL”, and together with the Bank’s subsidiaries, the “Group”, for the year ended 31 December 2020.

At 31 December 2016, the Bank was listed on the Cyprus Stock Exchange (CSE) and the Athens Exchange. On 18 January 2017, BOC Holdings, incorporated in Ireland, was introduced in the Group structure as the new holding company of the Bank. On 19 January 2017, the total issued share capital of BOC Holdings was admitted to listing and trading on the LSE and the CSE.

Financial information presented in this announcement is being published for the purposes of providing an overview of the preliminary Group financial results for the year ended 31 December 2020. The financial information in this announcement is not audited and does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2020 are expected to be delivered to the Registrar of Companies of Ireland within 28 days of 30 September 2021 (as at the date of this report, such statutory financial statements have not been reported on by independent auditors of BOC Holdings). The Board of Directors approved this financial information on 23 February 2021. BOC Holdings’ most recent statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the year ended 31 December 2019, upon which the auditors have given an unqualified audit report, were published on 29 April 2020 and have been annexed to the annual return and delivered to the Registrar of Companies of Ireland.

Statutory basis: Statutory information is set out on pages 5-6. However, a number of factors have had a significant effect on the comparability of the Group’s financial position and performance. Accordingly, the results are also presented on an underlying basis.

Underlying basis: The financial information presented under the underlying basis provides an overview of the preliminary Group financial results for the year ended 31 December 2020, which the management believes best fits the true measurement of the financial performance and position of the Group. For further information, please refer to ‘Commentary on Underlying Basis’ on page 8. The statutory results are adjusted for certain items (as described on pages 10-11) to allow a comparison of the Group’s underlying financial position and performance, as set out on pages 7-9.

The financial information included in this announcement is not audited by the Group’s external auditors.

This announcement and the presentation for the Preliminary Group Financial Results for the year 31 December 2020 have been posted on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

Definitions: The Group uses definitions in the discussion of its business performance and financial position which are set out in section F.

The Preliminary Group Financial Results for the year ended 31 December 2020 are presented in Euro (€) and all amounts are rounded as indicated. A comma is used to separate thousands and a dot is used to separate decimals.

Forward Looking Statements

This document contains certain forward-looking statements which can usually be identified by terms used such as “expect”, “should be”, “will be” and similar expressions or variations thereof or their negative variations, but their absence does not mean that a statement is not forward-looking. Examples of forward-looking statements include, but are not limited to, statements relating to the Group’s near term, medium term and longer term future capital requirements and ratios, intentions, beliefs or current expectations and projections about the Group’s future results of operations, financial condition, expected impairment charges, the level of the Group’s assets, liquidity, performance, prospects, anticipated growth, provisions, impairments, business strategies and opportunities. By their nature, forward-looking statements involve risk and uncertainty because they relate to events, and depend upon circumstances, that will or may occur in the future. Factors that could cause actual business, strategy and/or results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements made by the Group include, but are not limited to: general economic and political conditions in Cyprus and other European Union (EU) Member States, interest rate and foreign exchange fluctuations, legislative, fiscal and regulatory developments, information technology, litigation and other operational risks, adverse market conditions, the impact of outbreaks, epidemics or pandemics, such as the COVID-19 pandemic and ongoing challenges and uncertainties posed by the COVID-19 pandemic for businesses and governments around the world. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward looking statements. The forward-looking statements made in this document are only applicable as from the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward looking statement contained in this document to reflect any change in the Group’s expectations or any change in events, conditions or circumstances on which any statement is based.

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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 95 branches in Cyprus, of which 11 operate as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. The Bank of Cyprus Group employs 3,572 staff worldwide. At 31 December 2020, the Group’s Total Assets amounted to €21.5 bn and Total Equity was €2.1 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.