0233/00040043/en
Half-Yearly Financial Report
BANK OF CYPRUS HOLDINGS PLC
BOCH

Group Financial Results for the six months ended 30 June 2022

Group Financial Results for the six months ended 30 June 2022

Attachment:

1. **Group Financial Results for the six months ended 30 June 2022**

Regulated

Publication Date: 31/08/2022

Bank of Cyprus Holdings

Announcement

Group Financial Results for the six months ended 30 June 2022

Nicosia, 31 August 2022

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 and as the same has been retained in UK law as amended by the Market Abuse (Amendment) (EU Exit) Regulations (SI 2019/310).

Key Highlights for the six months ended 30 June 2022

Resilient economic outlook

- 6.1%[1] GDP growth in 2Q2022; expected to grow by over 5%[1] in 2022, outperforming wider Euro area
- Strong new lending of €1.2 bn, up 30% yoy and ahead of pre-pandemic levels
- 4% growth in net performing loan book[2] in 1H2022

Strong underlying profitability

- Profit after tax before non-recurring items of €59 mn, up 20% yoy underpinned by higher revenue and lower impairments
- Underlying ROTE[3] of 7.3%
- Profit after tax of €50 mn for 1H2022 vs €1 mn for 1H2021

Efficiency actions completed ahead of schedule

- Cost to income ratio[4] at 58% for 1H2022, broadly flat yoy
- Successful completion of Voluntary Staff Exit Plan (VEP) in 3Q2022 at one-off cost of c.€99 mn
- Full time employees reduced by c.16%; estimated annual saving of c.€37 mn (19%) of staff costs
- Branch footprint reduced by 25% year to date

Robust capital and liquidity

- CET1 ratio of 14.2%[5,6] and Total Capital ratio of 19.3%[5,6]
- Deposits at €18.5 bn up 4% qoq
- Significant surplus liquidity of €6.7 bn; well positioned to benefit from further interest rate increases

Mid-single digit NPE ratio[7]

- NPE ratio reduced to 5.7%[7] (2.4%[7,8] net) vs 6.5%[7,8] at March 2022
- Coverage at 59%[7]; cost of risk at 43 bps

1. Source: Cyprus Statistical Service, Ministry of Finance
2. Non-legacy loan book which includes Corporate, Large and International corporate, International business unit, Wealth and Markets, SME and Retail
3. Underlying ROTE is calculated as Profit after Tax and before non-recurring items divided by (Shareholders' equity minus Intangible assets)
4. Excluding special levy on deposits and other levies/contributions
5. Allowing for IFRS 9 and temporary treatment for certain FVOCI instruments transitional arrangements
6. Pro forma for HFS and the completion of VEP
7. Pro forma for HFS
8. Calculated as NPEs net of provisions over net loans

Group Chief Executive Statement

"Bank of Cyprus Group's performance in the first half of 2022 confirms the sustainability of our business model, with well-diversified and increasing revenues combined with tight cost control, delivering a healthy 20% increase in profit after tax, before non-recurring items, of €59 mn and a corresponding return on tangible equity of 7.3%. The business momentum, the actions we have taken, the improved interest rate environment and our significant gearing to increasing interest rates give us confidence in accelerating the delivery of our target of double digit ROTE earlier, in 2023.

Despite concerns regarding the outlook for global and European economic growth, the Cypriot economy continued to grow strongly in the second quarter with GDP increasing by 6.1%, significantly outperforming the wider Euro area. The strong tourism season is expected to support growth this year, with GDP in Cyprus projected to exceed 5% in real terms in 2022, according to the Ministry of Finance. As the largest financial group in Cyprus, we continued to support the economy by extending a record €1.2 bn of new loans in the first six months of 2022, an increase of 30% on the prior year, whilst maintaining strict lending criteria. As a result, our net performing loan book grew by 4% during the first six months of 2022 to €9.7 bn.

During the first six months of the year, we generated total income of €299 mn and a positive operating result of €109 mn, up by 7% on the previous year. The second quarter of 2022 reflected the beginning of recovery in our net interest income due to the improving interest rate environment. Additionally, the quarter was marked by a strong performance in net fee and commission income and stable insurance income whilst operating expenses (excluding levies and contributions) remain well contained despite inflationary pressures. Our cost to income ratio stood at 58%, broadly flat yoy, reflecting our ongoing efforts to contain costs. Our cost of risk at 43 bps remained well within our normalised target range. The reported result was a net profit of €50 mn for the first six months of the year.

In July, we completed a Voluntary Staff Exit Plan (VEP) through which c.550 applicants were approved to leave at a total one-off cost of c.€99 mn to be recorded in the third quarter. The estimated annual saving of €37 mn represents 19% of total staff costs. Simultaneously we have reduced the number of branches by 20 to 60 year-to-date, a reduction of 25%. Through these two successful initiatives, the Group has delivered ahead of schedule on its objective of right-sizing the Bank, which is key for the improvement of operating efficiency.

The Bank's capital position remains robust and comfortably in excess of our regulatory requirements, after absorbing in full the cost of the VEP. As at 30 June 2022, our Total Capital ratio was 19.3% and our CET1 ratio was 14.2%, on both a transitional and pro forma basis. Our liquidity position also remains strong, as such we continue to operate with c.€6.7 bn of surplus liquidity, being well positioned to benefit from further interest rate increases. Deposits on our balance sheet increased by 4% in the quarter to €18.5 bn.

Balance sheet normalisation continued in the second quarter with a further €74 mn of organic NPE reduction, reducing our NPE ratio to 5.7%, pro forma for NPE sales. We remain on track to achieve our target NPE ratio of c.5% by the end of this year and less than 3% by the end of 2025.

2022 is expected to be a transitional year for Bank of Cyprus, marking the final restructuring actions to transform the Group into a strong, stable and profitable organisation for banking and broader financial products and services in Cyprus. Our dynamic strategy which leverages our strong customer base, our market leading position, and our investment in our digital infrastructure and digital offering to clients is proving successful.

Our progress is being noticed. In an announcement on 19 August 2022 the Board expressed its confidence in our strategy and our prospects with unanimous and unequivocal rejection of three unsolicited, conditional, non-binding proposals by US private equity firm Lone star to acquire the entire issued, and to be issued, share capital of the Bank since 5 May 2022.

We remain focused on creating shareholder value and with today's upgraded guidance we now expect to achieve a ROTE of over 10% in 2023. This lays the foundations for a meaningful return to dividend distributions which we expect from 2023 onwards, subject to regulatory approvals and market conditions.

Panicos Nicolaou

A. Group Financial Results – Statutory Basis

Interim Consolidated Income Statement for the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021 (restated)
	€000	€000
Turnover	**414,996**	390,624
Interest income	**181,470**	179,272
Income similar to interest income	**9,518**	17,626
Interest expense	**(37,541)**	(28,670)
Expense similar to interest expense	**(7,752)**	(16,015)
Net interest income	**145,695**	152,213
Fee and commission income	**98,086**	87,610
Fee and commission expense	**(4,447)**	(3,753)
Net foreign exchange gains	**11,898**	6,550
Net losses on financial instruments	**(2,060)**	(13,196)
Net gains on derecognition of financial assets measured at amortised cost	**1,648**	1,053
Income from assets under insurance and reinsurance contracts	**29,859**	103,824
Expenses from liabilities under insurance and reinsurance contracts	**3,010**	(72,756)
Net losses from revaluation and disposal of investment properties	**(1,372)**	(1,381)
Net gains on disposal of stock of property	**8,242**	7,372
Other income	**8,927**	5,854
Total operating income	**299,486**	273,390
Staff costs	**(103,135)**	(100,866)
Special levy on deposits and other levies/contributions	**(16,507)**	(15,255)
Other operating expenses	**(80,393)**	(95,588)
Operating profit before credit losses and impairment	**99,451**	61,681
Credit losses on financial assets	**(24,965)**	(52,163)
Impairment net of reversals of non-financial assets	**(12,157)**	(7,398)
Profit before tax	**62,329**	2,120
Income tax	**(11,579)**	(968)
Profit after tax for the period	**50,750**	1,152
Attributable to:		
Owners of the Company	**50,088**	739
Non-controlling interests	**662**	413
Profit for the period	**50,750**	1,152
Basic and diluted profit per share attributable to the owners of the Company (€ cent)	**11.2**	0.2

A. Group Financial Results – Statutory Basis (continued)

Interim Consolidated Balance Sheet as at 30 June 2022

	30 June 2022	31 December 2021 (restated)
Assets	**€000**	€000
Cash and balances with central banks	**9,904,549**	9,230,883
Loans and advances to banks	**312,308**	291,632
Derivative financial assets	**38,150**	6,653
Investments at FVTPL	**181,318**	199,194
Investments at FVOCI	**529,872**	748,695
Investments at amortised cost	**1,391,487**	1,191,274
Loans and advances to customers	**10,144,099**	9,836,405
Life insurance business assets attributable to policyholders	**533,696**	551,797
Prepayments, accrued income and other assets	**621,955**	616,219
Stock of property	**1,054,034**	1,111,604
Deferred tax assets	**265,430**	265,481
Investment properties	**102,040**	117,745
Property and equipment	**245,693**	252,130
Intangible assets	**171,403**	184,034
Non-current assets and disposal groups held for sale	**347,698**	358,951
Total assets	**25,843,732**	24,962,697
Liabilities		
Deposits by banks	**492,022**	457,039
Funding from central banks	**2,954,808**	2,969,600
Derivative financial liabilities	**9,485**	32,452
Customer deposits	**18,450,216**	17,530,883
Insurance liabilities	**689,798**	736,201
Accruals, deferred income, other liabilities and other provisions	**394,117**	361,977
Pending litigation, claims, regulatory and other matters	**104,793**	104,108
Debt securities in issue	**298,899**	302,555
Subordinated liabilities	**311,738**	340,220
Deferred tax liabilities	**45,235**	46,435
Total liabilities	**23,751,111**	22,881,470
Equity		
Share capital	**44,620**	44,620
Share premium	**594,358**	594,358
Revaluation and other reserves	**182,329**	213,192
Retained earnings	**1,028,218**	986,623
Equity attributable to the owners of the Company	**1,849,525**	1,838,793
Other equity instruments	**220,000**	220,000
Non-controlling interests	**23,096**	22,434
Total equity	**2,092,621**	2,081,227
Total liabilities and equity	**25,843,732**	24,962,697

B. Group Financial Results – Underlying Basis

Interim Condensed Consolidated Income Statement

€ mn	1H2022	1H2021 (restated)[1]	2Q2022	1Q2022	qoq ±%	yoy ±%
Net interest income	145	152	74	71	4%	-4%
Net fee and commission income	94	84	50	44	14%	12%
Net foreign exchange gains and net gains/(losses) on financial instruments	11	9	5	6	-3%	23%
Insurance income net of claims and commissions	33	31	17	16	1%	6%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	7	6	2	5	-59%	15%
Other income	9	6	5	4	19%	52%
Total income	**299**	**288**	**153**	**146**	5%	4%
Staff costs	(100)	(101)	(50)	(50)	1%	-1%
Other operating expenses	(73)	(70)	(37)	(36)	2%	5%
Special levy on deposits and other levies/contributions	(17)	(15)	(7)	(10)	-33%	8%
Total expenses	**(190)**	**(186)**	**(94)**	**(96)**	-2%	2%
Operating profit before credit losses and impairments	**109**	**102**	**59**	**50**	18%	7%
Loan credit losses	(23)	(35)	(11)	(12)	-6%	-34%
Impairments of other financial and non-financial assets	(13)	(11)	(8)	(5)	58%	17%
Provisions for litigation, claims, regulatory and other matters	(1)	(4)	(1)	(0)	66%	-86%
Total loan credit losses, impairments and provisions	**(37)**	**(50)**	**(20)**	**(17)**	14%	-27%
Profit before tax and non-recurring items	**72**	**52**	**39**	**33**	20%	41%
Tax	(12)	(1)	(6)	(6)	10%	-
Profit attributable to non-controlling interests	(1)	(0)	(1)	0	-	60%
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**59**	**51**	**32**	**27**	18%	20%
Advisory and other restructuring costs – organic	(5)	(18)	(4)	(1)	219%	-70%
Profit after tax – organic (attributable to the owners of the Company)	**54**	**33**	**28**	**26**	8%	70%
Provisions/net (loss)/profit relating to NPE sales[2]	0	(16)	1	(1)	-172%	-97%
Restructuring and other costs relating to NPE sales[2]	(1)	(16)	0	(1)	49%	-92%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(3)	-	-	(3)	-100%	-
Profit after tax (attributable to the owners of the Company)	**50**	**1**	**29**	**21**	**35%**	-

B. Group Financial Results – Underlying Basis (continued)

Interim Condensed Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios[3]	1H2022	1H2021	2Q2022	1Q2022	qoq ±%	yoy ±%
Net Interest Margin (annualised)	1.32%	1.56%	1.33%	1.32%	1 bps	-24 bps
Cost to income ratio	63%	64%	61%	66%	-5 p.p.	-1 p.p.
Cost to income ratio excluding special levy on deposits and other levies/contributions	58%	59%	57%	59%	-2 p.p.	-1 p.p.
Operating profit return on average assets (annualised)	0.9%	0.9%	0.9%	0.8%	0.1 p.p.	-
Basic earnings per share attributable to the owners of the Company (€ cent)	11.23	0.17	6.45	4.78	1.67	11.06
Basic earnings after tax and before non-recurring items per share attributable to the owners of the Company (€ cent)	13.51	11.24	7.31	6.20	1.11	2.27
Return on tangible equity (ROTE) after tax and before non-recurring items (annualised)	7.3%	6.1%	7.8%	6.7%	1.1 p.p.	1.2 p.p.

1. Comparative information was restated following a reclassification of approximately €1 million loss relating to disposal/dissolution of subsidiaries and associates from 'Net foreign exchange gains and net gains/(losses) on financial instruments' to 'Other income'. More information is provided in Note 3.1 of the Consolidated Condensed Interim Financial Statements.
2. 'Provisions/net loss relating to NPE sales' refer to the net loss on transactions completed during the year/period and the net loan credit losses on transactions under consideration, whilst 'Restructuring and other costs relating to NPE sales' refer mainly to the 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", where relevant.
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 Group financial results for the six months ended 30 June 2022 on the 'underlying basis', which the management believes best fits the true measurement of the performance and position of the Group, as this presents separately the exceptional and one-off items.

Reconciliations between the statutory basis and the underlying basis are included in Section B.1 'Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2022 between statutory and underlying basis' and in 'Definitions and Explanations on Alternative Performance Measures Disclosures of the Interim Financial Report 2022', to facilitate the comparability of the underlying basis to the statutory information.

Please note the following in relation to the disclosure of pro forma figures and ratios throughout this announcement.

References to pro forma figures and ratios as at 30 June 2022 refer to Project Helix 3, Project Sinope and to VEP (as explained below). All relevant figures are based on 30 June 2022, unless otherwise stated. The completion of Project Helix 3 remains subject to customary regulatory and other approvals and is currently expected to occur in 2H2022. Project Sinope was completed in August 2022. As at 30 June 2022, the portfolios of loans, as well as the real estate properties included in Project Helix 3 and Project Sinope, were classified as disposal groups held for sale. VEP refers to the Voluntary Staff Exit Plan that the Group completed in July 2022, through which c.550 applicants were approved to leave at a total cost of c.€99 mn, expected to be recorded in the 3Q2022 income statement.

Where numbers are provided on a pro forma basis, this is stated and referred to as 'Pro forma for held for sale and Voluntary Staff Exit Plan' or 'Pro forma for HFS and VEP', unless otherwise stated.

Project Helix 3 refers to the agreement the Group reached in November 2021 with funds affiliated with PIMCO, for the sale of a portfolio of NPEs with gross book value of €568 mn, as well as real estate properties with book value of c.€120 mn, as at 30 September 2021.

Project Sinope refers to the agreement the Group reached in December 2021 for the sale of a portfolio of NPEs with gross book value of €12 mn, as well as properties in Romania with carrying value €0.6 mn, as at 31 December 2021. **Project Sinope was completed in August 2022.**

Further details on the NPE trades are provided in Section B.2.5 'Loan portfolio quality'.

B. Group Financial Results – Underlying Basis (continued)

Consolidated Condensed Interim Balance Sheet

€ mn	30.6.2022	31.12.2021	±%
Cash and balances with central banks	**9,905**	9,231	7%
Loans and advances to banks	**312**	292	7%
Debt securities, treasury bills and equity investments	**2,102**	2,139	-2%
Net loans and advances to customers	**10,144**	9,836	3%
Stock of property	**1,054**	1,112	-5%
Investment properties	**102**	118	-13%
Other assets	**1,877**	1,876	0%
Non-current assets and disposal groups held for sale	**348**	359	-3%
Total assets	**25,844**	**24,963**	**4%**
Deposits by banks	**492**	457	8%
Funding from central banks	**2,955**	2,970	0%
Customer deposits	**18,450**	17,531	5%
Debt securities in issue	**299**	303	-1%
Subordinated liabilities	**312**	340	-8%
Other liabilities	**1,243**	1,281	-3%
Total liabilities	**23,751**	**22,882**	**4%**

Shareholders' equity	**1,850**	**1,839**	**1%**
Other equity instruments	**220**	220	-
Total equity excluding non-controlling interests	**2,070**	**2,059**	**1%**
Non-controlling interests	**23**	22	**3%**
Total equity	**2,093**	**2,081**	**1%**
Total liabilities and equity	**25,844**	**24,963**	**4%**

Key Balance Sheet figures and ratios	**30.06.2022** (pro forma)[1]	**30.06.2022** (as reported)[2]	**31.12.2021** (as reported)[2]	±[2]
Gross loans (€ mn)	**10,477**	**11,047**	10,856	2%
Allowance for expected loan credit losses (€ mn)	**355**	**677**	792	-14%
Customer deposits (€ mn)	**18,450**	**18,450**	17,531	5%
Loans to deposits ratio (net)	**55%**	**56%**	57%	-1 p.p.
NPE ratio	**5.7%**	**10.6%**	12.4%	-1.8 p.p.
NPE coverage ratio	**59%**	**58%**	59%	-1 p.p.
Leverage ratio	**7.4%**	**7.4%**	7.6%	-20 bps
Capital ratios and risk weighted assets	**31.06.2022** (pro forma)[1]	**31.06.2022** (as reported)[2]	**31.12.2021** (as reported)[2]	±[2]
Common Equity Tier 1 (CET1) ratio (transitional)[3]	**14.2%**	**14.6%**	15.1%	-50 bps
Total capital ratio	**19.3%**	**19.5%**	20.0%	-50 bps
Risk weighted assets (€ mn)	**10,260**	**10,600**	10,694	-1%

1. Pro forma for HFS and VEP (please refer to 'Commentary on Underlying Basis'). 2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant. 3. The CET1 fully loaded ratio as at 30 June 2022 amounts to 13.9% and 13.4% pro forma for HFS and completion of VEP (compared to 13.9% and 14.5% pro forma for HFS as at 31 March 2022 and to 13.7% and 14.3% pro forma for HFS as at 31 December 2021). p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

B. Group Financial Results-Underlying Basis (continued)

B.1 Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2022 between statutory and underlying basis

€ million	Underlying basis	NPE Sales	Other	Statutory basis
Net interest income	145	-	-	145
Net fee and commission income	94	-	-	94
Net foreign exchange gains and net gains/(losses) on financial instruments	11	-	(1)	10
Net gains/(losses) on derecognition of financial assets measured at amortised cost	-	-	2	2
Insurance income net of claims and commissions	33	-	-	33
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	7	-	-	7
Other income	9	-	-	9
Total income	**299**	**-**	**1**	**300**
Total expenses	**(190)**	**(1)**	**(9)**	**(200)**
Operating profit before credit losses and impairments	**109**	**(1)**	**(8)**	**100**
Loan credit losses	(23)	-	23	-
Impairments of other financial and non-financial assets	(13)	-	13	-
Provision for litigation, claims, regulatory and other matters	(1)	-	1	-
Credit losses on financial assets and impairment net of reversals of non-financial assets	-	-	(37)	(37)
Profit before tax and non-recurring items	**72**	**(1)**	**(8)**	**63**
Tax	(12)	-	-	(12)
Profit attributable to non-controlling interest	(1)	-	-	(1)
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**59**	**(1)**	**(8)**	**50**
Advisory and other restructuring costs-organic	(5)	-	5	0
Profit after tax - organic* (attributable to the owners of the Company)	**54**	**(1)**	**(3)**	**50**
Provisions/net (loss)/profit relating to NPE sales	0	-	-	0
Restructuring and other costs relating to NPE sales	(1)	1	-	0
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(3)	-	3	0
Profit after tax (attributable to the owners of the Company)	**50**	**-**	**-**	**50**

*This is the profit after tax (attributable to the owners of the Company), before the provisions/net (loss)/profit relating to NPE sales, related restructuring and other costs, and restructuring costs related to a Voluntary Staff Exit Plan (VEP) of a subsidiary.

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

NPE sales

- Total expenses include restructuring costs of €1 million relating to the agreements for the sale of portfolios of NPEs and are presented within 'Restructuring and other costs relating to NPE sales ' under the underlying basis.

Other reclassifications

- Net losses on loans and advances to customers at FVPL of €2 million included in 'Loan credit losses' under the underlying basis are included in 'Net losses on financial instruments' under the statutory basis. Their classification under the underlying basis is done to align their presentation with the loan credit losses on loans and advances to customers at amortised cost.

B.1 Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2022 between statutory and underlying basis (continued)

- 'Net gains/(losses) on derecognition of financial assets measured at amortised cost' of c.€2 million under the statutory basis comprise of the below items which are reclassified accordingly under the underlying basis as follows:
  - €3 million net gains on derecognition of loans and advances to customers included in 'Loan credit losses' under the underlying basis as to align to the presentation of the loan credit losses arising from loans and advances to customers.
  - Net losses on derecognition of debt securities measured at amortised cost of approximately €1 million included in 'Net foreign exchange gains and net losses on financial instruments' under the underlying basis in order to align their presentation with the gains/(losses) arising on financial instruments.

- 'Provision for litigation, claims, regulatory and other matters' amounting to €1 million included in 'Other operating expenses' under the statutory basis, is separately presented under the underlying basis, since it mainly relates to cases that arose outside the normal activities of the Group.

- Advisory and other restructuring costs of approximately €5 million included in 'Other operating expenses' under the statutory basis are separately presented under the underlying basis since they comprise mainly fees to external advisors in relation to the transformation programme and other strategic projects of the Group.

- Total expenses under the statutory basis include restructuring costs relating to the voluntary staff exit plan (VEP) of JCC Payment Systems Ltd of €3 million and are separately presented under the underlying basis, since they represent one-off items.

- 'Credit losses on financial assets and impairment net of reversals of non-financial assets' under the statutory basis include i) credit losses to cover credit risk on loan and advances to customers of €24 million, which are included in 'Loan credit losses' under the underlying basis and ii) credit losses of other financial instruments of €1 million and impairment net of reversals of non-financial assets of €12 million which are included in 'Impairments of other financial and non-financial assets' under the underlying basis as to be presented separately from loan credit losses.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,070 mn as at 30 June 2022 compared to €2,069 mn at 31 March 2022 and to €2,059 mn at 31 December 2021. Shareholders' equity totalled €1,850 mn as at 30 June 2022 compared to €1,849 mn at 31 March 2022 and to €1,839 mn at 31 December 2021.

The **Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 14.6% as at 30 June 2022 and 14.2% pro forma for held for sale portfolios and Voluntary Staff Exit Plan (collectively referred to as 'pro forma for HFS and VEP') compared to 14.6% as at 31 March 2022 and 15.2% pro forma for held for sale portfolios (referred to as 'pro forma for HFS') and to 15.1% as at 31 December 2021 (and 15.8% pro forma for HFS). During 2Q2022, the CET1 ratio was positively affected mainly by the pre-provision income, and negatively affected mainly by provisions and impairments, the payment of AT1 interest and the movement in the fair value through Other Comprehensive Income Reserves. Throughout this announcement, the capital ratios (and pro forma capital ratios) as at 30 June 2022 include reviewed profits for 1H2022, unless otherwise stated.

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, with the impact being fully phased-in (100%) by 1 January 2023. The phasing-in for 2022, of the impairment amount from the initial application of IFRS 9 had a negative impact of c.60 bps on the CET1 ratio on 1 January 2022. In addition, a prudential charge in relation to the onsite inspection on the value of the Group's foreclosed assets is being deducted from own funds since June 2021, the impact of which is 36 bps on Group's CET1 ratio as at 30 June 2022.

The **CET1 ratio on a fully loaded basis** amounted to 13.9% as at 30 June 2022 and 13.4% pro forma for HFS and VEP compared to 13.9% as at 31 March 2022 (and 14.5% pro forma for HFS), and to 13.7% as at 31 December 2021 (and 14.3% pro forma for HFS).

The **Total Capital ratio** stood at 19.5% as at 30 June 2022 and 19.3% pro forma for HFS and VEP compared to 19.6% as at 31 March 2022 (and 20.3% pro forma for HFS), and to 20.0% as at 31 December 2021 (and 20.8% pro forma for HFS).

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

In the context of the annual SREP conducted by the European Central Bank (ECB) in 2021 and based on the **final 2021 SREP Decision** received in February 2022, the Pillar II requirement has been set at 3.26%, compared to the previous level of 3.00%. The additional Pillar II requirement add-on of 0.26% relates to ECB's prudential provisioning expectations as per the 2018 ECB Addendum and subsequent ECB announcements and press release in July 2018 and August 2019. This component of the Pillar II requirement add-on takes into consideration Project Helix 3.

The Bank has been designated as an Other Systemically Important Institution (**O-SII)** by the Central Bank of Cyprus (CBC) in accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, and since November 2021 the O-SII buffer has been set to 1.50%. This buffer is being phased-in gradually, having started from 1 January 2019 at 0.50%. Currently the O-SII buffer stands at 1.25% and will be fully phased-in on 1 January 2023.

As a result, the Group's minimum phased-in CET1 capital ratio has been set at **10.08%** compared to the previous level of 9.69% (comprising a 4.50% Pillar I requirement, a 1.83% Pillar II requirement, the Capital Conservation Buffer of 2.50% and the O-SII Buffer of 1.25%) and the Group's Total Capital requirement was set at **15.01%** compared to the previous level of 14.50% (comprising an 8.00% Pillar I requirement, of which up to 1.50% can be in the form of AT1 capital and up to 2.00% in the form of T2 capital, a 3.26% Pillar II requirement, the Capital Conservation Buffer of 2.50% and the O-SII Buffer of 1.25%). The ECB has also provided revised lower non-public guidance for an additional Pillar II CET1 buffer (P2G). Pillar II add-on capital requirements derive from the SREP, which is a point in time assessment, and are therefore subject to change over time. The new SREP requirements became effective as from 1 March 2022.

Own funds held for the purposes of P2G 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.

Based on the SREP decision of prior years, the Company (Bank of Cyprus Holdings PLC) and the Bank are under a regulatory prohibition for equity dividend distribution and hence no dividends were declared or paid during 2021. Following the final 2021 SREP Decision received in February 2022, the Company and the Bank still remain under equity dividend distribution prohibition for 2022. 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. Following the final 2021 SREP Decision, the previous restriction on variable pay was lifted.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

The Group participated in the 2022 ECB supervisory Climate Risk Stress Test and participated in the 2021 ECB SREP Stress Test. For further information please refer to the 'Additional Risk and Capital Management Disclosures' of the 'Interim Financial Report 2022' and the 'Annual Financial Report 2021'.

Voluntary Staff Exit Plan

In July 2022, the Group completed a Voluntary Staff Exit Plan with an estimated cost of c.€99 mn which will be recognised in the consolidated income statement in the third quarter, resulting in a negative impact of c.95 bps both on the Group's CET1 and Total Capital ratios.

For further information please refer to Section "B.3.2 Total expenses".

Project Helix 3

In November 2021, the Group reached agreement for the sale of a portfolio of NPEs with gross book value of €568 mn as at 30 September 2021, as well as real estate properties with book value of c.€120 mn as at 30 September 2021, known as Project Helix 3. Further details are provided in Section B.2.5 'Loan portfolio quality'.

Project Helix 3 is expected to have a positive capital impact of c.60 bps on the Group's CET1 ratio on the basis of 30 June 2022 figures.

Pro forma calculations are based on 30 June 2022 financial results, unless otherwise stated, and assume completion of the transaction, which remains subject to customary regulatory and other approvals.

Tier 2 Capital Notes

In April 2021, the Company issued €300 mn unsecured and subordinated Tier 2 Capital Notes (the 'New T2 Notes').

The Company and the Bank entered into an agreement pursuant to which the Company on-lent to the Bank the entire €300 mn proceeds of the issue of the New T2 Notes (the 'Tier 2 Loan') on terms substantially identical to the terms and conditions of the New T2 Notes. The Tier 2 Loan constitutes an unsecured and subordinated obligation of the Bank.

The New T2 Notes were priced at par with a fixed coupon of 6.625% per annum, payable annually in arrears and resettable on 23 October 2026. The maturity date for the New T2 Notes is 23 October 2031. The Company will have the option to redeem the New T2 Notes early on any day during the six-month period from 23 April 2026 to 23 October 2026, subject to applicable regulatory consents.

At the same time, the Bank invited the holders of its €250 mn Fixed Rate Reset Tier 2 Capital Notes due January 2027 (the 'Old T2 Notes') to tender their Old T2 Notes for purchase by the Bank at a price of 105.50%, after which Old T2 Notes of €43 mn remained outstanding. On 19 January 2022, the Bank exercised its option and redeemed the outstanding €43 mn Old T2 Notes.

The Group continues to monitor opportunities for the optimisation of its capital position, including Additional Tier 1 capital.

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 Capital Requirements Directive (CRD) IV in January 2014 and its subsequent phasing-in led to a more capital-intensive treatment of this DTA for the Bank. With this legislation, institutions are allowed to treat such DTAs as 'not relying on profitability', according to CRD IV and as a result not deducted from CET1, hence improving a credit institution's capital position.

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 has proceeded with the adoption of modifications to the Law, including requirements for an additional annual fee over and above the 1.5% annual guarantee fee already provided for in the Law, to maintain the conversion of such DTAs into tax credits. In May 2022 the Cyprus Parliament voted these amendments which became effective since then. As prescribed by the amendments in the Law, the annual fee is to be determined by the Cyprus Government on an annual basis, providing however that such fee to be charged is set at a minimum fee of 1.5% of the annual instalment and can range up to a maximum amount of €10 mn per year, and also allowing for a higher amount to be charged in the year the amendments are effective (i.e. in 2022).

B.2. Balance Sheet Analysis (continued)

Legislative amendments for the conversion of DTA to DTC (continued)

The Group since prior years, in anticipation of modifications in the Law, acknowledged that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The Group estimates that such 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. An amount of €5.3 mn was recorded in FY2021, bringing the total amount provided by the Group for such increased fee to c.€21 mn for the years 2018-2021. In 3Q2022 the Group has been levied an amount within the provisions level maintained.

B.2.2 Regulations and Directives

B.2.2.1 The 2021 Banking Package (CRR III and CRD VI and BRRD)

In October 2021, the European Commission adopted legislative proposals for further amendments to Capital Requirements Regulation (CRR), CRD IV and the BRRD (the "**2021 Banking Package**"). Amongst other things, the 2021 Banking Package would implement certain elements of Basel III that have not yet been transposed into EU law. The 2021 Banking Package is subject to amendment in the course of the EU's legislative process; and its scope and terms may change prior to its implementation. In addition, in the case of the proposed amendments to CRD IV and the BRRD, their terms and effect will depend, in part, on how they are transposed in each member state. As a general matter, it is likely to be several years until the 2021 Banking Package begins to be implemented (currently expected in 2025); and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

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 was required to be transposed into national law. BRRD II was transposed and implemented in Cyprus law in early May 2021. 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 December 2021, the Bank received notification from the Single Resolution Board (SRB) of the final 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 decision, the final MREL requirement was set at 23.74% of risk weighted assets and 5.91% of Leverage Ratio Exposure (LRE) (as defined in the CRR) and must be met by 31 December 2025.** Furthermore, an interim requirement to be met by 1 January 2022 was set at 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. The Bank must comply with the MREL requirement at the consolidated level, comprising the Bank and its subsidiaries.

In June 2021, the Bank executed its inaugural MREL transaction issuing €300 mn of senior preferred notes (the "SP Notes"). The SP Notes were priced at par with a fixed coupon of 2.50% per annum, payable annually in arrears and resettable on 24 June 2026. The maturity date of the SP Notes is 24 June 2027 and the Bank may, at its discretion, redeem the SP Notes on 24 June 2026, subject to meeting certain conditions as specified in the Terms and Conditions, including applicable regulatory consents. The SP Notes comply with the criteria for MREL and contribute towards the Bank's MREL requirements.

The MREL ratio of the Bank as at 30 June 2022, calculated according to the SRB's eligibility criteria currently in effect and based on the Bank's internal estimate, stood at 18.61% of risk weighted assets (RWA) and at 9.28% of LRE. Pro forma for HFS and VEP, the MREL ratio of the Bank as at 30 June 2022, calculated on the same basis, stood at 18.47% of risk weighted assets. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, which stands at 3.75% since 1 January 2022 and is expected to increase to 4.0% on 1 January 2023. Throughout this announcement, the MREL ratios (and MREL ratios pro forma for HFS) as at 30 June 2022 include unaudited/unreviewed profits for 1H2022, unless otherwise stated.

The successful Tier 2 capital refinancing in April 2021 and the inaugural issuance of MREL-compliant senior notes in June 2021 mark the foundation for the Bank's plan to meet applicable MREL requirements. The interim MREL requirement as at 1 January 2022 was satisfied, and the Bank will continue to evaluate opportunities to advance the build-up of its MREL liabilities.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity

Funding

Funding from Central Banks

At 30 June 2022, the Bank's funding from central banks amounted to €2,955 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III, compared to €2,962 mn at 31 March 2022 and to €2,970 mn as at 31 December 2021.

The Bank borrowed an overall amount of €3 bn under TLTRO III by June 2021, despite its comfortable liquidity position, given the favourable borrowing terms, in combination with the relaxation of collateral requirements. The participation in TLTRO III is expected to be maintained to maturity, subject to no change in terms and conditions.

The Bank exceeded the benchmark net lending threshold in the period 1 March 2020 - 31 March 2021 and qualified for the beneficial rate of -1% for the period from June 2020 to June 2021. The NII benefit from its TLTRO III borrowing for the period from June 2020 to June 2021 stood at c.€7 mn and was recognised over the respective period in the income statement.

In addition, the Bank has exceeded the benchmark net lending threshold in the period 1 October 2020 - 31 December 2021 and qualified for a beneficial rate for the period from June 2021 to June 2022. The NII benefit from its TLTRO III borrowing for the period from June 2021 to June 2022 stood at c.€15 mn and was recognised over the respective period in the income statement.

Deposits

Customer deposits totalled €18,450 mn at 30 June 2022 (compared to €17,660 mn at 31 March 2022 and to €17,531 mn at 31 December 2021) and increased by 4% in the second quarter.

The Bank's deposit market share in Cyprus reached 36.8% as at 30 June 2022, compared to 35.8% as at 31 March 2022 and to 34.8% as at 31 December 2021. Customer deposits accounted for 71% of total assets and 78% of total liabilities at 30 June 2022 (1 p.p. up since 31 December 2021).

The net Loans to Deposits (L/D) ratio stood at 56% as at 30 June 2022 (compared to 58% as at 31 March 2022 and to 57% as at 31 December 2021 on the same basis). Pro forma for HFS, the L/D ratio as at 30 June 2022 stood at 55%.

Subordinated liabilities

At 30 June 2022, the Group's subordinated liabilities (including accrued interest) amounted to €312 mn (compared to €307 mn at 31 March 2022 and €340 mn at 31 December 2021) and relates to unsecured subordinated Tier 2 Capital Notes.

For further information please refer to Section B.2.1 'Capital Base'.

Debt securities in issue

At 30 June 2022, the Group's debt securities in issue (including accrued interest) amounted to €299 mn (compared to €304 mn at 31 March 2022 and €303 mn at 31 December 2021) and relates to senior preferred notes.

For further information please refer to Section B.2.2.2 'Bank Recovery and Resolution Directive (BRRD) / Minimum Requirement for Own Funds and Eligible Liabilities (MREL)'.

Liquidity

At 30 June 2022, the Group Liquidity Coverage Ratio (LCR) stood at 299% (compared to 296% at 31 March 2022 and to 298% at 31 December 2021), well above the minimum regulatory requirement of 100%. The LCR surplus as at 30 June 2022 amounted to €6.7 bn (compared to €6.4 bn at 31 March 2022 and €6.3 bn at 31 December 2021), well positioned to benefit from further interest rates increases. The increase in 2Q2022 is mainly driven by the increase in customer deposits.

At 30 June 2022, the Group Net Stable Funding Ratio (NSFR) stood at 160% (compared to 145% at 31 March 2022 and 147% at 31 December 2021), well above the minimum regulatory requirement of 100%, enforced in June 2021 as per CRR II.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.4 Loans

Group **gross loans** (inclusive of those classified as held for sale) totalled €11,047 mn at 30 June 2022, compared to €10,964 mn at 31 March 2022 and €10,856 mn at 31 December 2021, increased by 2% since the beginning of the year.

New lending granted in Cyprus reached €537 mn for 2Q2022 (compared to €622 mn for 1Q2022) and totalled €1,159 mn for 1H2022 (compared to €894 mn for 1H2021) up by 30% yoy, reaching higher levels than the equivalent period pre-pandemic (1H2019), whilst maintaining strict lending criteria. The yoy increase is driven by increase in lending activity across all sectors, with corporate being the main driver. New lending in 2Q2022 comprised €238 mn of corporate loans, €196 mn of retail loans (of which €145 mn were housing loans), €55 mn of SME loans and €48 mn of shipping and international loans.

At 30 June 2022, the Group net loans and advances to customers (excluding those classified as held for sale) totalled €10,144 mn (compared to €10,004 mn at 31 March 2022 and €9,836 mn at 31 December 2021).

In addition, at 30 June 2022 net loans and advances to customers of €247 mn were **classified as held for sale** in line with IFRS 5 of which €241 mn related to Project Helix 3 and €6 mn to Project Sinope (see below), compared to €248 mn as at 31 March 2022 of which €241 mn related to Project Helix 3 and €7 mn to Project Sinope.

The Bank is the single largest credit provider in Cyprus with a market share of 41.2% at 30 June 2022, compared to 41.9% at 31 March 2022 and 38.8% at 31 December 2021. The increase in 1H2022 is due to a reduction in loans in the banking system.

B.2.5 Loan portfolio quality

The Group has continued to make steady progress across all asset quality metrics. As the balance sheet de-risking is largely complete, the Group's priorities include maintaining high quality new lending and preventing asset quality deterioration following the deteriorating macroeconomic landscape.

The loan credit losses for 2Q2022 totalled €11 mn (excluding 'Provisions/net (loss)/profit relating to NPE sales'), compared to €12 mn for 1Q2022 and totalled €23 mn for 1H2022, compared to €35 mn for 1H2021. Further details regarding loan credit losses are provided in Section B.3.3 'Profit before tax and non-recurring items'.

While defaults have been limited, the additional monitoring and provisioning for sectors vulnerable to the deteriorated macroeconomic environment remain in place to ensure that potential difficulties in the repayment ability are identified at an early stage, and appropriate solutions are provided to viable customers.

The Group will continue to monitor the situation, so that any changes arising from the uncertainty on the macroeconomic outlook and geopolitical developments, are timely captured.

Non-performing exposures reduction

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €79 mn, or 6% in 2Q2022 (comprising net organic NPE reductions of €74 mn and further net NPE reductions of €5 mn relating to the NPE sales lockbox (inflows minus outflows)), compared to a reduction of €96 mn in 1Q2022 to €1,168 mn at 30 June 2022 (compared to €1,247 mn at 31 March 2022). **Pro forma for HFS, NPEs are reduced by a further €568 mn to €600 mn** on the basis of 30 June 2022 figures.

The NPEs account for 10.6% of gross loans as at 30 June 2022, compared to 11.4% at 31 March 2022 and 12.4% as at 31 December 2021, on the same basis, i.e. including the NPE portfolios classified as 'Non-current assets and disposal groups held for sale'. **Pro forma for HFS, the NPE ratio is reduced to 5.7%** on the basis of 30 June 2022 figures.

The NPE coverage ratio stands at 58% at 30 June 2022, compared to 59% as at 31 March 2022 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 HFS, NPE coverage ratio is 59%** on the basis of 30 June 2022 figures.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Project Helix 3

In November 2021, the Group reached agreement for the sale of a portfolio of NPEs with gross book value of €568 mn as at 30 September 2021, as well as real estate properties with book value of c.€120 mn as at 30 September 2021, to funds affiliated with Pacific Investment Management Company LLC (PIMCO), known as Project Helix 3. This portfolio of loans had a contractual balance of €993 mn as at the reference date of 31 May 2021 and comprises c.20,000 loans, mainly to retail clients. As at 30 June 2022, 31 March 2022 and 31 December 2021, this portfolio of loans, as well as the real estate properties included in Helix 3, were classified as a disposal group held for sale. At completion, currently expected to occur in 2H2022, the Bank will receive gross cash consideration of c.€385 mn.

This portfolio of loans (as well as the real estate properties included in Helix 3) will be transferred to a licensed Cypriot Credit Acquiring Company (the "CyCAC") by the Bank. The shares of the CyCAC will then be acquired by certain funds affiliated with Pacific Investment Management Company LLC (PIMCO), the purchaser of the portfolio.

Following a transitional period where servicing will be retained by the Bank, it is intended that the servicing of the portfolio of loans and the real estate properties included in Helix 3 will be carried out by a third party servicer selected and appointed by the purchaser.

Project Helix 3 represents a milestone in the delivery of one of the Group's core strategic priorities of improving asset quality through the reduction of NPEs. Pro forma for HFS, the Group's NPE ratio is in mid-single digit. Helix 3 reduced the stock of NPEs by 50% to €600 mn pro forma on the basis of 30 June 2022 figures, and its NPE ratio by 5 p.p., to 5.7% pro forma on the basis of 30 June 2022 figures.

All relevant figures and pro forma calculations are based on 30 June 2022 financial results, unless otherwise stated, and assume completion of the transaction, which remains subject to customary regulatory and other approvals.

Project Sinope

In December 2021, the Bank entered into an agreement for the sale of a portfolio of NPEs, with a contractual balance of €146 mn and a gross book value of €12 mn as at 31 December 2021, as well as properties in Romania with carrying value €0.6 mn as at 31 December 2021 (known as 'Project Sinope'). The portfolio has been classified as held for sale since 31 December 2021. **Project Sinope was completed in August 2022.**

Overall, since the peak in 2014 and pro forma for HFS, the stock of NPEs has been reduced by €14.4 bn or 96% to €0.6 bn and the NPE ratio by over 57 percentage points, from 63% to 5.7%.

The Group has already achieved a mid-single digit NPE ratio and is on track to achieve a target NPE ratio of c.5% by the end of 2022 and less than 3% by the end of 2025.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.6 Real Estate Management Unit (REMU)

The **Real Estate Management Unit (REMU)** is focused on the disposal of on-boarded properties resulting from debt for asset swaps. Cumulative sales since the beginning of 2017 amount to €1.46 bn and exceed properties on-boarded in the same period of €1.35 bn.

During the six months ended 30 June 2022 the Group completed disposals of €87 mn (compared to €76 mn in 1H2021), resulting in a profit on disposal of c.€8 mn for 1H2022 (compared to a profit on disposal of €7 mn for 1H2021). Asset disposals are across all property classes, with over 60% of sales by value in 1H2022 relating to land.

As at 30 June 2022 the carrying value of assets held by REMU transferred to "non-current assets and disposal groups held for sale" amounted to €90 mn (compared to €94 mn at 31 March 2022). They relate to Project Helix 3 and Project Sinope and comprise stock of property of €85 mn and investment property of €5 mn as at 30 June 2022 (compared to stock of property of €89 mn and investment properties of €5 mn as at 31 March 2022).

During the six months ended 30 June 2022, the Group executed sale-purchase agreements (SPAs) for disposals of 373 properties with contract value of c.€99 mn, compared to SPAs for disposals of 387 properties (with contract value of €85 mn) for 1H2021.

In addition, the Group had a strong pipeline of €81 mn by contract value as at 30 June 2022, of which €41 mn related to SPAs signed (compared to a pipeline of €85 mn as at 30 June 2021, of which €48 mn related to SPAs signed).

REMU on-boarded €26 mn of assets in 1H2022 (compared to additions of €21 mn in 1H2021), via the execution of debt for asset swaps and repossessed properties.

As at 30 June 2022, assets held by REMU (excluding assets classified as held for sale) had a carrying value of €1,146 mn (comprising properties of €1,054 mn classified as 'Stock of property' and €92 mn as 'Investment properties'), compared to €1,215 mn as at 31 December 2021 (comprising properties of €1,112 mn classified as 'Stock of property' and €103 mn as 'Investment properties').

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

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

Assets held by REMU

Assets held by REMU (Group) **€ mn**	**1H2022**	**1H2021**	**2Q2022**	**1Q2022**	qoq ±%	yoy ±%
Opening balance	**1,215**	**1,473**	1,174	1,215	-3%	-17%
On-boarded assets	**26**	**21**	18	8	118%	20%
Sales	**(87)**	**(76)**	(43)	(44)	-2%	15%
Net impairment loss	**(8)**	**(9)**	(3)	(5)	-25%	-6%
Transfer to non-current assets and disposal groups held for sale	**-**	**(5)**	-	-	-	-100%
Closing balance	**1,146**	**1,404**	1,146	1,174	-2%	-18%

Analysis by type and country **30 June 2022 (€ mn)**	**Cyprus**	**Greece**	**Romania**	**Total**
Residential properties	**77**	**21**	**0**	**98**
Offices and other commercial properties	**207**	**15**	**0**	**222**
Manufacturing and industrial properties	**53**	**24**	**0**	**77**
Hotels	**24**	**0**	**0**	**24**
Land (fields and plots)	**474**	**5**	**0**	**479**
Golf courses and golf-related property	**246**	**0**	**0**	**246**
Total	**1,081**	**65**	**0**	**1,146**

31 December 2021 (€ mn)	Cyprus	Greece	Romania	Total
Residential properties	82	23	0	105
Offices and other commercial properties	208	23	0	231
Manufacturing and industrial properties	54	24	0	78
Hotels	25	-	-	25
Land (fields and plots)	524	5	1	530
Golf courses and golf-related property	246	-	-	246
Total	1,139	75	1	1,215

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	1H2022	1H2021 (restated)[1]	2Q2022	1Q2022	qoq ±%	yoy ±%
Net interest income	145	152	74	71	4%	-4%
Net fee and commission income	94	84	50	44	14%	12%
Net foreign exchange gains and net gains/(losses) on financial instruments	11	9	5	6	-3%	23%
Insurance income net of claims and commissions	33	31	17	16	1%	6%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	7	6	2	5	-59%	15%
Other income	9	6	5	4	19%	52%
Non-interest income	**154**	**136**	**79**	**75**	6%	13%
Total income	**299**	**288**	**153**	**146**	5%	4%
Net Interest Margin (annualised)[2]	**1.32%**	1.56%	**1.33%**	1.32%	1 bps	-24 bps
Average interest earning assets (€ mn)[1]	**22,235**	19,652	**22,436**	21,942	2%	13%

1. Comparative information was restated following a reclassification of approximately €1 million loss relating to disposal/dissolution of subsidiaries and associates from 'Net foreign exchange gains and net gains/(losses) on financial instruments' to 'Other income'. More information is provided in Note 3.1 of the Consolidated Condensed Interim Financial Statements.
2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Net interest income (NII) for 1H2022 amounted to €145 mn, compared to €152 mn in 1H2021, down 4% yoy reflecting the foregone NII on the Helix 2 portfolio (c.€15 mn in 1H2021). Net interest income (NII) for 2Q2022 amounted to €74 mn, compared to €71 mn for 1Q2022, driven by the growth in the performing (non-legacy) loan book, loan yields improvement in line with rising interest rates and the effect of two additional calendar days in the second quarter.

Quarterly average interest earning assets (AIEA) for 1H2022 amounted to €22,235 mn, up by 13% yoy driven by the increase in liquid assets following the increase in deposits by €1.6 bn yoy. Quarterly average interest earning assets for 2Q2022 increased by 2%.

Net interest margin (NIM) for 1H2022 amounted to 1.32% (compared to 1.56% for 1H2021) negatively impacted by the corresponding decrease in NII and the increase in average interest earning assets. Net interest margin (NIM) for 2Q2022 stood at 1.33% flat qoq.

Non-interest income for 1H2022 amounted to €154 mn (compared to €136 mn for 1H2021, up by 13% yoy), comprising net fee and commission income of €94 mn, net foreign exchange gains and net gains/(losses) on financial instruments of €11 mn, net insurance income of €33 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 €9 mn. The yoy increase is mainly due to higher net fee and commission income, following the introduction of a revised price list and extension of liquidity fees to a wider customer group in 1Q2022.

Non-interest income for 2Q2022 amounted to €79 mn (compared to €75 mn for 1Q2022, up by 6% qoq), comprising net fee and commission income of €50 mn, net foreign exchange gains and net gains/(losses) on financial instruments of €5 mn, net insurance income of €17 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €2 mn and other income of €5 mn. The qoq increase relates to higher net fee and commission income partially offset by lower net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties.

Net fee and commission income for 1H2022 amounted to €94 mn, (compared to €84 mn for 1H2021, up 12% yoy), driven mainly by the introduction of a revised price list in February 2022 and the extension of liquidity fees to a wider customer group in March 2022. Net fee and commission income for 2Q2022 amounted to €50 mn, up 14% qoq (compared to €44 mn for 1Q2022), due to higher volume of transaction fees, the full impact of the introduction of the revised price list and extension of liquidity fees as well as higher credit card commissions due to seasonality.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Net foreign exchange gains and net gains/(losses) on financial instruments of €11 mn for 1H2022 (comprising net foreign exchange gains of €12 mn and net losses on financial instruments of €1 mn), compared to €9 mn for 1H2021 (comprising net foreign exchange gains of €7 mn and net gains on financial instruments of €2 mn) and increased by 23% yoy. The increase yoy is mainly due to the lower net foreign exchange gains in 1H2021, impacted by the lockdown and the higher interest rates compared to previous years.

Net foreign exchange gains and net gains/(losses) on financial instruments amounted to €5 mn for 2Q2022, broadly flat qoq.

Net insurance income amounted to €33 mn for 1H2022, compared to €31 mn for 1H2021. The increase of 6% yoy is mainly due to increased new business and the positive changes in valuation assumptions, partially offset by higher insurance claims. Net insurance income amounted to €17 mn for 2Q2022, broadly flat qoq.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 1H2022 amounted to €7 mn (comprising net gains on disposal of stock of properties of c.€8 mn, and net losses from revaluation of investment properties of c.€1 mn), compared to €6 mn in 1H2021 which was impacted by the lockdown.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 2Q2022 amounted to €2 mn, compared to €5 mn for 1Q2022. REMU profit remains volatile.

Total income for 1H2022 amounted to €299 mn, compared to €288 mn for 1H2021 (up 4% yoy), mainly driven by the changes in the non-interest income as explained above. Total income for 2Q2022 stood at €153 mn, compared to €146 mn for 1Q2022, up by 5% qoq, driven by 14% increase in net fee and commission income and 4% increase in net interest income.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	1H2022	1H2021 (restated)[1]	2Q2022	1Q2022	qoq ±%	yoy ±%
Staff costs	(100)	(101)	(50)	(50)	1%	-1%
Other operating expenses	(73)	(70)	(37)	(36)	2%	5%
Total operating expenses	**(173)**	**(171)**	**(87)**	**(86)**	2%	2%
Special levy on deposits and other levies/contributions	(17)	(15)	(7)	(10)	-33%	8%
Total expenses	**(190)**	**(186)**	**(94)**	**(96)**	-2%	2%
Cost to income ratio[2]	**63%**	64%	**61%**	66%	-5 p.p.	-1 p.p.
Cost to income ratio excluding special levy on deposits and other levies/contributions[2]	**58%**	59%	**57%**	59%	-2 p.p.	-1 p.p.

1. Comparative information was restated following a reclassification of approximately €1 million loss relating to disposal/dissolution of subsidiaries and associates from 'Net foreign exchange gains and net gains/(losses) on financial instruments' to 'Other income'. More information is provided in Note 3.1 of the Consolidated Condensed Interim Financial Statements.
2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Total expenses for 1H2022 were €190 mn (compared to €186 mn for 1H2021), up by 2% yoy, 53% of which related to staff costs (€100 mn), 38% to other operating expenses (€73 mn) and 9% to special levy on deposits and other levies/contributions (€17 mn). The yoy increase of 2% is driven by the 5% yoy increase in other operating expenses and 8% yoy increase in special levy on deposits and other levies/contributions. Total expenses for 2Q2022 were €94 mn, compared to €96 mn for 1Q2022, down by 2% qoq. The qoq decrease is driven by the 33% qoq decrease in special levy on deposits and other levies/contributions.

Total operating expenses for 2Q2022 were €87 mn (compared to €86 mn for 1Q2022) up 2% and totalled €173 mn for 1H2022, compared to €171 mn for 1H2021 (up by 2% yoy).

Staff costs for 1H2022 were €100 mn, compared to €101 mn for 1H2021, broadly flat yoy, resulting from the combined impact of the Voluntary Staff Exit Plans that took place in the previous quarters, the renewal of the collective agreement, and despite rising inflation. Staff costs for 2Q2022 amounted to €50 mn flat qoq.

The Group employed 3,422 persons as at 30 June 2022 compared to 3,395 persons as at 31 March 2022 and 3,438 persons as at 31 December 2021.

In July 2022 the Group completed a Voluntary Staff Exit Plan, through which c.550 applicants were approved to leave at a total cost of c.€99 mn, expected to be recorded in the consolidated income statement in the third quarter. Following the completion of the VEP, the overall number of employees is reduced by c.16%, with an estimated annual saving of c.€37 mn or c.19% of staff costs.

In addition, in January 2022 the Group through one of its subsidiaries completed a Voluntary Staff Exit Plan (VEP), through which a small number of its employees were approved to leave at a total cost of €3 mn, recorded in the consolidated income statement in 1Q2022 as a non-recurring item in the underlying basis.

In July 2021, the Bank reached agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement for the years 2021 and 2022. The agreement related to certain changes including the introduction of a new pay grading structure linked to the value of each position of employment, and of a performance-related pay component as part of the annual salary increase, both of which have been long-standing objectives of the Bank and are in line with market best-practice. The expected impact of the renewal was an increase in staff costs for 2021 and 2022 by 3-4% per annum, in line with the impact of renewals in previous years.

Other operating expenses for 1H2022 were €73 mn, compared to €70 mn in 1H2021 (up 5% yoy) reflecting the pandemic-related lockdown in 1Q2021. Other operating expenses for 2Q2022 amounted to €37 mn, compared to €36 mn for 1Q2022, up by 2% qoq driven by seasonally higher marketing expenses.

Special levy on deposits and other levies/contributions for 1H2022 amounted to €17 mn (compared to €15 mn for 1H2021) up 8% yoy, driven by the increase in deposits of over €1.6 bn yoy. Special levy on deposits and other levies/contributions for 2Q2022 were €7 mn down by 33% qoq, due to the €3 mn contribution of the Bank to the Deposit Guarantee Fund (DGF) which relates to 1H2022 and was recorded in 1Q2022, in line with IFRSs.

B. 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 on deposits and other levies/contributions** for 1H2022 was 58%, compared to 59% for 1H2021. The cost to income ratio excluding special levy on deposits and other levies/contributions for 2Q2022 was 57%, compared to 59% for 1Q2022. The qoq decrease of 2 p.p. is driven by the qoq increase in total income.

The cost to income ratio excluding special levy on deposits and other levies/contributions for 2022 is revised downwards to around current levels from initial expectations of mid-60s, reflecting mainly the rising revenue on improving interest rate environment and management's ongoing efforts to contain costs. **In 2023 the cost to income ratio excluding special levy on deposits and other levies/contributions is expected to decrease further to c.50%, as efficiency actions on staff and branch reduction unlock meaningful savings in 2023.**

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 Profit before tax and non-recurring items

€ mn	1H2022	1H2021 (restated)[1]	2Q2022	1Q2022	qoq±%	yoy +%
Operating profit before credit losses and impairments	**109**	**102**	**59**	**50**	18%	7%
Loan credit losses	(23)	(35)	(11)	(12)	-6%	-34%
Impairments of other financial and non-financial assets	(13)	(11)	(8)	(5)	58%	17%
Provisions for litigation, claims, regulatory and other matters	(1)	(4)	(1)	(0)	66%	-86%
Total loan credit losses, impairments and provisions	**(37)**	**(50)**	**(20)**	**(17)**	14%	-27%
Profit before tax and non-recurring items	**72**	**52**	**39**	**33**	20%	41%
Cost of risk[2]	**0.43%**	**0.61%**	**0.41%**	**0.44%**	-3 bps	-18 bps

1. Comparative information was restated following a reclassification of approximately €1 million loss relating to disposal/dissolution of subsidiaries and associates from 'Net foreign exchange gains and net gains/(losses) on financial instruments' to 'Other income'. More information is provided in Note 3.1 of the Consolidated Condensed Interim Financial Statements.
2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Operating profit before credit losses and impairments for 1H2022 was €109 mn, compared to €102 mn for 1H2021 (up by 7% yoy). Operating profit before credit losses and impairments for 2Q2022 amounted to €59 mn, compared to €50 mn for 1Q2022, up by 18% qoq driven by the increase in total income qoq.

Loan credit losses for 1H2022 totalled €23 mn, compared to €35 mn for 1H2021 (down by 34% yoy), as 1H2021 loan credit losses included COVID-19 charges. Loan credit losses for 2Q2022 amounted to €11 mn compared to €12 mn for 1Q2022, down 6% qoq.

Cost of risk for 1H2022 was 43 bps, compared to a cost of risk of 61 bps for 1H2021, down by 18 bps as 1H2021 cost of risk included 21 bps credit losses related to COVID-19. Cost of risk for 2Q2022 accounted for 41 bps, broadly flat qoq and includes 18 bps (c.€5 mn) reflecting management overlays on sectors (such as tourism, private individuals, transportation, construction and real estate) that may be impacted by the ongoing geopolitical uncertainty and soaring energy prices resulting to pressure on domestic economy and a release of 5 bps due to the improved 2022 macroeconomic outlook for the Cypriot economy compared to the previous quarter projections.

At 30 June 2022, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures (please refer to Section F. 'Definitions & Explanations' for definition) totalled €677 mn (compared to €734 mn at 31 March 2022 and €792 mn at 31 December 2021) and accounted for 6.1% of gross loans including portfolios held for sale (compared to 6.7% and 7.3% of gross loans including portfolios held for sale at 31 March 2022 and 31 December 2021 respectively).

Impairments of other financial and non-financial assets for 1H2022 amounted to €13 mn, compared to €11 mn for 1H2021. Impairments of other financial and non-financial assets for 2Q2022 amounted to €8 mn, compared to €5 mn for 1Q2022, up by 58% qoq, impacted mainly by higher impairment charges on net legacy overseas exposures.

Provisions for litigation, claims, regulatory and other matters for 1H2022 amounted to €1 mn, compared to €4 mn for 1H2021. Provisions for litigation, claims, regulatory and other matters for 2Q2022 were broadly flat qoq.

Profit before tax and non-recurring items for 1H2022 totalled €72 mn, compared to €52 mn for 1H2021 (up by 41% yoy). Profit before tax and non-recurring items for 2Q2022 amounted to €39 mn compared to €33 mn for 1Q2022 (up by 20% qoq).

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.4 Profit after tax (attributable to the owners of the Company)

€ mn	1H2022	1H2021 (restated)[1]	2Q2022	1Q2022	qoq ±%	yoy +%
Profit before tax and non-recurring items	**72**	**52**	**39**	**33**	20%	41%
Tax	(12)	(1)	(6)	(6)	10%	-
Profit attributable to non-controlling interests	(1)	(0)	(1)	0	-	60%
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**59**	**51**	**32**	**27**	18%	20%
Advisory and other restructuring costs – organic	(5)	(18)	(4)	(1)	219%	-70%
Profit after tax – organic (attributable to the owners of the Company)	**54**	**33**	**28**	**26**	8%	70%
Provisions/net (loss)/profit relating to NPE sales[2]	0	(16)	1	(1)	-172%	-97%
Restructuring and other costs relating to NPE sales[2]	(1)	(16)	0	(1)	49%	-92%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(3)	-	-	(3)	-100%	-
Profit after tax (attributable to the owners of the Company)	**50**	**1**	**29**	**21**	**35%**	-

1. Comparative information was restated following a reclassification of approximately €1 million loss relating to disposal/dissolution of subsidiaries and associates from 'Net foreign exchange gains and net gains/(losses) on financial instruments' to 'Other income'. More information is provided in Note 3.1 of the Consolidated Condensed Interim Financial Statements.
2. Including the NPE portfolios classified as "Non-current assets and disposal groups held for sale", where relevant.

The **tax charge** for 2Q2022 is €6 mn, at the same levels as for 1Q2022 and totalled to €12 mn for 1H2022, compared to €1 mn for 1H2021.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for 1H2022 is €59 mn, compared to €51 mn for 1H2021. Return on Tangible Equity (ROTE) before non-recurring items calculated using 'profit after tax and before non-recurring items (attributable to the owners of the Company)' amounts to 7.3% for 1H2022, compared to 6.1% for 1H2021. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 2Q2022 amounted to €32 mn, reflecting a ROTE before non-recurring items of 7.8%, compared to €27 mn for 1Q2022 (and a ROTE of 6.7%).

Advisory and other restructuring costs - organic for 1H2022 amounted to €5 mn, compared to €18 mn for 1H2021, down by 70% mainly due to ad-hoc cost related to the tender offer for Existing Tier 2 Capital Notes amounting to €12 mn in 1H2021. Advisory and other restructuring costs – organic for 2Q2022 amounted to €4 mn, compared to €1 mn for 1Q2022 and relate to the transformation programme and other strategic projects of the Group.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for 1H2022 amounted to €54 mn, compared to €33 mn for 1H2021. Profit after tax arising from the organic operations (attributable to the owners of the Company) for 2Q2022 is €28 mn, compared to €26 mn for 1Q2022, up 8% qoq.

Provisions/net (loss)/profit relating to NPE sales for 1H2022 amounted to less than €1 mn relating to Helix 3, compared to €16 mn for 1H2021 (relating to Helix 2). Provisions/net (loss)/profit relating to NPE sales for 2Q2022 was a net profit of €1 mn, compared to a net loss of €1 mn in 1Q2022.

Restructuring and other costs relating to NPE sales for 1H2022 was €1 mn, compared to €16 mn for 1H2021 (relating to the agreements for the sale of portfolios of NPEs). Restructuring and other costs relating to NPE sales for 2Q2022 was minimal, compared to €1 mn for 1Q2022.

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) amounted to €3 mn for 1H2022, compared to Nil for 1H2021. For further details please refer to Section B.3.2 'Total expenses'.

Profit after tax attributable to the owners of the Company for 1H2022 was €50 mn, compared to €1 mn for 1H2021. Profit after tax attributable to the owners of the Company for 2Q2022 amounted to €29 mn, compared to €21 mn for 1Q2022.

C. Operating Environment

Real GDP increased by 6.1% in the second quarter 2022 on a seasonally adjusted basis, compared to 6% in the first quarter 2022, which was revised upwards from an initial estimate of 5.6%. Economic growth in the first six months of 2022 was 6.1% compared to 5.6% in 2021, facilitated mainly by the faster-than-expected recovery of tourism and the continuing expansion of exports of other services. The economic fallout of the war in Ukraine and Western sanctions on Russia was offset by strong economic activity broadly in the economy, but significant headwinds remain, as a result of higher inflation, the ongoing energy crisis and monetary tightening.

Tourism in Cyprus and in Europe in general, is expected to be stronger than in 2021. Governments have rolled back COVID-19-related travel restrictions and as a result entering countries does not require pre-departure tests. Airlines have increased capacity in anticipation of firmer passenger demand. Tourism-dependent economies like Cyprus are expected to benefit from a recovery in arrivals in 2022, although significant uncertainty remains regarding demand for tourism in 2023.

Tourist arrivals in the first seven months of 2022 reached 1.7 million people or 77% of the corresponding arrivals in 2019, recovering towards pre-pandemic levels. Likewise, receipts in the first six months of the year reached 83% of corresponding receipts in 2019. The prospects for the sector remain positive for the remainder of the tourist season, based on data on planned international flights and surveys on reservations for tourist accommodation, despite a sizeable loss of tourism from Russia (c.20% of 2019 levels).

Other short-term indicators are relatively mixed on the supply side and stronger on the demand side. Thus, retail sales in volume terms recovered strongly in May-June 2022, driven by non-food items except of automotive fuel, after a slump in March-April 2022. Total car registrations were down in January-July 2022, which may reflect global supply constraints in car manufacturing and export. In the construction sector the volume of building permits in the first five months of 2022 were down driven by drops in April and March after positive first three months.

Consumer inflation has been accelerating from the third quarter of 2021 onward, as a result mainly of supply chain disruptions, the resulting higher energy and food prices, and other shortages in commodities and industrial goods. The harmonised index of consumer prices increased by 7.4% in the Euro area on average in January-July, from one year earlier, rising by 8.9% in July alone according to the Eurostat. Respectively in Cyprus, the harmonised index of consumer prices increased by 7.7% in January-July and by 10.6% in July. Energy prices increased by 35% in Cyprus in January-July 2022. The overall index excluding energy increased by 4.9% and by 4.3% when food is also excluded. The all-services index was up 4.4% in the period. Thus, core inflation is considerably lower than headline inflation, but still higher than in previous periods.

Higher and more persistent inflation has driven the ECB to adopt a more aggressive monetary stance. In their last meeting of the policy setting governing council in July 2022, the ECB raised its main refinancing operations rate, by 50 basis points, the first interest rate increase in eleven years, and also approved a new policy tool, the Transmission Protection Instrument (TPI). This is a country specific bond purchasing instrument, designed to counter undue pressures on individual member countries' bond yields, that are not justified by their economic fundamentals and to prevent marked interest rate divergences in the euro area. By approving the new instrument, the ECB has signalled its resolve to intervene as necessary to keep market dynamics from disrupting its policy transmission mechanism.

Rising inflation and interest rates do not pose any immediate threats to financial stability in the Eurozone provided highly indebted countries ensure debt sustainability in the medium term, which presupposes a series of reforms and restructuring. The debt-to-GDP ratio drops for a period of time, as inflation and nominal GDP rise in tandem.

The recovery in 2021 underpinned a significant increase in general government revenue and a relative drop in government spending. As a result, the budget deficit narrowed to 1.6% of GDP from a deficit of 5.7% of GDP in 2020 when the government implemented measures to support the economy amidst a deep recession induced from the COVID-19 pandemic. The public debt to GDP ratio dropped to 103.6% in 2021 from a bloated 115% in 2020. During the first six months of 2022 there has been a significant improvement in public finances. Driven by higher inflation and a higher nominal GDP, total revenues increased by 16.7% from the year before while total spending declined by 1%. As a result, the budget was near balanced in the period, and a small surplus may be expected for the year as a whole. The debt-to-GDP ratio is expected to decline further in 2022.

The underlying resilience of the banking system improved steadily in recent years, and starting positions are vastly different today than what they were more than ten years ago. Banks restructured their operations, shrunk their balance sheets, and bolstered liquidity and capital positions. They refocused their operations domestically and reduced markedly their overseas exposures. Prudential oversight has been strengthened within the EU supervisory framework. However, weaknesses persist evidenced in high cost to income, low profitability and concerns about a renewed rise in NPEs if problems in some sectors related with the COVID-19 pandemic and the Ukrainian crisis, persist. Banks managed to weather the pandemic crisis well, with their liquidity and capital buffers intact. Non-performing loans continued their declining trend attributed mostly to sales packages by the two largest banks. However, amidst uncertain conditions asset quality remains a focal point for bank management and the supervisory authorities. The Russia-Ukraine war poses new challenges, and close monitoring of developments will be required. Total NPEs at the end of May 2022 amounted to €3 billion, unchanged since December 2021. The ratio to gross loans was 11.4% and the coverage ratio of provisions to non-performing exposures was 50.7%. Loans to residents excluding the government, dropped to €23.3 bn at the end of June 2022, or about 90% of expected nominal GDP at year end.

C. Operating Environment (continued)

Cyprus received the first disbursement from the Recovery and Resilience Facility of €157 mn in September 2021 and applied for the second disbursement of €85 mn in July 2022. The allocation in grants and loans amount to €1.2 bn in total (€1 bn in grants and €200 mn in loans) and will be conditional on the implementation of the reforms agreed in the national recovery plan. The plan allocates 41% of the funds to green investments and an additional 23% to digital investments. Reforms include increasing the efficiency of the public sector and local government; improving the governments of state-owned enterprises; improving the efficiency of the judicial system; and accelerating anti-corruption reforms.

Economic activity remained resilient in the year so far, despite the fallout of the war in Ukraine and Western sanctions on Russia. According to an announcement from the press office of the Minister of Finance, real GDP is expected to grow by over 5% in 2022, outperforming the Euro area. Real GDP is expected to slow in 2023, as the external environment, particularly in Europe is expected to deteriorate.

Sanctions and Russia's retaliation by cutting supplies, will exacerbate Europe's energy crisis in the coming winter. Gas shortages can be expected, and rationing may become necessary in the industrial sectors. Households will be affected, and industrial activity may be disrupted. All countries will be impacted by soaring energy prices, fall in confidence and weaker external trade. Europe's efforts to decouple from Russia and secure alternative sources of gas supply will continue but will face limitations. In these conditions the risk of disruption increases, and confidence is undermined. The agreement reached in the EU for the voluntary reduction of gas usage by 15% will be helpful in reducing disruption but sharing across member states may become necessary in some cases. Higher prices will likely persist which will have real income effects.

Sovereign ratings

The sovereign risk ratings of the Cyprus Government improved considerably in recent years reflecting reduced banking sector risks, and improvements in economic resilience and consistent fiscal outperformance. Cyprus demonstrated policy commitment to correcting fiscal imbalances through reform and restructuring of its banking system. Public debt remains high in relation to GDP but large-scale asset purchases from the ECB ensure favourable funding costs for Cyprus and ample liquidity in the sovereign bond market.

Most recently in August 2022, **Moody's Investors Service** affirmed the Government of Cyprus' long-term issuer and senior unsecured ratings to Ba1 and changed the outlook from stable to positive. The key drivers reflecting the affirmation are the strong reduction in Cyprus' public debt ratio in 2022, stronger-than expected economic resilience to Russia's invasion of Ukraine and the COVID-19 pandemic as well the ongoing strengthening of the banking sector.

In March 2022, **Fitch Ratings** affirmed Cyprus' Long-Term Issuer Default rating at investment grade BBB- since November 2018 and stable outlook. The stable outlook reflects the view that despite Cyprus' exposure to Russia through its tourism and investment linkages, near-term risks are mitigated by a strengthened government fiscal position, and continued normalisation of spending after the pandemic shock. Meanwhile, medium-term growth prospects remain positive on the back of the government's Recovery and Resilience Plan (RRP).

Also in March 2022, **S&P Global Ratings** affirmed Cyprus' investment grade rating of BBB- and positive outlook. The positive outlook reflects the view that Cyprus' sovereign rating could be upgraded within the next 24 months if the country's economic and budgetary performance continues to strengthen, supported by the Government's implementation of structural reforms. While the crisis in Ukraine weighs on Cyprus' economic performances via the sanctions imposed on Russia, medium-term economic prospects remain solid according to S&P.

In April 2022, **DBRS Morningstar** upgraded the Republic of Cyprus's Long-Term Foreign and Local Currency – Issuer Ratings from BBB (low) to BBB and changed the trend from Positive to Stable. The rating upgrades reflect Cyprus' stronger-than-anticipated economic and public finance performance during 2021 and the expectation of DBRS Morningstar that medium term conditions remain supportive of Cyprus' debt reduction efforts, despite risks posed by Russia's invasion of Ukraine and the pandemic.

D. Business Overview

Credit ratings

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In June 2022, **Standard and Poor's** affirmed their long-term issuer credit rating on the Bank of B+, maintaining the positive outlook, despite the deteriorating macroeconomic environment and escalating inflation. In December 2021, **Moody's Investors Service** upgraded the Bank's long-term deposit rating to Ba3 from B1, maintaining the positive outlook. The upgrade reflects significant ongoing improvement in the Bank's asset quality following the agreement reached for Project Helix 3 in November 2021. In December 2021, **Fitch Ratings** affirmed the Bank's long-term issuer default rating of B- and revised the outlook to positive from negative. The revision of the outlook reflects significant improvement in asset quality following the agreement reached for Project Helix 3, as well as in organically reducing problem assets since the end of 2019, despite an adverse operating environment in Cyprus, together with an expectation that this trend will continue in the near future.

Strategic priorities for the medium term

The Group is a diversified, leading, financial and technology hub in Cyprus. In February 2022, the Group updated its medium term strategic targets with an increased focus on creating shareholder value and increased its medium term return on tangible equity (ROTE) target to over 10% (2025), providing the foundations for a return to dividend distributions, subject to performance and relevant approvals. The prolonged geopolitical crisis in Ukraine has changed the economic landscape**,** reflecting potential slowdown in economic growth impacted by the escalating inflationary pressures and rising interest rate outlook**.** As a result of the changing and dynamic economic outlook, the Group will benefit substantially from the interest rate increases, setting NII to growth trajectory and outweighing potential pressures on total operating costs and cost of risk. Overall, return on tangible equity (ROTE) is now expected to reach to over 10% in 2023, supporting the ability to make meaningful dividend distributions from 2023 onwards, subject to regulatory approvals and market conditions. A ROTE in excess of 10% for 2024-2025 is reaffirmed.

Favourable interest rate environment

The structure of the Group's balance sheet is geared towards higher interest rates. As at 30 June 2022, cash balances with ECB (including TLTRO of c.€3.0 bn and Exempt Tier of c.€1.0 bn) amounted to c.€9.9 bn and following the uplift of 50 bps of ECB deposit rate in July 2022, the Group will have an immediate NII benefit of c.€12 mn. The repricing of the reference rates will gradually benefit the interest income on loans, as around 50% of the loan book is priced on Euribor. Overall, the rising interest rate environment facilitates faster growth in net interest income, with FY2022 NII expected to reach to c.€320 mn. NII is expected to increase further in 2023 by a range of €100 mn to €120 mn on a yearly basis. These improvements in NII demonstrate faster repricing of loans and liquids than funding costs and incorporate assumptions on partial pass-through to deposits, gradual change in deposit mix, and higher wholesale funding costs.

Growing revenues in a more capital efficient way

The Group has a renewed focus on growing revenues in a more capital efficient way. It aims to grow its high quality new lending, drive growth in niche areas for further market penetration and diversify through non-banking services, such as insurance and digital products.

The Group has continued to provide high quality new loans in 1H2022 via prudent underwriting standards. Growth in new lending in Cyprus has been focused on selected industries more in line with the Bank's target risk profile.

During 1H2022, new lending amounted to €1.2 bn, increased by 30% yoy, returning to pre-pandemic levels, whilst maintaining strict lending criteria. The yoy increase is driven by increased activity across all sectors. As a result, the net performing loan book expanded further to €9.7 bn reflecting an increase of 4% during the six months 2022. Aiming at supporting investments by SMEs and Mid-Caps, the Bank continues its collaboration with the European Investment Bank (EIB), the European Investment Fund (EIF) and the Cyprus Government.

Separately, the Group aims to increase revenues over the medium term through multiple less capital-intensive initiatives, with a focus on fees and commissions, insurance and non-banking opportunities, leveraging on the Group's digital capabilities. In 1Q2022, a revised price list for charges and fees was implemented and liquidity fees were extended to a wider customer group. As a result, net fee and commission income for 1H2022 remained strong at €94 mn, reflecting an increase of 12% yoy. Net fee and commission income is likely to be under pressure in the near term mainly due to the phasing out of liquidity fees in 2023.

Net fee and commission income is also enhanced by transaction fees from the Group's subsidiary, **JCC Payment Systems Ltd** (JCC), a leading player in the card processing business, 75% owned by the Bank. JCC's net fee and commission income contributed 9% of non-interest income and amounted to €12 mn in 1H2022, up 26% yoy, backed by strong transaction volume.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Growing revenues in a more capital efficient way (continued)

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 income, further diversifying the Group's income streams. The insurance income net of claims and commissions for 1H2022 contributed to 21% of non-interest income and amounted to €33 mn, up 6% yoy, driven by increased new business and the positive changes in valuation assumptions, partially offset by higher insurance claims. Specifically, Eurolife increased its total regular income by 19% yoy, whilst GIC increased its gross written premiums by 8% yoy. Furthermore, there are initiatives underway to further enhance the value of the insurance companies by business growth supported by digitisation and a lean operating structure. For information on IFRS 17 please refer to the relevant subsection below.

Finally, the Group through the **Digital Economy Platform (Jinius)** aims to generate new revenue sources over the medium term, leveraging on the Bank's market position, knowledge and digital infrastructure. The Platform aims to bring stakeholders together, link businesses with each other and with consumers and to drive opportunities in lifestyle banking and beyond. The platform is expected to allow the Bank to enhance the engagement of its customer base, attract new customers, optimise the cost of the Bank's own processes, and position the Bank next to the customer at the point and time of need.

Lean operating model

Striving for a **lean operating model** is a key strategic pillar for the Group in order to deliver shareholder value in the medium term, whilst funding its digital transformation and investing in the business. Management also expects that **restructuring costs will be effectively eliminated** as balance sheet de-risking is largely complete.

Management remains focused on **further improvement in efficiency**, through for example further branch footprint optimisation and substantial streamline of workforce. In July 2022 the Group successfully completed a voluntary staff exit plan (VEP) through which c.550 applicants were approved to leave at a total cost of c.€99 mn. Following the completion of the Plan, the overall number of employees is reduced by c.16% whilst the annual savings are estimated at c.€37 mn or 19% of staff costs. Additionally in January 2022 one of the Bank's subsidiaries completed a small-scale targeted voluntary staff exit plan (VEP), through which a small number of full-time employees were approved to leave at a total cost of €3 mn. In relation to branch restructuring, the Group has reduced its number of branches by 20 year-to-date to 60, a reduction of 25%. Through these two successful initiatives, the Group has delivered **ahead of schedule** on its commitment to reduce its workforce by c.15% and its number of branches by 25%.

The **cost to income ratio** excluding special levy on deposits and other levies/contributions in 2022 is revised downwards to around current levels compared to initial expectations of mid-60s, reflecting mainly the rising revenue on improving interest rate environment and management's ongoing efforts to contain costs. In 2023 the cost to income ratio excluding special levy on deposits and other levies/contributions is expected to decrease further to c.50%, as efficiency actions on staff and branch reduction unlock meaningful savings in 2023.

Transformation plan

The Group continues to work towards becoming a more customer centric organisation. **A transformation plan is already in progress and aims to enable the shift to modern banking by digitally transforming customer service, as well as internal operations**. The holistic transformation aims to (i) shift to a more customer-centric operating model by defining customer segment strategies, (ii) redefine our distribution model across existing and new channels, (iii) digitally transform the way we serve our customers and operate internally, and (iv) improve employee engagement through a robust set of organisational health initiatives.

Digital transformation

The Bank's digital transformation focuses on developing digital services and products that improve the customer experience, streamlining internal processes, and introducing new ways of working to improve the workplace environment.

During the second quarter of the year, the Bank continued to enrich and improve its digital portfolio launching a new innovative service to its customers, the mobile cheque deposit functionality, which allows the Bank's retail customers to deposit their cheques through the Bank's mobile app without the need to visit a branch for this service. This solution further differentiates the BOC within the Cypriot market and enhances its status as a digital leader in banking.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Digital transformation (continued)

The adoption of digital products and services continued to grow and gained momentum in the second quarter of 2022 and beyond. As at the end of July 2022, 93.0% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by 26.6 p.p. from 66.4% in September 2017 when the digital transformation programme was initiated). In addition, 79.9% of individual customers were digitally engaged (up by 19.7 p.p. from 60.2% in September 2017), choosing digital channels over branches to perform their transactions. As at the end of July 2022, active mobile banking users and active QuickPay users have grown by 17.4% and 37.4% respectively in the last 12 months. The highest number of QuickPay users to date was recorded in July 2022 with 154 thousand active users. Likewise, the highest number of QuickPay payments was recorded in July 2022 with 470 thousand transactions. New features, such as managing fixed deposits accounts, as well as the opening of new lending products entirely through the Group's digital channels will soon be available to customers.

Strengthening asset quality

Ensuring the Bank's loan portfolio quality remains healthy is a priority for the Group and is aiming to maintain high quality of new lending and complete legacy de-risking.

Balance sheet normalisation continued in the first six months of 2022 with further c.€170 mn of organic NPE reduction, reducing the Group's NPE ratio to 5.7%, pro forma for NPE sales. During 2021, the Group completed Project Helix 2 and reached an agreement for Project Helix 3. Overall, since the beginning of 2021, and including organic NPE reductions of c.€570 mn, the Group reduced its NPEs by 81% and its NPE ratio from 25.2% to 5.7%, on a pro forma basis. For further information please refer to Section B.2.5 'Loan portfolio quality'.

The Group has already achieved a mid-single digit NPE ratio and is on track to achieve a target ratio of c.5% by the end of 2022 and less than 3% by the end of 2025.

In 2022 the cost of risk is expected to reach to c.50 bps. The cost of risk is expected to range between 50-80 bps in 2023, reflecting the prevailing uncertainty on macroeconomic outlook. The normalised cost of risk target of 40-50 bps remains unchanged.

Enhancing organisational resilience and ESG (Environmental, Social and Governance) agenda

Moving to a sustainable economy is the challenge of our time. As part of its vision to be the leading financial hub in Cyprus, the Bank is determined to **lead the transition of Cyprus to a sustainable future.**

The Group has set the foundations **to enhance its organisational resilience and ESG (Environmental, Social and Governance) agenda** and continues to work towards building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities.

In 2022, the Company received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment. In 2020, the Bank received a rating of A in the MSCI ESG Ratings assessment.

In 2021, the first ESG strategy of the Group was formulated, whereby, in addition to maintaining its leading role in the social and governance pillars, there will be a shift of focus on increasing the Bank's positive impact on the environment by transforming not only its own operations, but also the operations of its client chain.

The Bank has committed to the following primary ESG targets, which reflect the pivotal role of ESG in the Bank' strategy:

- Become carbon neutral by 2030
- Become Net Zero by 2050
- Steadily increase Green Asset Ratio
- Steadily increase Green Mortgage Ratio
- ≥30% women in Group's management bodies (defined as the Executive Committee (EXCO) and the Extended EXCO) by 2030

The Board composition of the Company and the Bank is diverse, with one third of the Board members being female as at 30 June 2022. The Board displays a strong skill set stemming from broad international experience. Moreover, the Bank aspires to achieve a representation of at least 30% women in Group's management bodies (defined as the EXCO and the Extended EXCO) by 2030. As at 30 June 2022, there is a 26% representation of women in Group's management bodies and 38% representation of women at key positions below the Extended EXCO level (defined as positions between Assistant Manager and Manager).

D. Business Overview (continued)

Ukrainian crisis

The economic environment has evolved rapidly since February 2022 following Russia's invasion in Ukraine. In response to the war in Ukraine, the EU, the UK and the US, in a coordinated effort joined by several other countries imposed a variety of financial sanctions and export controls on Russia, Belarus and certain regions of Ukraine as well as various related entities and individuals. As the war is prolonged, geopolitical tension persists and inflation accelerates, impacted by the soaring energy prices and disruptions in supply chains. The escalating inflation weighs on business confidence and consumers' purchasing power. In this context the Group is closely monitoring the developments, utilising dedicated governance structures including a Crisis Management Committee as required and has assessed the impact it has on the Group's operations and financial performance.

Direct impact

The Group does not have any banking operations in Russia or Ukraine, following the sale of its operations in Ukraine in 2014 and in Russia in 2015. The Group has run down its legacy net exposure to less than €1 mn as at 30 June 2022 in Russia through write-offs and provisions.

The Group has no exposure to Russian bonds or banks which are the subject of sanctions.

The Group has limited direct exposure with loans related to Ukraine, Russia and Belarus, representing 0.4% of total assets or 1% of net loans as at 30 June 2022. The net book value of these loans stood at €108 mn as at 30 June 2022, of which €95 mn are performing, whilst the remaining were classified as NPEs well before the current crisis. The portfolio is granular and secured mainly by real estate properties in Cyprus.

Customer deposits related to Ukrainian, Russian and Belarusian customers account for only 5% of total customer deposits as at 30 June 2022. This exposure is not material, given the Group's strong liquidity position. The Group operates with a significant surplus liquidity of €6.7 bn (LCR ratio of 299%) as at 30 June 2022.

Only c.3% of the Group's 2021 net fee and commission income is derived from Ultimate Beneficiary Owners (UBOs) from Ukraine, Russia or Belarus.

Indirect impact

Although the Group's direct exposure to Ukraine, Russia or Belarus is limited, the crisis in Ukraine may have an adverse impact on the Cypriot economy, mainly due to a negative impact on the tourism and professional services sectors, increasing energy prices resulting in inflationary pressures, and disruptions to global supply chains.

At this stage, it is considered that the impact on the Cypriot economy is expected to come from higher inflation and a consequential slowdown in economic activity. The performance of tourism sector in the first seven months of 2022 is better than initially anticipated and represents 77% of 2019 respective levels, despite the loss from Russia and Ukraine. The Group continues to monitor the exposures in sectors likely impacted by the prolonged geopolitical uncertainty and persistent inflationary pressures and remains in close contact with customers to offer solutions as necessary.

Cyprus has no energy dependence on Russia as it imports oil from Greece, Italy and the Netherlands; however it is indirectly affected by pricing pressures in the international energy markets.

Professional services account for c.10% of GDP (based on FY2020) of which some relate to Russia or Ukraine and thus expected to be adversely impacted. There is however no credit risk exposure as the sector is not levered.

Between 2018-2020, Cyprus recorded net foreign direct investment (FDI) outflow to Russia. While Russian gross FDI flows in and out of Cyprus may be quite large, these often reflect the typical set-up of Special Purpose Entities, with limited actual impact on the Cypriot economy, hence likely to have limited impact on domestic activity levels.

Conclusion

Overall, the Group expects limited impact from its direct exposure, while any indirect impact will depend on the duration and severity of the crisis and its impact on the Cypriot economy, which remains uncertain at this stage.

The Group will continue to closely monitor the situation, taking all necessary and appropriate measures to minimise the impact on its operations and financial performance, as well as to manage all related risks and comply with the applicable sanctions.

D. Business Overview (continued)

IFRS 17

IFRS 17, an accounting standard that will be effective from 1 January 2023, impacts the phasing of profit recognition for insurance contracts. Upon implementation, the Group's insurance-related retained earnings will be restated and the reporting of insurance new business revenue will be spread over time, as the Group provides service to its policyholders (versus recognised up-front under current accounting standards), with the quantum and timing of the impact dependent on, inter alia, the amount and mix of new business and extent of assumption changes in any given year following implementation. As highlighted in our 2021 Annual Financial Report, IFRS 17 requires a number of key changes compared with our current accounting policies for insurance.

- Under IFRS 17, there will be no present value of in-force insurance contracts ('PVIF') asset recognised. Instead, the estimated future profit will be included in the measurement of the insurance contract liability as the contractual service margin ('CSM') and this will be gradually recognised in revenue as services are provided over the duration of the insurance contract. While the profit over the life of an individual contract will be unchanged, its emergence will be later under IFRS 17.
- IFRS 17 requires the increased use of current market values in the measurement of insurance assets and liabilities hence insurance liabilities and related assets will be adjusted to reflect IFRS 17 measurement requirements.
- In accordance with IFRS 17, directly attributable costs will be incorporated in the CSM and, as recognised, will be presented as a deduction to reported revenue. This will result in a reduction in operating expenses.

The Group continues to make progress on the implementation of IFRS 17 and preliminary management estimate on the impact is as previously communicated and included below. However, industry practice and interpretation of the standard are still developing, hence uncertainty remains as to the final transition impact. Additionally, the impact on the forecast future returns of the Group's insurance business is dependent on the growth, duration and composition of its insurance contract portfolio. These estimates are therefore subject to change in the period up to adoption of the standard.

For the purposes of planning the Group's financial resources, the initial estimate is that the accounting changes will result in:

a) the removal of value in force from the insurance business (including associated deferred tax liability) of c.€105 mn as per the Group's consolidated balance sheet as at 30 June 2022, which will reduce Group accounting equity by a respective amount (with no impact on the Group regulatory capital or tangible equity), and

b) the remeasurement of insurance assets and liabilities and the creation of a contractual service margin (CSM) liability which will increase both the insurance business and the Group's equity by an amount of c.€50 mn, predominantly relating to the life business of the Group.

The adoption of IFRS 17 may result in a modest annual negative impact on the contribution to profits of the Group's insurance business in the near term which has been incorporated in the Group business plan.

The day 1 benefit from IFRS 17 arising from the net remeasurement of insurance liabilities of c.€50 mn (including the creation of the CSM liability), referred to in (b) above, enables an equivalent dividend distribution to the Bank which would benefit Group regulatory capital by an equivalent amount (upon the payment of dividend by the subsidiary), enhancing CET1 ratio by c.50 bps.

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:

- **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
- **Strengthen asset quality;** maintaining high quality new lending, completing legacy de-risking, normalising cost of risk and reducing (other) impairments
- **Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda;** by continuing to work towards 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 1H2022 and to date	PLAN OF ACTION
Growing 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)	• A revised price list for charges and fees was implemented in February 2022 • Liquidity fees were extended to a wider customer group in March 2022 • Net performing loan book grew to €9.7 bn, an increase of 4% in 1H2022 • *For further information, please refer to Section B.2.5 'Loan portfolio quality' and Section D 'Business Overview'*	• **Grow net performing book** and increase in new lending over the medium term • **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** • Phasing out of liquidity fees in 2023 • **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 digital transformation
Improving operating efficiency; by achieving leaner operations through digitisation and automation	• Completion of a Voluntary staff exit plan in July 2022, through which c.550 applicants were approved to leave at a total cost of c.€99 mn; estimated annual saving of c.€37 mn (19%) of staff costs • Rationalisation of branch footprint as 15 branches closed down in July 2022; a reduction of 25% year-to-date • Completion of a small-scale targeted voluntary staff exit plan (VEP) in 1Q2022, by one of the Bank's subsidiaries, through which a small number of the Group's full-time employees were approved to leave at a total cost of €3 mn • Further developments in the Transformation Plan and the digitisation of the Bank	• Effectively eliminate restructuring costs as de-risking is largely complete • Enhance procurement control **Cost to income ratio (excluding special levy on deposits and other levies/contributions) revised downwards to around current levels for 2022, compared to initial expectations of mid-60s**

E. Strategy and Outlook (continued)

KEY STRATEGIC PILLARS	ACTION TAKEN IN 1H2022 and to date	PLAN OF ACTION
Strengthening asset quality	• Balance sheet normalisation continued in 1H2022 with further c.€170 mn of organic NPE reduction • NPE ratio (pro forma for HFS) reduced to mid-single digit of 5.7% as at 30 June 2022 • *For further information, please refer to Section B.2.5 'Loan portfolio quality' and Section D. 'Business Overview'*	• The Group is on track to achieve a target NPE ratio of **c.5% by the end of 2022 and of less than 3% by the end of 2025**
Enhancing organisational resilience and ESG (Environmental, Social and Governance) agenda; by continuing to work towards building a forward-looking organisation with a clear strategy supported by effective corporate governance aligned with ESG agenda priorities	• Initiation of ESG training to Board of Directors and staff to increase awareness • Initiation of decarbonisation of the Group's operations and portfolio • Approval of Green Lending Policy based on the Green Loan Principles (GLPs) • Environmental products launched e.g. under the Fil-eco product scheme • *For further information, please refer to Section D. 'Business Overview'*	• **Implement ESG strategy** with a shift of focus on environment • **Embed ESG sustainability in the Bank's culture** • Continuous enhancement of structure and corporate governance • Invest in people and promote talent

In November 2020 the Group, after a considerable period of change, announced for the first time its medium-term targets and its priorities to set the Group on a path for sustainable profitability. These included completion on balance sheet de-risking, delivery of sustainable profitability, enhancement on operating efficiency, modernisation of the Bank's franchise, including IT and digital investment, addressing challenges from low rates and surplus liquidity, initiation of MREL issuance and Tier 2 refinancing and optimisation on capital management. Since then, the Group's progress was remarkable, delivering on all fronts. In summary the key achievements were:

- 81% NPE reduction through organic and inorganic actions; NPE ratio is approaching to 5% and is on track with 2022 target
- Completion of several Voluntary Staff Exit Plans and branch footprint rationalisation
- 26% increase in active digital users
- Net interest income bottomed out and now is reverting to growth
- Inaugural MREL issuance and Tier 2 refinancing, regaining market access

The medium-term recurring ROTE target of c.7% was achieved in 1H2022, two years ahead of schedule and is on path to achieve a double-digit ROTE in 2023. The CET1 ratio since September 2020 remained broadly flat, absorbing in full the restructurings and is now positioned for dividend resumptions.

As a result the medium-term strategic targets have evolved, reflecting a dynamic strategy, capitalising on the changed macroeconomic outlook and the Group's strong performance.

Overall, a return on tangible equity (ROTE) over 10% is now expected to be achieved in 2023 and to be sustained for the following years 2024 and 2025, supporting the ability to make meaningful dividend distributions from 2023 onwards, subject to regulatory approvals and market conditions.

Also, higher profitability will be positive for the Group's CET1 ratio, which is expected to be further increased following the adoption of IFRS 17 on 1 January 2023. Specifically, a day 1 benefit from IFRS 17 on Group regulatory capital by c.€50 mn is estimated, thereby enhancing Group CET1 ratio by c.50 bps.

E. Strategy and Outlook (continued)

The Group's progress is being noticed. In an announcement on 19 August 2022 the Board noted the announcement made by LSF XI Investments LLC ('Lone Star') and confirmed that it has received and unanimously rejected three unsolicited, conditional, non-binding proposals from Lone Star relating to a possible cash offer for the entire issued, and to be issued, share capital of the Company.

The Board expressed its confidence in the Group's strategy and remains committed to delivering its strategy of becoming a stronger, safer and a more focused institution capable of further supporting the recovery of the Cypriot economy. In addition, the Board remains confident in its ability to implement its strategic objectives, delivering strong shareholder returns in the medium and long term, and accordingly has unequivocally rejected the proposal from Lone Star.

The evolution of the Group's medium term strategic targets are set out below:

	Key Metrics	**November 2020**	**February 2022**	**May 2022**	**August 2022**
		2024	**2025**	**2025**	**2025**
Profitability	Return on Tangible Equity (ROTE)[1]	c.7% in 2024	>10% in 2025	>10% from 2024	**>10% from 2023 onwards**
Profitability	Cost to income ratio[2]	Mid-50s	50-55%	50%-55%	**c.50%**
Asset Quality	NPE ratio	c.5%	<3%	<3%	**<3%**
Asset Quality	Cost of risk	70-80 bps	40-50 bps	40-50 bps	**40-50 bps**
Capital return	Dividend	No guidance	Consider from 2023 onwards[3]	Consider meaningful from 2023 onwards[3]	**Meaningful from 2023 onwards[4]**
Capital	CET1 ratio	at least 13%	Supported by CET1 ratio of 13.5%-14.5%		**Supported by CET1 ratio of 13.5%-14.5%**

1. Return on Tangible Equity (ROTE) is calculated as Profit after Tax (annualised) divided by Shareholders' equity minus intangible assets.
2. Calculated using total operating expenses which comprise staff costs and other operating expenses. Total operating expenses do not include the special levy on deposits or other levies/contributions and do not include any advisory or other restructuring costs.
3. Subject to performance and regulatory approvals
4. Subject to regulatory approvals and market conditions

F. Definitions & Explanations

Advisory and other restructuring costs	Comprise mainly (a) fees of external advisors in relation to: (i) disposal of operations and non-core assets, and (ii) customer loan restructuring activities, and (b) the cost of the tender offer for the Old T2 Capital Notes, where applicable.
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 (including residual fair value adjustment on initial recognition on loans and advances to customers classified as held for sale), (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 the Capital Requirements Regulation (EU) No 575/2013, as amended by CRR II applicable as at the reporting date.
Basic earnings/(losses) after tax and before non-recurring items per share (attributable to the owners of the Company)	Basic earnings/(losses) after tax and before non-recurring items per share (attributable to the owners of the Company) is the Profit/(loss) after tax and before non-recurring items (as defined below) (attributable to the owners of the Company) divided by the weighted average number of shares in issue during the period, excluding treasury shares.
Carbon neutral	The reduction and balancing (through a combination of offsetting investments or emission credits) of greenhouse gas emissions **from own operations**.
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.
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 29 August 2022.
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

F. Definitions & Explanations (continued)

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 mainly to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €145 mn as at 30 June 2022 (compared to €149 mn at 31 March 2022 and €178 mn at 31 December 2021). Additionally, gross loans include loans and advances to customers classified and measured at fair value through profit or loss adjusted for the aggregate fair value adjustment of €313 mn as at 30 June 2022 (compared to €312 mn at 31 March 2022 and €336 mn at 31 December 2021).
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.
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. Tangible total equity comprises of equity attributable to the owners of the Company minus intangible assets.
Leverage Ratio Exposure (LRE)	Leverage Ratio Exposure (LRE) is defined in accordance with the Capital Requirements Regulation (EU) No 575/2013, as amended.
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, for the reporting period/year.
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 gross loans are calculated as the average of the opening balance and the closing balance, for the reporting period/year.
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 41.2% as at 30 June 2022 compared to 41.9% at 31 March 2022 and 38.8% at 31 December 2021. The increase during the first six months 2022 is mainly due to a reduction in loans in the banking system.
MSCI ESG Rating	The use by the Company and the Bank of any MSCI ESG Research LLC or its affiliates ('MSCI') data, and the use of MSCI Logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement, recommendation or promotion of the Company or the Bank by MSCI. MSCI Services and data are the property of MSCI or its information providers and are provided "as-is" and without warranty. MSCI Names and logos are trademarks or service marks of MSCI.
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	Net loans and advances to customers comprise gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures disclosed on the balance sheet within other liabilities).
Net loans to deposits ratio	Net loans to deposits ratio is calculated as gross loans (as defined) net of allowance for expected loan credit losses (as defined) divided by customer deposits.
Net performing loan book	Net performing loan book is the total net loans and advances to customers (as defined) excluding the legacy exposures (as defined).

F. Definitions & Explanations (continued)

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). The regulatory limit, enforced in June 2021, has been set at 100% as per the CRR II.
Net zero emissions	The reduction of greenhouse gas emissions to net zero through a combination of reduction activities and offsetting investments
New lending	New lending includes the disbursed amounts of the new and existing non-revolving facilities (excluding forborne or re-negotiated accounts) as well as the average year-to-date change (if positive) of the current accounts and overdraft facilities between the balance at the beginning of the period and the end of the period. Recoveries are excluded from this calculation since their overdraft movement relates mostly to accrued interest and not to new lending.
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains/(losses) and net gains/(losses) on financial instruments and (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.
Non-performing exposures (NPEs)	As per the European Banking Authorities (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), non-performing exposures (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 Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, diminished financial obligation 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 previously classified as NPEs that present more than 30 days past due within the probation period. From 1 January 2021 two regulatory guidelines came into force that affect NPE classification and Days-Past-Due calculation. More specifically, these are the RTS on the Materiality Threshold of Credit Obligations Past-Due (EBA/RTS/2016/06), and the Guideline on the Application of the Definition of Default under article 178 (EBA/RTS/2016/07). The Days-Past-Due (DPD) counter begins counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than as of the first day of presenting any amount of arrears or excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality threshold. Payments towards the exposure that do not reduce the arrears/excesses below the materiality threshold, will not impact the counter. For retail debtors, when a specific part of the exposures of a customer that fulfils the NPE criteria set out above is 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 specific part of the exposure is classified as non-performing. For non-retail debtors, when an exposure fulfils the NPE criteria set out above, then the total customer exposure is classified as non-performing. Material arrears/excesses are defined as follows: (a) Retail exposures: Total arrears/excess amount greater than €100, (b) Exposures other than retail: Total arrears/excess amount greater than €500 and the amount in arrears/excess in relation to the customer's total exposure is at least 1%. For further information please refer to the Annual Financial Report 2021.

F. Definitions & Explanations (continued)

Non-recurring items	Non-recurring items as presented in the 'Interim Condensed Consolidated Income Statement – Underlying basis' relate to the following items, as applicable: (i) Advisory and other restructuring costs - organic, (ii) Provisions/net loss relating to NPE sales, (iii) Restructuring and other costs relating to NPE sales, and (iv) Restructuring costs relating to the Voluntary Staff Exit Plan.
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, as well as contemplated and potential future sale transactions, irrespective of whether or not they met the held for sale classification criteria at the reporting dates.
Operating profit before credit losses and impairments	The operating profit before credit losses and impairments 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 before credit losses and impairments 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').
Pro forma for HFS (held for sale) and VEP (Voluntary Staff Exit Plan)	References to pro forma figures and ratios as at 30 June 2022 refer to Project Helix 3, Project Sinope and to VEP. They are based on 30 June 2022 underlying basis figures and assume their completion, currently expected to occur in 2H2022. The completion of Project Helix 3 remains subject to customary regulatory and other approvals. Project Sinope was completed in August 2022. VEP refers to the Voluntary Staff Exit Plan that the Group completed in July 2022, through which c.550 applicants were approved to leave at a total cost of c.€99 mn, expected to be recorded in the 3Q2022 income statement.
Project Helix 2	Project Helix 2 refers to the sale of portfolios of loans with a total gross book value of €1.3 bn completed in June 2021. For further information please refer to section B.2.5 'Loan portfolio quality'.
Project Helix 3	Project Helix 3 refers to the agreement the Group reached in November 2021 for the sale of a portfolio of NPEs with gross book value of €568 mn, as well as real estate properties with book value of c.€120 mn as at 30 September 2021. For further information please refer to section B.2.5 Loan portfolio quality.
Project Sinope	Project Sinope refers to the agreement the Group reached in December 2021 for the sale of a portfolio of NPEs with gross book value of €12 mn as at 31 December 2021, as well as properties in Romania with carrying value €0.6 mn as at 31 December 2021. For further information please refer to section B.2.5 'Loan portfolio quality'.

F. Definitions & Explanations (continued)

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 (including cash and balances with central banks classified as non-current assets held for sale), 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 'deferred consideration receivable' included within 'other assets', plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Return on Tangible equity (ROTE) after tax and before non-recurring items	Return on Tangible Equity (ROTE) after tax and before non-recurring items is calculated as Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company) (as defined) (annualised), - (based on year to date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end
Return on Tangible equity (ROTE)	Return on Tangible Equity (ROTE) is calculated as Profit/(loss) after tax (attributable to the owners of the Company) (as defined) (annualised - (based on year to date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end
Special levy on deposits and other levies/contributions	Relates to the special levy on deposits of credit institutions in Cyprus, contributions to the Single Resolution Fund (SRF), contributions to the Deposit Guarantee Fund (DGF), as well as the DTC levy, where applicable.
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 on deposits and other levies/contributions. It does not include (i) 'advisory and other restructuring costs-organic', (ii) restructuring costs relating to NPE sales, or (iii) restructuring costs relating to the Voluntary Staff Exit Plan. (i) 'Advisory and other restructuring costs-organic' amounted to €4 mn for 2Q2022 (compared to €1 mn for 1Q2022 and €3 mn for 4Q2021), (ii) Restructuring costs relating to NPE sales for 2Q2022 amounted to €0.8 mn (compared to €1 mn for 1Q2022 and €0.2 mn for 4Q2021), and (iii) Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) for 2Q2022 was nil (compared to €3 mn for 1Q2022 and €16 mn for 4Q2021).
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)/net reversals 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 six months ended 30 June 2022.

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 Group financial results for the six months ended 30 June 2022.

The financial information in this announcement 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 2021, upon which the auditors have given an unqualified report, were published on 30 March 2022 and are expected to be delivered to the Registrar of Companies of Ireland within 56 days of 30 September 2022. The Board of Directors approved the Group statutory financial statements for the six months ended 30 June 2022 on 30 August 2022.

Statutory basis: Statutory information is set out on pages 4-5. 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 Group financial results for the six month ended 30 June 2022, 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 7. The statutory results are adjusted for certain items (as described on pages 9-10) to allow a comparison of the Group’s underlying financial position and performance, as set out on pages 6-8.

The financial information included in this announcement is neither reviewed nor audited by the Group’s external auditors.

The Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2022 have not been audited by the Group’s external auditors. The Group’s external auditors have conducted a review of the Consolidated Condensed Interim Financial Statements in accordance with the International Standard on Review Engagements 2410 ‘Review of Interim Financial Information performed by the Independent Auditor of the Entity (UK & Ireland)’.

The Interim Financial Report 2022 is available at the Bank of Cyprus Holdings Public Limited Company Office (51, Stassinos Street, Ayia Paraskevi, P.O. Box 24884, 1398, Nicosia, Cyprus) and on the Group’s website www.bankofcyprus.com Group/Investor Relations/Financial Results).

This announcement and the presentation for the Group Financial Results for the six months ended 30 June2022 have been posted on the Group’s website www.bankofcyprus.com (Group/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, together with explanations.

The Group Financial Results for the six months ended 30 June 2022 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. Russian invasion of Ukraine has led to heightened volatility across global markets and to the coordinated implementation of sanctions on Russia, Russian entities and nationals. The Russian invasion of Ukraine has already caused significant population displacement, and as the conflict continues, the disruption will likely increase. The scale of the conflict and the speed and extent of sanctions, as well as the uncertainty as to how the situation will develop, may have significant adverse effects on the market and macroeconomic conditions, including in ways that cannot be anticipated. This creates significantly greater uncertainty about forward-looking statements. 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 at 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.

Further Information

In accordance with Rule 26.1 of the Irish Takeover Rules, a copy of this announcement will be available on the Company's website at https://www.bankofcyprus.com/en-gb/group/investor-relations/possible-offer/ by no later than 12.00 (noon) (Irish/UK time) on the business day following publication of this announcement. The content of the website referred to in this announcement is not incorporated into, and does not form part of, this announcement. This announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to this announcement or otherwise. Any offer will be made solely by certain offer documentation which will contain the full terms and conditions of any offer, including details of how it may be accepted.

This announcement has been prepared in accordance with and in compliance with the applicable laws of Ireland, Cyprus and England and information disclosed may not be the same as that which would have been prepared in accordance with the laws of other jurisdictions.

The distribution of this announcement in jurisdictions other than Ireland, Cyprus and the United Kingdom and the availability of any offer to shareholders of the Company who are not resident in Ireland, Cyprus or the United Kingdom may be affected by the laws of relevant jurisdictions. Therefore, any persons who are subject to the laws of any jurisdiction other than Ireland, Cyprus or the United Kingdom or shareholders of the Company who are not resident in Ireland, Cyprus or the United Kingdom will need to inform themselves about, and observe, any applicable requirements.

Jurisdiction

The Company is a public limited company incorporated in Ireland with relevant securities listed and admitted to trading on the Main Market of the London Stock Exchange and on the Cyprus Stock Exchange. As a result, any transaction to acquire the Company which constitutes a "takeover bid" (as defined in Directive 2004/25/EC (the "Takeover Bids Directive")) will be subject to the shared jurisdiction of the Irish Takeover Panel and the Cyprus Securities Exchange Commission in line with the procedures set out in Article 4 of the Takeover Bids Directive, as implemented in Ireland and Cyprus. Any transaction to acquire control of the Company which proceeds otherwise than by way of takeover bid will be subject to the jurisdiction of the Irish Takeover Panel under the Irish Takeover Rules. Prior to a determination being made as to the manner in which any transaction to acquire the Company would be implemented, the possible offer is subject to the jurisdiction of both the Irish Takeover Panel and the Cyprus Securities Exchange Commission. There is no certainty that any formal offer to acquire the Company will be made nor as to the terms on which any offer might be made.

Further Information (continued)

Responsibility Statement

The Directors of the Company accept responsibility for the information contained in this announcement. To the best of their knowledge and belief (having taken all reasonable care to ensure such is the case), the information contained in this announcement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Disclosure requirements of the Irish Takeover Rules

Under Rule 8.3(a) of the Irish Takeover Rules, any person who is 'interested' (directly or indirectly) in 1% or more of any class of 'relevant securities' of the Company must make an 'opening position disclosure' by no later than 3.30pm (Irish/UK time) on 2 September 2022. An 'opening position disclosure' must contain the details specified in Rule 8.6(a) of the Irish Takeover Rules, including details of the person's interests and short positions in any 'relevant securities' of the Company. Relevant persons who deal in any 'relevant securities' of the Company prior to the deadline for making an 'opening position disclosure' must instead make a dealing disclosure as described below.

Under Rule 8.3(b) of the Irish Takeover Rules, any person 'interested' (directly or indirectly) in 1% or more of any class of 'relevant securities' of the Company must disclose all 'dealings' in such 'relevant securities' during the 'offer period'. The disclosure of a 'dealing' in 'relevant securities' by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (Irish/UK time) on the business day following the date of the transaction. A dealing disclosure must contain the details specified in Rule 8.6(b) of the Irish Takeover Rules, including details of the dealing concerned and of the person's interests and short positions in any 'relevant securities' of the Company.

In addition, Lone Star must make an 'opening position disclosure' by no later than 12.00 (noon) (Irish/UK time) on 2 September 2022 and disclose details of any 'dealings' by it or any person 'acting in concert' with it in 'relevant securities' of the Company by no later than 12.00 (noon) (Irish/UK time) on the business day following the date of the transaction.

All 'dealings' in 'relevant securities' of the Company by Lone Star, or by any party acting in concert with Lone Star, must also be disclosed by no later than 12 noon (Irish/UK time) on the 'business' day following the date of the relevant transaction. If two or more persons co-operate on the basis of an agreement, either express or tacit, either oral or written, to acquire for one or more of them an interest in relevant securities, they will be deemed to be a single person for these purposes.

Disclosure tables, giving details of the companies in whose 'relevant securities' 'opening positions' and 'dealings' should be disclosed, can be found on the Irish Takeover Panel's website at www.irishtakeoverpanel.ie.

'Interests' in securities arise, in summary, when a person has long economic exposure, whether conditional or absolute, to changes in the price of securities. In particular, a person will be treated as having an 'interest' by virtue of the ownership or control of securities, or by virtue of any option in respect of, or derivative referenced to, securities.

Terms in quotation marks in this section are defined in the Irish Takeover Rules, which can also be found on the Irish Takeover Panel's website. If you are in any doubt as to whether or not you are required to disclose a dealing or an opening position under Rule 8, please consult the Irish Takeover Panel's website at www.irishtakeoverpanel.ie or contact the Irish Takeover Panel on telephone number +353 1 678 9020.

Disclosure requirements of the Cypriot Takeover Bids Law

In addition to the requirements under Rule 8 of the Irish Takeover Rules as outlined above, under section 26 of the Cypriot Takeover Bids Law, during the 'period of the takeover bid':

a. Lone Star and every person holding a percentage of five per cent (5%) or more of the voting rights of the Company or Lone Star, must announce immediately, in accordance with the provisions of the Cypriot Takeovers Bids Law, every acquisition of securities in the Company or Lone Star made by themselves or by persons acting in their own name but on their behalf or in concert with them or by undertakings controlled by them, as well as the acquisition price and any voting rights already held in that company; and

b. every person acquiring a percentage equal to half per cent (0.5%) or greater of the voting rights of the Company or Lone Star, must make an announcement for this acquisition in accordance with the provisions of the Cypriot Takeovers Bids Law, as well as every subsequent acquisition of securities of these companies by themselves or by persons acting in their own name but on their behalf or in concert with them or by undertakings controlled by them, as well as the acquisition price and any voting rights already held in that company.

Terms in quotation marks in this section are defined in the Cypriot Takeover Bids Law, which can also be found on the website of the Securities and Exchange Commission of Cyprus at www.cysec.gov.cy.

Further Information (continued)

Profit Forecast / Asset Valuations / Quantified Financial Benefit Statement

The financial results for the period ended 30 June 2022 provided in this announcement constitute a profit estimate for the purposes of the Irish Takeover Rules and are subject to Rule 28.5. Other than the foregoing, no statement in this announcement is intended to constitute a profit forecast for any period, nor should any statements be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for the Company. No statement in this announcement constitutes an asset valuation or quantified financial benefit statement.

Contacts

For further information please contact:
Investor Relations
+ 357 22 122239
investors@bankofcyprus.com

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. At 30 June 2022, the Bank of Cyprus Group operated through a total of 86 branches in Cyprus, of which 11 operated as cash offices*. The Bank of Cyprus Group employed 3,422 staff worldwide**. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.

*The number of branches and cash offices were reduced by 15 and 7 respectively on 1 July 2022.

** The number of staff has been reduced by c.550 employees following the completion of a voluntary staff exit plan in July 2022.