



Announcement

**Preliminary Group Financial Results for the year ended 31 December 2021
and Updated Medium Term Strategic Targets**

Nicosia, 21 February 2022

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014.

Key Highlights for the year ended 31 December 2021

2021 Achievements and Medium Term Strategy

Positive Net Result

- Profit after tax and before non-recurring items of €91 mn
- Profit after tax of €30 mn

Careful Cost management

- Total operating expenses¹ of €347 mn, broadly flat yoy
- Cost to income ratio¹ at 60%, flat yoy

Strong Capital and Initiation of MREL Issuance

- CET1 ratio of 15.8%^{2,3} and Total Capital ratio of 20.8%^{2,3}
- Successful refinancing of Tier 2 at a significantly lower coupon rate
- Inaugural issuance of €300 mn Senior Preferred notes; Interim MREL requirement as at 1 January 2022 achieved

Single Digit NPE ratio achieved a year earlier than anticipated

- NPE ratio reduced to 7.5%² (3.1%^{2,4} net), following NPE sale (Helix 3) signed in November 2021

Updated Medium Term Strategic Targets

- ROTE >10% by 2025
- NPE ratio c.5% by end-2022 and <3% by end-2025
- Paving the way for dividend distribution⁵ from 2023 onwards
- Announcement of ESG targets; Carbon Neutral by 2030 and Net Zero by 2050

1. Excluding special levy on deposits and other levies/contributions
2. Pro forma for HFS
3. Allowing for IFRS 9 and temporary treatment for certain FVOCI instruments transitional arrangements
4. Calculated as NPEs net of provisions over net loans
5. Subject to performance and relevant approvals

Key Highlights for the quarter ended 31 December 2021

Strong Recovery Continues

- 6.0%¹ GDP growth in 4Q2021, well above the eurozone average of 4.6%
- New lending of €471 mn in 4Q2021, totalling €1.8 bn for FY2021, up 33% yoy, recovering towards pre-pandemic levels

Positive Operating Performance

- Total income of €154 mn for 4Q2021, up 11% qoq driven mainly by higher non-NII
- Operating profit of €55 mn for 4Q2021, up 33% qoq
- Profit after tax and before non-recurring items of €27 mn for 4Q2021
- Small-scale targeted Voluntary Staff Exit Plan with one-off cost of €16 mn; gross annual savings of c.3%
- Profit after tax of €10 mn for 4Q2021

Operating Efficiency

- Total operating expenses² of €87 mn for 4Q2021, broadly flat qoq
- Cost to income ratio² at 57% for 4Q2021, down 7 p.p., supported by higher non-NII

Strong Capital and Liquidity

- CET1 ratio of 15.8%^{3,4} and Total Capital ratio of 20.8%^{3,4}
- Deposits at €17.5 bn up 2% qoq; significant surplus liquidity of €6.4 bn

Single Digit NPE Ratio⁴

- NPE ratio reduced to 7.5%⁴ (3.1%^{4,5} net)
- €0.6 bn NPE sale (Helix 3) signed in November 2021
- Organic NPE reduction of c.€400 mn in FY2021
- 96% of performing loans⁶ under expired payment deferrals with an instalment due by 8 February 2022, presented no arrears

1. Source: Cyprus Statistical Service, Ministry of Finance
2. Excluding special levy on deposits and other levies/contributions
3. Allowing for IFRS 9 and temporary treatment for certain FVOCI instruments transitional arrangements
4. Pro forma for HFS
5. Calculated as NPEs net of provisions over net loans
6. As at 31 December 2021

Group Chief Executive Statement

“2021 saw a strong recovery in the Cypriot economy after a period of pandemic-related disruption, providing an improved backdrop against which the Bank performed well. During the year we continued to support the country’s return to growth, extending €1.8 bn of new loans, an increase of a third on the prior year and steadily recovering towards pre-pandemic levels. We generated a profit despite incurring restructuring costs. Having reached the important milestone of single digit NPEs we are now updating our medium term targets with a focus on creating value for our shareholders, including increasing our return on tangible equity target from 7% to over 10%, providing the foundations for a return of dividend distributions, subject to performance and relevant approvals.

Financial Performance in 2021

During the year, we generated total income of €581 mn and operating profits of €198 mn, whilst our cost of risk halved to 57 bps. We delivered a profit after tax and before non-recurring items of €91 mn. The reported result for the year was a net profit of €30 mn, after restructuring, non-recurring costs of €61 mn.

In 2021 we managed our cost base carefully and kept our total operating expenses below €350 mn, and our cost to income ratio stood at 60%, flat on the prior year.

We reduced our NPE ratio to 7.5% on a pro forma basis, much earlier than previously expected, following the completion of the sale of €1.3 bn NPEs in Project Helix 2 and the agreement for the sale of a further €0.6 bn NPEs in Project Helix 3, a profitable and capital accretive transaction. We also organically reduced NPEs by a further c.€400 mn in 2021. Overall, in 2021, we have reduced NPEs by 75% on a pro forma basis.

During the year we further strengthened the Bank’s capital position. As at 31 December 2021, our capital ratios (on a transitional basis) were 20.8% for the Total Capital ratio and 15.8% for the CET1 ratio, on a pro forma basis. We successfully refinanced our Tier 2 Capital Notes in April 2021 and initiated MREL compliant issuances in June with €300 mn of senior preferred notes.

Shaping our business for the future

Our strategic pillars remain unchanged; growing revenues in a more capital efficient way; improving the operating model via further efficiencies; ensuring asset quality; and creating organisational resilience through a sustainable agenda. Our transformation plan will enable us to deliver on these strategic pillars whilst leveraging on our country-wide customer database. We are also at an advanced stage in the development of a digital platform that will allow us to serve our customers beyond banking and create new revenue streams.

The further repositioning of the Group, our positive performance during the year and the solid growth outlook for the Cyprus economy, has allowed us to update our targets for the medium term. We now expect to reduce our NPE ratio to c.5% by the end of 2022 and to less than 3% by the end of 2025. We reiterate our focus on creating shareholder value and increase our medium term return on tangible equity target to over 10%.

Sustainability will continue to be embedded in our culture. We commit to becoming carbon neutral ourselves by 2030 and to have net zero emissions by 2050, whilst at the same time we will support our customers and communities in this transition. The Bank has the commitment, the scale and the reach to deliver the desired change across Cyprus in the coming years.

Outlook

Our vision for the future of the Bank is clear and we remain committed to being part of the country’s economic growth, which, together with the deployment and implementation of the Cyprus Recovery and Resilience Plan, is expected to be strong. We remain confident that our strategy will generate sustainable profitability and create shareholder value in the medium term.”

Panicos Nicolaou

A. Preliminary Group Financial Results – Statutory Basis

Unaudited Consolidated Income Statement for the year ended 31 December 2021

	2021	2020
	€000	€000
Turnover	755,220	765,095
Interest income	360,928	389,179
Income similar to interest income	27,621	47,530
Interest expense	(67,057)	(61,991)
Expense similar to interest expense	(25,192)	(44,720)
Net interest income	296,300	329,998
Fee and commission income	180,212	151,091
Fee and commission expense	(8,416)	(6,417)
Net foreign exchange gains	16,503	16,535
Net (losses)/gains on financial instrument transactions and disposal/dissolution of subsidiaries and associates	(22,047)	1,721
Insurance income net of claims and commissions	61,044	56,063
Net losses from revaluation and disposal of investment properties	(1,828)	(1,499)
Net gains on disposal of stock of property	13,296	8,189
Other income	14,831	14,957
	549,895	570,638
Staff costs	(218,633)	(201,052)
Special levy on deposits and other levies/contributions	(36,350)	(33,656)
Other operating expenses	(167,188)	(188,560)
	127,724	147,370
Net gains on derecognition of financial assets measured at amortised cost	3,859	2,949
Credit losses to cover credit risk on loans and advances to customers	(40,341)	(275,080)
Credit losses of other financial instruments	(5,803)	(4,585)
Impairment net of reversals of non-financial assets	(49,456)	(37,586)
Profit/(loss) before share of profit from associates	35,983	(166,932)
Share of profit from associates	137	69
Profit/(loss) before tax	36,120	(166,863)
Income tax	(4,243)	(7,920)
Profit/(loss) after tax for the year	31,877	(174,783)
Attributable to:		
Owners of the Company	29,709	(171,532)
Non-controlling interests	2,168	(3,251)
Profit/(loss) for the year	31,877	(174,783)
Basic and diluted profit/(loss) per share attributable to the owners of the Company (€ cent)	6.7	(38.5)

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

Unaudited Consolidated Balance Sheet as at 31 December 2021

	2021	2020
Assets	€000	€000
Cash and balances with central banks	9,230,883	5,653,315
Loans and advances to banks	291,632	402,784
Derivative financial assets	6,653	24,627
Investments	879,005	1,876,009
Investments pledged as collateral	1,260,158	37,105
Loans and advances to customers	9,836,405	9,886,047
Life insurance business assets attributable to policyholders	551,797	474,187
Prepayments, accrued income and other assets	616,219	249,877
Stock of property	1,111,604	1,349,609
Deferred tax assets	265,481	341,360
Investment properties	117,745	128,088
Property and equipment	252,130	272,474
Intangible assets	184,034	185,256
Investments in associates and joint venture	-	2,462
Non-current assets and disposal groups held for sale	358,951	630,931
Total assets	24,962,697	21,514,131
Liabilities		
Deposits by banks	457,039	391,949
Funding from central banks	2,969,600	994,694
Derivative financial liabilities	32,452	45,978
Customer deposits	17,530,883	16,533,212
Insurance liabilities	736,201	671,603
Accruals, deferred income, other liabilities and other provisions	361,977	359,892
Pending litigation, claims, regulatory and other matters	104,108	123,615
Loan stock	642,775	272,152
Deferred tax liabilities	46,435	45,982
Total liabilities	22,881,470	19,439,077
Equity		
Share capital	44,620	44,620
Share premium	594,358	594,358
Revaluation and other reserves	213,192	209,153
Retained earnings	986,623	982,513
Equity attributable to the owners of the Company	1,838,793	1,830,644
Other equity instruments	220,000	220,000
Total equity excluding non-controlling interests	2,058,793	2,050,644
Non-controlling interests	22,434	24,410
Total equity	2,081,227	2,075,054
Total liabilities and equity	24,962,697	21,514,131

B. Preliminary Group Financial Results – Underlying Basis

Unaudited Consolidated Income Statement

€ mn	FY2021	FY2020 ¹	4Q2021	3Q2021	2Q2021	1Q2021	qoq ±% (4Q vs 3Q)	yoy ±% (FY)
Net interest income	296	330	73	71	76	76	2%	-10%
Net fee and commission income	172	144	44	44	45	39	-1%	19%
Net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	24	15	10	6	6	2	87%	65%
Insurance income net of claims and commissions	61	56	18	12	18	13	60%	9%
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	13	7	5	2	4	2	99%	86%
Other income	15	15	4	4	3	4	-6%	-1%
Total income	581	567	154	139	152	136	11%	2%
Staff costs	(202)	(195)	(50)	(51)	(51)	(50)	-	4%
Other operating expenses	(145)	(145)	(37)	(38)	(38)	(32)	-3%	-1%
Special levy on deposits and other levies/contributions	(36)	(33)	(12)	(9)	(6)	(9)	26%	8%
Total expenses	(383)	(373)	(99)	(98)	(95)	(91)	1%	2%
Operating profit	198	194	55	41	57	45	33%	2%
Loan credit losses	(66)	(149)	(9)	(22)	(15)	(20)	-55%	-55%
Impairments of other financial and non-financial assets	(36)	(42)	(23)	(2)	(6)	(5)	-	-15%
Net reversals/(provisions) for litigation, claims, regulatory and other matters	2	(7)	8	(2)	(3)	(1)	-	-
Total loan credit losses, impairments and provisions	(100)	(198)	(24)	(26)	(24)	(26)	-7%	-50%
Profit/(loss) before tax and non-recurring items	98	(4)	31	15	33	19	96%	-
Tax	(5)	(8)	(2)	(2)	1	(2)	2%	-46%
(Profit)/loss attributable to non-controlling interests	(2)	3	(2)	(0)	(0)	(0)	-	-
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	91	(9)	27	13	34	17	101%	-
Advisory and other restructuring costs – organic	(22)	(10)	(3)	(1)	(15)	(3)	-	-
Profit/(loss) after tax – organic (attributable to the owners of the Company)	69	(19)	24	12	19	14	96%	-
Provisions/net (loss)/profit relating to NPE sales ²	(7)	(120)	(1)	10	(14)	(2)	-	-93%
Restructuring and other costs relating to NPE sales ²	(16)	(26)	3	(3)	(12)	(4)	-	-38%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(16)	(6)	(16)	-	-	-	-	-
Profit/(loss) after tax (attributable to the owners of the Company)	30	(171)	10	19	(7)	8	-46%	-

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

Unaudited Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios ³	FY2021	FY2020 ¹	4Q2021	3Q2021	2Q2021	1Q2021	qoq ±% (4Q vs 3Q)	yoy ±% (FY)
Net Interest Margin (annualised)	1.45%	1.84%	1.34%	1.34%	1.49%	1.63%	-	-39 bps
Cost to income ratio	66%	66%	65%	71%	62%	67%	-6 p.p.	-
Cost to income ratio excluding special levy on deposits and other levies/contributions	60%	60%	57%	64%	58%	60%	-7 p.p.	-
Operating profit return on average assets (annualised)	0.8%	0.9%	0.9%	0.7%	1.0%	0.8%	+0.2 p.p.	-0.1 p.p.
Basic earnings/(losses) per share attributable to the owners of the Company (€ cent)	6.66	(38.45)	2.27	4.22	(1.66)	1.83	(1.95)	45.11
Basic earnings/(losses) after tax and before non-recurring items ⁴ per share attributable to the owners of the Company (€ cent)	20.50	(2.12)	6.19	3.08	7.48	3.75	3.11	22.62
Return on tangible equity (ROTE) after tax and before non-recurring items (annualised) ⁵	5.5%	-0.5%	6.6%	3.3%	8.1%	4.1%	3.3 p.p.	6.0 p.p.

1. Represented for the DTC levy of €3 mn in FY2020 which is now included in "Special levy on deposits and other levies/contributions" in line with current year presentation. 2. 'Provisions/net (loss)/profit relating to NPE sales' refer to the net (loss)/profit 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. 4. As of 30 June 2021, the management monitors 'basic earnings/(losses) per share attributable to the owners of the Company' calculated using 'Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)', rather than 'Profit/(loss) after tax – organic (attributable to the owners of the Company)' which was previously the case, as the management believes it is a more appropriate measure of monitoring recurring performance, as it excludes 'Advisory and other restructuring costs – organic' which do not relate to the underlying or recurring business of the Group as a banking and financial services institution, but mainly to the cost of the Tier 2 Capital Notes tender offer of €12 mn, as well as certain costs relating to restructuring activities the Bank has associated with the organic reduction of NPEs, which have been decreasing as the level of NPEs is being reduced. 5. 'Return on tangible equity (ROTE) after tax and before non-recurring items (annualised)' is calculated as the profit after tax and before non-recurring items (annualised) divided by the shareholders' equity minus intangible assets. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

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

Unaudited Consolidated Balance Sheet

€ mn	31.12.2021	31.12.2020	±%
Cash and balances with central banks	9,231	5,653	63%
Loans and advances to banks	292	403	-28%
Debt securities, treasury bills and equity investments	2,139	1,913	12%
Net loans and advances to customers	9,836	9,886	-1%
Stock of property	1,112	1,350	-18%
Investment properties	118	128	-8%
Other assets	1,876	1,550	21%
Non-current assets and disposal groups held for sale	359	631	-43%
Total assets	24,963	21,514	16%
Deposits by banks	457	392	17%
Funding from central banks	2,970	995	-
Customer deposits	17,531	16,533	6%
Loan stock	643	272	-
Other liabilities	1,281	1,247	3%
Total liabilities	22,882	19,439	18%
Shareholders' equity	1,839	1,831	-
Other equity instruments	220	220	-
Total equity excluding non-controlling interests	2,059	2,051	-
Non-controlling interests	22	24	-8%
Total equity	2,081	2,075	-
Total liabilities and equity	24,963	21,514	16%

Key Balance Sheet figures and ratios	31.12.2021 (pro forma) ¹	31.12.2021 (as reported) ²	31.12.2020 (as reported) ²	± ²
Gross loans (€ mn)	10,282	10,856	12,261	-11%
Allowance for expected loan credit losses (€ mn)	467	792	1,902	-58%
Customer deposits (€ mn)	17,531	17,531	16,533	6%
Loans to deposits ratio (net)	56%	57%	63%	-6 p.p.
NPE ratio	7.5%	12.4%	25.2%	-12.8 p.p.
NPE coverage ratio	61%	59%	62%	-3 p.p.
Leverage ratio	7.6%	7.6%	8.8%	-1.2 p.p.
Capital ratios and risk weighted assets	31.12.2021 (pro forma)¹	31.12.2021 (as reported)²	31.12.2020 (as reported)²	±²
Common Equity Tier 1 (CET1) ratio (transitional) ³	15.8%	15.1%	14.8%	+30 bps
Total capital ratio	20.8%	20.0%	18.4%	+160 bps
Risk weighted assets (€ mn)	10,344	10,694	11,636	-8 %

1. Pro forma for HFS (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 31 December 2021 amounts to 13.7% and 14.3% pro forma for HFS (compared to 13.3% and 13.9% pro forma for HFS as at 30 September 2021 and to 12.9% and 13.3% pro forma for HFS as at 31 December 2020). p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

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

B.1 Unaudited reconciliation of consolidated income statement for the year ended 31 December 2021 between statutory basis and underlying basis

€ mn	Underlying basis	NPE Sales	Other	Statutory basis
Net interest income	296	-	-	296
Net fee and commission income	172	-	-	172
Net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	24	-	(30)	(6)
Insurance income net of claims and commissions	61	-	-	61
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	13	(1)	-	12
Other income	15	-	-	15
Total income	581	(1)	(30)	550
Total expenses	(383)	(16)	(23)	(422)
Operating profit	198	(17)	(53)	128
Loan credit losses	(66)	13	17	(36)
Impairments of other financial and non-financial assets	(36)	(19)	-	(55)
Reversals net of provisions for litigation, claims, regulatory and other matters	2	-	(2)	-
Profit before tax and non-recurring items	98	(23)	(38)	37
Tax	(5)	-	-	(5)
Profit attributable to non-controlling interests	(2)	-	-	(2)
Profit after tax and before non-recurring items (attributable to the owners of the Company)	91	(23)	(38)	30
Advisory and other restructuring costs-organic	(22)	-	22	-
Profit after tax – organic* (attributable to the owners of the Company)	69	(23)	(16)	30
Provisions/net loss relating to NPE sales	(7)	7	-	-
Restructuring and other costs relating to NPE sales	(16)	16	-	-
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(16)	-	16	-
Profit after tax (attributable to the owners of the Company)	30	-	-	30

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

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 €14 mn and other expenses of €2 mn 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.
- Loan credit losses under the statutory basis include the loan credit losses relating to Project Helix 2 of c.€1.5 mn, reversal of loan credit losses relating to Project Helix 3 of €28 mn and an amount of €14 mn which represents the effect of discounting the deferred consideration receivable from Project Helix 2, and are disclosed under non-recurring items within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- 'Net gains from revaluation and disposal of investment properties and on disposal of stock of properties' include a revaluation loss of €1 mn relating to investment properties of Project Helix 3 and are presented within 'Provisions/net loss relating to NPE sales' under the underlying basis.
- 'Impairments of financial and other non-financial assets' under the statutory basis include an impairment loss of €19 mn relating to stock of properties of Project Helix 3 and are presented within 'Provisions/net loss relating to NPE sales' under the underlying basis.

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

B.1 Unaudited reconciliation of consolidated income statement for the year ended 31 December 2021 between statutory basis and underlying basis (continued)

Other reclassifications

- Net losses on loans and advances to customers at FVPL of approximately €17.5 mn included in 'Loan credit losses' under the underlying basis are included in 'Net losses on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis. Their classification under the underlying basis is done in order to align their presentation with the loan credit losses on loans and advances to customers at amortised cost.
- Net loss on the early redemption of subordinated loan stock of c.€12.5 mn included in 'Net losses on financial instrument transactions and disposal/dissolution of subsidiaries and associates' under the statutory basis is included in 'Advisory and other restructuring costs-organic' under the underlying basis, since it represents a one-off item.
- Advisory and other restructuring costs of c.€9 mn 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 customer loan restructuring activities.
- Reversals net of provisions for litigation, claims, regulatory and other matters amounting to c.€2 mn included in 'Other operating expenses' under the statutory basis, are separately presented under the underlying basis, as provisions for litigation, claims, regulatory and other matters (and reversals thereon) are presented together with impairment of financial and non-financial assets, below operating profit.
- Total expenses under the statutory basis include restructuring costs relating to the voluntary staff exit plan (VEP) of c.€16 mn and are separately presented under the underlying basis, since they represent one-off items.

Commentary on Underlying Basis

The financial information presented in this Section provides an overview of the preliminary Group financial results for the year ended 31 December 2021 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 'Unaudited reconciliation of consolidated income statement for the year ended 31 December 2021 between statutory basis and underlying basis' and will also be available in the Annual Financial Report for the year ended 31 December 2021 under 'Definitions and Explanations on Alternative Performance Measures', 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 31 December 2021 refer to Project Helix 3 and Project Sinope. They are based on 31 December 2021 underlying basis figures, unless otherwise stated, and assume their completion, currently expected to occur in 1H2022, which remain subject to customary regulatory and other approvals. As at 31 December 2021, 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.

References to pro forma figures and ratios as at 31 December 2020 refer to Project Helix 2. As at 31 December 2020, the portfolios of loans included in Project Helix 2 were classified as a disposal group held for sale.

Where numbers are provided on a pro forma basis, this is stated and referred to as 'Pro forma for held for sale' or 'Pro forma for HFS'.

Project Helix 2 refers to the sale of portfolios of loans with a total gross book value of €1.3 bn on completion, secured over real estate collateral, to funds affiliated with Pacific Investment Management Company LLC ("PIMCO"), the agreements for which were announced on 3 August 2020 and on 18 January 2021. **Project Helix 2 sale was completed in June 2021.**

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 at 31 December 2021, as well as properties in Romania with carrying value €0.6 mn as at 31 December 2021.

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

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

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,059 mn at 31 December 2021, compared to €2,066 mn at 30 September 2021 and €2,051 mn at 31 December 2020. Shareholders' equity totalled €1,839 mn at 31 December 2021, compared to €1,846 mn at 30 September 2021 and €1,831 mn at 31 December 2020.

The **Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 15.1% as at 31 December 2021 and 15.8% pro forma for held for sale portfolios (referred to as 'pro forma for HFS'), compared to 14.7% as at 30 September 2021 (and 15.3% pro forma for HFS) and to 14.8% as at 31 December 2020 (and 15.2% pro forma for HFS). During 4Q2021, the CET1 ratio was positively affected mainly by the pre-provision income and the decrease in risk-weighted assets (RWA), and negatively affected mainly by provisions and impairments. Throughout, the capital ratios (and pro forma capital ratios) as at 31 December 2021 include unaudited / unreviewed preliminary profits for FY2021, 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. The amount added back to CET1 each year decreases based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five years. The impact on the capital position for year 2018 was 5% of the impact on the impairment amount from the initial application of IFRS 9, increased to 15% (cumulative) for year 2019, 30% (cumulative) for year 2020, 50% (cumulative) for year 2021 and 75% (cumulative) for year 2022. This will be fully phased in (100%) by 1 January 2023. The phasing-in of the impairment amount from the initial application of IFRS 9 had a negative impact of c.62 bps on the CET1 ratio on 1 January 2022.

The **CET1 ratio on a fully loaded basis** amounted to 13.7% as at 31 December 2021 and 14.3% pro forma for HFS, compared to 13.3% as at 30 September 2021 (and 13.9% pro forma for HFS), and to 12.9% as at 31 December 2020 (and 13.3% pro forma for HFS). On a transitional basis and on a fully phased-in basis, after the transition period is completed, the impact of IFRS 9 is expected to be manageable and within the Group's capital plans.

The **Total Capital ratio** stood at 20.0% as at 31 December 2021 and 20.8% pro forma for HFS, compared to 19.7% as at 30 September 2021 (and 20.4% pro forma for HFS), and to 18.4% as at 31 December 2020 (and 18.7% pro forma for HFS).

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

The Group's **minimum phased-in Common Equity Tier 1 (CET1) capital requirement as at 31 December 2021 stood at 9.69%** (comprising a 4.50% Pillar I requirement, a 1.69% Pillar II requirement, the Capital Conservation Buffer of 2.50% and the Other Systemically Important Institution Buffer of 1.00%).

The **SREP Total Capital Requirement as at 31 December 2021 stood at 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 3.00% Pillar II requirement, the Capital Conservation Buffer of 2.50% and the Other Systemically Important Institution Buffer of 1.00%. The ECB has also provided non-public guidance for an additional Pillar II CET1 buffer. 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.

In accordance with the provisions of the Macroprudential Oversight of Institutions Law of 2015, the Central Bank of Cyprus (CBC) is the responsible authority for the designation of banks that are Other Systemically Important Institutions (O-SIIs) and for the setting of the **O-SII buffer requirement** for these systemically important banks. The Bank has been designated as an O-SII and the O-SII buffer was initially set by the CBC at 2.00%. This buffer is being phased-in gradually, having started from 1 January 2019 at 0.50% and increasing by 0.50% every year thereafter, until being fully implemented (2.00%). In April 2020, the CBC decided to delay the phasing-in (0.50%) of the O-SII buffer on 1 January 2021 and 1 January 2022 by 12 months. Consequently, the O-SII buffer will be fully phased-in on 1 January 2023, instead of 1 January 2022 as originally set. In November 2021, the Bank received notification from the CBC that the total O-SII buffer is reduced by 50 bps to 1.50%, therefore the phasing-in of the O-SII buffer on 1 January 2022 and 1 January 2023 has been revised to 0.25% for each period.

In the context of the annual SREP conducted by the 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. It is dynamic and can be reduced during 2022 on the basis of in-scope NPEs and level of provisioning.

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

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

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. **The new SREP requirements are effective from 1 March 2022. The Group's CET1 and Total Capital ratio remain above the new requirements.**

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 or 2020. 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.

The ECB, as part of its supervisory role, has completed an onsite inspection and review on the value of the Group's foreclosed assets with reference date 30 June 2019. The findings relate to a prudential charge which will decrease based on the Bank's progress in disposing the properties in scope. The amount was directly deducted from own funds as at 30 June 2021 resulting in a decrease in the Group's CET1 ratio by c.44 bps as at 30 June 2021 and reduced to 32 bps as at 31 December 2021 mainly following impairments taken in 4Q2021.

The Group participated in the ECB SREP Stress Test of 2021, the results of which were published by the ECB on 30 July 2021. For further information please refer to the 'Additional Risk and Capital Management Disclosures' of the 'Interim Financial Report 2021'.

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'.

The capital impact of Project Helix 3 on the Group's CET1 ratio was an increase of 8 bps as at 30 September 2021. Overall, by completion (currently expected to occur in 1H2022), and including the positive impact already recorded in the income statement for 3Q2021, the transaction is expected to have a total positive impact of c.70 bps on the Group's CET1 ratio on the basis of 31 December 2021 figures.

Pro forma calculations are based on 31 December 2021 financial results, unless otherwise stated, and assume completion of the transaction, which remains subject to customary regulatory and other approvals.

Project Helix 2

In June 2021, the Company completed Project Helix 2 (Portfolios A and B), which refers to the sale of portfolios of loans with a total gross book value of €1,331 mn on completion (of which €1,305 mn relate to non-performing exposures), secured over real estate collateral, the agreements for which were announced on 3 August 2020 and on 18 January 2021. Further details are provided in Section B.2.5 'Loan portfolio quality'.

The capital impact of Project Helix 2 on the Group's CET1 ratio during 2Q2021 was an increase of c.20 bps, of which c.10 bps arose on completion. Post completion, the transaction was expected to have an additional positive capital impact of c.64 bps on the Group's CET1 ratio on the basis of 30 June 2021 figures, upon the full payment of the deferred consideration and without taking into consideration any positive impact from the earnout, thus making the transaction overall capital accretive.

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

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Tier 2 Capital Notes

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

Immediately after, 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.

At a meeting held on 30 November 2021, the Board of Directors resolved to exercise the Bank's option to redeem the remaining c.€43 mn nominal amount outstanding of the Old T2 Notes. The outstanding Old T2 Notes were redeemed on 19 January 2022.

Following the highly successful Tier 2 refinancing in 2021, 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 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.

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

The Group, in anticipation of modifications in the Law, acknowledges that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The determination and conditions of such amount will be prescribed in the Law to be amended and the amount determined by the Government on an annual basis. The Group, however, understands that contemplated amendments to the Law may provide that the minimum fee to be charged will be 1.5% of the annual instalment and can range up to a maximum amount of €10 mn per year. The Group estimates that such increased fees could range up to €5.3 mn per year (for each tax year in scope i.e. since 2018) although the Group understands that such fee may fluctuate annually as to be determined by the Ministry of Finance. In this respect, an amount of €5.3 mn was recorded in 4Q2021 and FY2021. In FY2020, an amount of €3 mn was recorded in 4Q2020 to bring the total amount provided for years 2018-2020 to €16 mn, being the maximum expected increased amount for these years.

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

B.2. Balance Sheet Analysis (continued)

B.2.2. Regulations and Directives

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

On 27 June 2019, the revised rules on capital and liquidity (CRR II and CRD V) came into force. As this was an amending regulation, the existing provisions of CRR apply, unless they are amended by CRR II. Being a Regulation, CRR II is directly applicable in each member state. Member states were required to transpose the CRD V into national law. CRD V was transposed and implemented in Cyprus law in early May 2021. Certain provisions took immediate effect (primarily relating to Minimum Requirement for Own Funds and Eligible Liabilities, MREL), and most changes became effective as of June 2021. The key changes introduced consist of, among others, changes to qualifying criteria for CET1, AT1 and Tier 2 instruments, introduction of MREL requirements and binding Leverage Ratio (as defined in the CRR) and Net Stable Funding Ratio (NSFR) requirements.

Some of the amendments were introduced in June 2020 as part of the “CRR quick-fix” which brought forward certain CRR II changes in light of the challenges posed to the banking sector by the COVID-19. The key measures in the CRR quick fix include an extension of the IFRS 9 transitional arrangements for the dynamic component by 2 years, the introduction of a prudential filter on exposures to central governments, regional governments or local authorities at FVOCI, the acceleration of CRR II amendments to exempt certain software assets from capital deduction and to revise the SME discount factors.

B.2.2.2 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; and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

B.2.2.3 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.

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

B.2. Balance Sheet Analysis (continued)

B.2.2. Regulations and Directives (continued)

B.2.2.3 Bank Recovery and Resolution Directive (BRRD) (continued)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL) (continued)

The MREL ratio of the Bank as at 31 December 2021, calculated according to the SRB's eligibility criteria currently in effect and based on the Bank's internal estimate, stood at 19.31% of risk weighted assets (RWA) and at 9.87% of LRE. Pro forma for HFS, the MREL ratio of the Bank as at 31 December 2021, calculated on the same basis, stood at 20.18% of risk weighted assets. As at 1 January 2022, the MREL ratio stood at 18.44% of RWAs and 9.56% of LRE, calculated on the same basis. Pro forma for HFS, the MREL ratio as at 1 January 2022 stood at 19.30% of RWAs. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR amount, which stood at 3.5% until 31 December 2021, increased to 3.75% on 1 January 2022 and is expected to increase to 4.0% on 1 January 2023. The MREL ratios (and MREL ratios pro forma for HFS) as at 31 December 2021 and 1 January 2022 include unaudited / unreviewed preliminary profits for FY2021, 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 has been satisfied, and the Bank will continue to evaluate opportunities to advance the build-up of its MREL liabilities.

B.2.3 Funding and Liquidity

Funding

Funding from Central Banks

At 31 December 2021, the Bank's funding from central banks amounted to €2,970 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III, compared to €2,978 mn as at 30 September 2021 and €995 mn as at 31 December 2020.

In June 2021 the Bank borrowed an amount of €300 mn under the eighth TLTRO III operation, increasing the borrowing under TLTRO III to €3.0 bn, as the Bank had already borrowed an amount of €1.7 bn under the seventh TLTRO III operation in March 2021 and an amount of €1 bn under the fourth TLTRO III operation in June 2020, despite its comfortable liquidity position, given the favourable borrowing terms, in combination with the relaxation of collateral requirements.

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.

Based on internal estimations (subject to confirmation from the CBC), the Bank has also exceeded the benchmark net lending threshold in the period 1 October 2020 - 31 December 2021 and is therefore expected to qualify for a beneficial rate for the period from June 2021 to June 2022. The Bank estimates the NII benefit from its TLTRO III borrowing for the period from June 2021 to June 2022 at c.€15 mn, recognised over the respective period in the income statement.

It is expected that the favourable borrowing terms will not be extended post June 2022.

Deposits

Customer deposits totalled €17,531 mn at 31 December 2021 (compared to €17,128 mn at 30 September 2021 and €16,533 mn at 31 December 2020) and increased by 2% in the fourth quarter and by 6% since the year end.

The Bank's deposit market share in Cyprus reached 34.8% as at 31 December 2021, compared to 34.8% as at 30 September 2021 and 35.0% at 31 December 2020. Customer deposits accounted for 70% of total assets and 77% of total liabilities at 31 December 2021 (compared to 77% of total assets and 85% of total liabilities at 31 December 2020).

The net Loans to Deposits (L/D) ratio stood at 57% as at 31 December 2021 (compared to 58% as at 30 September 2021 and 63% as at 31 December 2020 on the same basis). The decrease of 6 p.p. in the year ended 31 December 2021 is mainly due to the completion of Project Helix 2 in June 2021 and the increase in deposits in FY2021. Pro forma for HFS, the L/D ratio as at 31 December 2021 stood at 56%.

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

B.2. Balance Sheet Analysis (continued)

B.2.3 Funding and Liquidity (continued)

Funding (continued)

Loan Stock

At 31 December 2021, the Group's loan stock (including accrued interest) amounted to €643 mn (compared to €649 mn at 30 September 2021 and €272 mn at 31 December 2020) and relates to unsecured subordinated Tier 2 Capital Notes and senior preferred notes.

For further information please refer to Sections B.2.1 'Capital Base' and B.2.2.3 'Bank Recovery and Resolution Directive (BRRD) / Minimum Requirement for Own Funds and Eligible Liabilities (MREL)', respectively.

Liquidity

At 31 December 2021, the Group Liquidity Coverage Ratio (LCR) stood at 301% (compared to 294% at 30 September 2021 and 254% at 31 December 2020), above the minimum regulatory requirement of 100%. The liquidity surplus in LCR at 31 December 2021 amounted to €6.4 bn (compared to €6.0 bn at 30 September 2021 and €4.2 bn at 31 December 2020). The increase in 4Q2021 (and 3Q2021) is mainly driven by the increase in customer deposits.

At 31 December 2021, the Group Net Stable Funding Ratio (NSFR) stood at 147% (compared to 148% at 30 September 2021 and 139% at 31 December 2020), above the minimum regulatory requirement of 100%, enforced in June 2021 as per CRR II.

B.2.4 Loans

Group **gross loans** (inclusive of those classified as held for sale) totalled €10,856 mn at 31 December 2021, compared to €10,864 mn at 30 September 2021 and €12,261 mn at 31 December 2020, reduced by 11% since the beginning of the year mainly due to the completion of Project Helix 2.

New lending granted in Cyprus reached €471 mn for 4Q2021 (compared to €427 mn for 3Q2021, €407 mn for 2Q2021 and €487 mn for 1Q2021) and totalled €1,792 mn for FY2021 (up by 33% yoy and approaching FY2019 pre-pandemic levels). New lending in 4Q2021 comprised €215 mn of corporate loans, €173 mn of retail loans (of which €140 mn were housing loans), €45 mn of SME loans and €38 mn of shipping and international loans. New corporate loans in 4Q2021 have increased by c.24% yoy, as the economic activity continues to improve. At the same time, demand for retail housing loans remained strong, supported by the Government interest rate scheme (expired on 31 December 2021).

At 31 December 2021, the Group net loans and advances to customers (excluding those classified as held for sale) totalled €9,836 mn (compared to €9,787 mn at 30 September 2021 and €9,886 mn at 31 December 2020).

In addition, at 31 December 2021 net loans and advances to customers of €250 mn were **classified as held for sale** in line with IFRS 5 of which €243 mn related to Project Helix 3 and €7 mn to Project Sinope (see below), compared to €250 mn as at 30 September 2021 which related to Project Helix 3 and to €493 mn as at 31 December 2020, of which €485 mn related to Project Helix 2 and €8 mn to Helix Tail.

The Bank is the single largest credit provider in Cyprus with a market share of 38.8% at 31 December 2021, compared to 39.1% at 30 September 2021 and 30 June 2021, and to 42.4% at 31 March 2021 and 41.9% at 31 December 2020. The decrease in 2Q2021 is mainly due to the completion of Project Helix 2.

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 normalising the cost of risk and other impairments, whilst managing the post-pandemic NPE inflows.

The loan credit losses for 4Q2021 totalled €9 mn (excluding 'Provisions/net (loss)/profit relating to NPE sales'), compared to €22 mn for 3Q2021 and totalled €66 mn for FY2021, compared to €149 mn in FY2020. Further details regarding loan credit losses are provided in Section B.3.3 'Profit/(loss) before tax and non-recurring items'.

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

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Loan moratorium

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. The payment holiday for all these loans expired on 31 December 2020.

Performing loans as at 31 December 2021 under expired payment deferrals amounted to €4.62 bn (compared to €4.8 bn as at 30 September 2021 and €5.3 bn as at 31 December 2020), of which €4.60 bn had an instalment due by 8 February 2022 with a strong performance; 96% presented no arrears (of which €0.60 bn have been restructured) and only 4% (€196 mn) are in arrears (of which €166 mn are less than 30 days-past-due). More than 75% of restructurings took place in 1H2021.

Performing loans to **private individuals** as at 31 December 2021 under expired payment deferrals amounted to €1.7 bn, of which almost all had an instalment due by 8 February 2022. Of those, 92% presented no arrears (of which c.€35 mn have been restructured) and only 8% (€142 mn) are in arrears (of which €138 mn are less than 30 days-past-due).

Similarly, performing loans to **businesses** as at 31 December 2021 under expired payment deferrals amounted to €2.9 bn, of which 99% had an instalment due by 8 February 2022. Of those, 98% presented no arrears (of which c.€564 mn have been restructured, mostly in the tourism sector) and only 2% (€54 mn) are in arrears.

In 4Q2021, net reclassifications of €64 mn of loans under expired payment deferrals were made from Stage 2 to Stage1, mainly due to updated financial information. In addition, net reclassifications of c.€1 mn of loans under expired payment deferrals were made mainly from Stage 2 to Stage 3 in 4Q2021. References made to 'loans under expired payment deferrals' in this paragraph include current account and overdrafts.

The provision coverage of Stage 3 loans under expired payment deferrals of c.32% as at 31 December 2021 is considered to be adequate, as it is higher than the coverage of re-performing NPEs (NPEs in the pipeline to exit, subject to meeting all exit criteria) of 28%.

Following continuing signs of recovery, the majority of COVID-19 related management overlays applied in FY2020 and 1H2021 were removed in 3Q2021. A reversal of loan impairments relating to COVID-19 amounting to €17 mn (62 bps) was included in 3Q2021 loan credit losses of €22 mn (cost of risk of 78 bps for 3Q2021) as a result of stronger than expected economic performance. The cost of risk for 4Q2021 did not include any charge or reversal of loan impairments relating to COVID-19 overlays. Overall, a net reversal of loan impairments relating to COVID-19 amounting to c.€5 mn (4 bps) are included in FY2021 loan credit losses of €66 mn (annualised cost of risk of 0.57%). In FY2020, the impact of IFRS 9 Forward Looking Information (FLI) driven by the update of the macroeconomic assumptions resulted in a €54 mn charge (43 bps) included in loan credit losses of €149 mn (cost of risk of 1.18%). Further details on the cost of risk are provided in Section B.3.3 'Profit/(loss) before tax and non-recurring items'.

Close monitoring of the credit quality of these loans continues and customers with early arrears are offered solutions. The Bank has a **strong track record in dealing with restructurings**. Targeted restructuring solutions are offered to alleviate pandemic-related short-term cash flow burden, following rigorous assessment of repayment ability. To date, most restructurings relate to the tourism sector.

As at 31 December 2021, the Group's non-legacy loan book exposure to **tourism** was limited to €1.15 bn (out of a total non-legacy loan book of €9.5 bn), of which c.€0.88 bn of performing loans as at 31 December 2021 were under expired payment deferrals. 99% of those had an instalment due by 8 February 2022 and of those over 99% presented no arrears (of which c.€300 mn have been restructured and more than 90% of these restructurings took place in 1H2021).

Tourism performance in 2021 was better than initially anticipated. There was a steady monthly recovery of tourist arrivals, as the tourism season extended until October. Tourist arrivals in October 2021 reached 90% of corresponding levels in 2019, whilst tourist arrivals in 2H2021 reached c.70% of corresponding levels in 2019. Tourism is expected to fully recover by 2023-2024. It is important to note, that the majority of 'accommodation' customers entered the crisis with significant liquidity, following strong performance in recent years and that 98% of the tourism sector portfolio is secured by property. Close monitoring of developments continues.

Respectively, as at 31 December 2021 the Group's non-legacy loan book exposure to **trade** was €0.94 bn, of which €0.29 bn of performing loans as at 31 December 2021 were under expired payment deferrals. Almost all had an instalment due by 8 February 2022 and of those, 98% presented no arrears (of which €18 mn have been restructured) and only 2% presented arrears.

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

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Loan moratorium (continued)

While defaults have been limited, the additional monitoring and provisioning for sectors vulnerable under COVID-19 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, impacted by the additional progress in vaccinations and medication, degree of recurrence of the disease due to virus mutations, and the persistent positive effect of fiscal and monetary policy, are timely captured.

The table below presents the loans under expired payment deferrals, by IFRS 9 staging.

IFRS 9 staging for expired loan payment deferrals (€ bn)			
€ bn	31.12.2021	30.09.2021	31.12.2020
Stage 1	3.51	3.61	3.96
Stage 2	1.37	1.46	1.58
Stage 3	0.22	0.23	0.33
Total	5.10¹	5.30¹	5.87¹

¹ Includes overdrafts and current accounts of c.€0.26 bn (30 September 2021: c.€0.25 bn and 31 December 2021: c.€0.36 bn)

A second scheme for the suspension of loan repayments for interest and principal (loan moratorium) was launched in January 2021 for customers impacted by the second lockdown. Payment deferrals were offered to the end of June 2021, however, the total months under loan moratorium, including the loan moratorium offered in 2020, cannot exceed a total of nine months. The application period expired on 31 January 2021 and loans of c.€20 mn were approved for the second moratorium. Close monitoring of the credit quality of loans in moratoria continues.

For further information please refer to the presentation for the Preliminary Group Financial Results for the year ended 31 December 2021 (slides 9 and 10).

Non-performing exposure reduction

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €105 mn, or 7%, in 4Q2021 comprising net organic NPE reductions of €98 mn and further net NPE reductions of c.€7 mn relating to Project Helix 3 loans during 4Q2021 (compared to a reduction of €140 mn in 3Q2021) to €1,343 mn at 31 December 2021 (compared to €1,449 mn at 30 September 2021 and €3,086 mn at 31 December 2020). **Pro forma for HFS, NPEs are reduced by a further €572 mn to €771 mn on the basis of 31 December 2021 figures. Overall in FY2021, NPEs were reduced by 75% on pro forma basis.**

The NPEs account for 12.4% of gross loans as at 31 December 2021, compared to 13.3% as at 30 September 2021 and 25.2% as at 31 December 2020, on the same basis, i.e. including the NPE portfolios classified as 'Non-current assets and disposal groups held for sale'. The reduction in NPE ratio by c.13 p.p. in the year is driven by the completion of Project Helix 2. **Pro forma for HFS, the NPE ratio is reduced to 7.5% on the basis of 31 December 2021 figures.**

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

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Non-performing exposure reduction (continued)

The NPE coverage ratio stands at 59% at 31 December 2021, at the same level as at 30 September 2021 and compared to 62% at 31 December 2020 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 61%** on the basis of 31 December 2021 figures.

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

	31.12.2021 Pro forma for HFS		31.12.2021		31.12.2020 Pro forma for HFS		31.12.2020	
	€ mn	% gross loans	€ mn	% gross loans	€ mn	% gross loans	€ mn	% gross loans
NPEs as per EBA definition	771	7.5%	1,343	12.4%	1,760	16.1%	3,086	25.2%
Of which, in pipeline to exit:								
-NPEs with forbearance measures, no arrears ¹	142	1.4%	152	1.4%	245	2.2%	303	2.5%

1. The analysis is performed on a customer basis.

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 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 1H2022, 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 single digit. Helix 3 reduced the stock of NPEs by c.42% to €771 mn pro forma on the basis of 31 December 2021 figures, and its NPE ratio by c.5 p.p., to 7.5% pro forma on the basis of 31 December 2021 figures. Overall, since the peak in 2014 and pro forma for HFS, the stock of NPEs has been reduced by €14.2 bn or 95% to €0.8 bn and the NPE ratio by 55 percentage points, from 63% to less than 8%.

All relevant figures and pro forma calculations are based on 31 December 2021 financial results, unless otherwise stated, and assume completion of the transaction, which remains subject to customary regulatory and other approvals.

Project Helix 2

In June 2021, the Company completed Project Helix 2 (Portfolios A and B), which refers to the sale of portfolios of loans with a total gross book value of €1,331 mn as at the completion date (of which €1,305 mn relate to non-performing exposures) (Portfolios A and B) secured over real estate collateral, and stock of properties with carrying value amounting to €73 mn, to funds affiliated with Pacific Investment Management Company LLC (PIMCO), the agreements for which were announced on 3 August 2020 and on 18 January 2021. The Bank retained the servicing of these Portfolios for a transitional period to the end of 3Q2021, against a servicing fee (see Section B.3.1 'Total income').

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

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Project Helix 2 (continued)

The consideration for the sale amounts to c.€560 mn, of which c.€165 mn were received in cash by completion. The remaining amount is payable in four instalments up to December 2025 without any conditions attached, of which c.€85m were received in December 2021. The consideration can be increased through an earnout arrangement, depending on the performance of each of the Portfolios.

Project Helix 2 represents another milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs. Project Helix 2 (Portfolios A and B) reduced the NPE ratio by c.9 percentage points, on the basis of 30 June 2021 figures.

The Group has early achieved its previous 2022 target for a single digit NPE ratio and is on track to achieve an NPE ratio of c.5% by the end of 2022 and less than 3% by the end of 2025.

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 Sale is subject to the necessary approvals and is expected to be completed within the first half of 2022. The portfolio has been classified as held for sale as at 31 December 2021.

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 €1.37 bn and exceed properties on-boarded for the same period of €1.32 bn.

The Group completed disposals of €140 mn in FY2021 including disposal of c.€6 mn relating to completed NPE sales (compared to €80 mn in FY2020), resulting in a profit on disposal of €14 mn for FY2021 (compared to a profit on disposal of €9 mn for FY2020), following the relaxation of restrictive measures. Asset disposals are across all property classes, with c.50% of sales by value in FY2021 relating to land. The Group completed disposals of €33 mn in 4Q2021 resulting in a profit on disposal of €4 mn for 4Q2021, compared to disposals of €26 mn in 3Q2021, resulting in a profit on disposal of €2 mn for 3Q2021.

During FY2021, assets held by REMU with carrying value of €102 mn were transferred to "non-current assets and disposal groups held for sale" as they were included in Project Helix 3 and Project Sinope. As at 31 December 2021, the carrying value of these assets stood at €98 mn (comprising stock of property of €93 mn and investment properties of €5 mn). **Pro forma for HFS, assets held by REMU were reduced by 17% in FY2021.**

During FY2021, the Group executed sale-purchase agreements (SPAs) for disposals of 703 properties (with contract value of €149 mn), compared to SPAs for disposals of 492 properties (with contract value of €91 mn) for FY2020. **Pro forma for HFS, the Group executed SPAs of 1,130 properties with contract value of c.€250 mn during FY2021, representing an increase (by contract value) of over 170% yoy.**

In addition, the Group had a strong pipeline of €109 mn by contract value as at 31 December 2021, of which €47 mn related to SPAs signed (compared to a pipeline of €81 mn as at 31 December 2020, of which €53 mn related to SPAs signed).

REMU on-boarded €34 mn of assets in FY2021 (compared to additions of €146 mn in FY2020), via the execution of debt for asset swaps and repossessed properties.

Details with respect to the prudential charge relating to the onsite inspection findings are provided in Section B.2.1 'Capital Base'.

Assets held by REMU

As at 31 December 2021, assets held by REMU (excluding assets classified as held for sale) had a carrying value of €1,215 mn (comprising properties of €1,112 mn classified as 'Stock of property' and €103 mn as 'Investment properties'), compared to €1,473 mn as at 31 December 2020 (comprising properties of €1,350 mn classified as 'Stock of property' and €123 mn as 'Investment properties').

B. Preliminary 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 (continued)

In addition to assets held by REMU, properties classified as 'Investment properties' with carrying value of €15 mn as at 31 December 2021 (compared to €5 mn as at 31 December 2020) are not managed by REMU. These relate mainly to legacy properties held by the Group before the set-up of REMU in January 2016 and to assets classified as 'Investment properties' following a change in use.

Assets held by REMU (Group) € mn	FY2021	FY2020	4Q2021	3Q2021	qoq ±%	yoy ±%
Opening balance	1,473 ¹	1,506 ¹	1,264	1,404	-10%	-3%
On-boarded assets	34	146	5	8	-40%	-76%
Sales	(140)	(80)	(33)	(26)	32%	74%
Net impairment loss	(50)	(40)	(20)	(21)	-11%	25%
Transfer to non-current assets and disposal groups held for sale	(102)	(59)	(1)	(101)	-98%	75%
Closing balance	1,215	1,473¹	1,215	1,264	-4%	-17%

1 Following certain segmental reclassifications to better align with current management information, investment properties of €16 mn as at 30 June 2021 (31 December 2020: €16 mn) relating to land, were transferred under REMU. Comparative information was restated to account for this change.

Analysis by type and country	Cyprus	Greece	Romania	Total
31 December 2021 (€ mn)				
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

	Cyprus	Greece	Romania	Total
31 December 2020 (restated)¹ (€ mn)				
Residential properties	158	24	0	182
Offices and other commercial properties	240	26	5	271
Manufacturing and industrial properties	74	29	0	103
Hotels	24	1	-	25
Land (fields and plots)	622	6	2	630
Golf courses and golf-related property	262	-	-	262
Total	1,380	86	7	1,473

1 Following certain segmental reclassifications to better align with current management information, investment properties of €16 mn as at 30 June 2021 (31 December 2020: €16 mn) relating to land, were transferred under REMU. Comparative information was restated to account for this change.

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

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	FY2021	FY2020	4Q2021	3Q2021	2Q2021	1Q2021	qoq ±% (4Q vs 3Q)	yoy ±% (FY)
Net interest income	296	330	73	71	76	76	2%	-10%
Net fee and commission income	172	144	44	44	45	39	-1%	19%
Net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates	24	15	10	6	6	2	87%	65%
Insurance income net of claims and commissions	61	56	18	12	18	13	60%	9%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	13	7	5	2	4	2	99%	86%
Other income	15	15	4	4	3	4	-6%	-1%
Non-interest income	285	237	81	68	76	60	20%	20%
Total income	581	567	154	139	152	136	11%	2%
Net Interest Margin (annualised) ¹	1.45%	1.84%	1.34%	1.34%	1.49%	1.63%	-	-39 bps
Average interest earning assets (€ mn) ¹	20,436	17,931	21,613	21,195	20,381	18,978	2%	14%
1. 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 FY2021 amounted to €296 mn, compared to €330 mn in FY2020, down by 10% yoy mainly due to the continuing pressure from the low interest rate environment and the completion of Helix 2, partially offset by the increase in TLTRO III in FY2021 and the reduction in the cost of deposits. Net interest income (NII) for 4Q2021 amounted to €73 mn, compared to €71 mn for 3Q2021, mainly due to higher volume on loans and higher interest collections.

The NII for FY2021 includes an amount of c.€15 mn which relates to the NII of the loans included in Project Helix 2 (Portfolios A and B) recognised up to 30 June 2021, before completion in June 2021. The reduction in NII as a result of the completion of Project Helix 2 has been partially offset by an amount of €5 mn in 2H2021 relating to the unwinding of the net present value and interest income of the deferred consideration, which is expected to continue until 2023, on the basis of repayments and assuming no early repayment in 2023.

Average interest earning assets (AIEA) for FY2021 amounted to €20,436 mn, up by 14% yoy driven by the increase in liquid assets following the increase in the borrowing under TLTRO III by €2.0 bn, as well as the increase in deposits by €1 bn yoy. Quarterly average interest earning assets for 4Q2021 amounted to €21,613 mn, up by 2% qoq, mainly due to the increase in liquid assets following the increase in customer deposits by c.€400 mn.

Net interest margin (NIM) for FY2021 amounted to 1.45% (compared to 1.84% for FY2020) negatively impacted by the decrease in NII and the increase in average interest earning assets. Net interest margin (NIM) for 4Q2021 amounted to 1.34% flat qoq.

Non-interest income for FY2021 amounted to €285 mn (compared to €237 mn for FY2020), up by 20% yoy, comprising net fee and commission income of €172 mn, net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €24 mn, net insurance income of €61 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €13 mn and other income of €15 mn. The yoy increase is driven by higher net fee and commission income, higher net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates, higher net insurance income, as well as higher REMU disposal gains and lower revaluation losses on investment properties.

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

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Non-interest income for 4Q2021 amounted to €81 mn (compared to €68 mn for 3Q2021), up 20% qoq, comprising net fee and commission income of €44 mn, net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €10 mn, net insurance income of €18 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €5 mn and other income of €4 mn. The qoq increase is mainly due to higher net insurance income, higher net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates, as well as higher REMU disposal gains.

Net fee and commission income for FY2021 amounted to €172 mn, compared to €144 mn for FY2020, up by 19% yoy, and above pre-pandemic levels, reflecting higher volume of transactions, as well as the extension of liquidity fees to a broader group of corporate clients and the introduction of a revised price list for charges and fees, both implemented as of 1 February 2021. Net fee and commission income for FY2021 includes an amount of c.€7 mn relating to an NPE sales-related servicing fee, for a transitional period that ended at the end of 3Q2021. Net fee and commission income for 4Q2021 amounted to €44 mn, flat qoq.

Net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €24 mn for FY2021 (comprising net foreign exchange gains of €16 mn and net gains on financial instrument transactions of €8 mn), compared to €15 mn for FY2020 (up 65% yoy).

Net foreign exchange gains and net gains/(losses) on financial instrument transactions and disposal/dissolution of subsidiaries and associates of €10 mn for 4Q2021 (comprising net foreign exchange gains of €5 mn and net gains on financial instrument transactions of c.€5 mn), compared to €6 mn for 3Q2021 (up by 87% qoq).

Net insurance income of €61 mn for FY2021, compared to €56 mn for FY2020, up by 9% yoy, mainly due to higher gross written premiums, partly offset by the net impact from the changes in the discount rate in the life insurance business and by higher costs and claims in the general insurance business (as claims in FY2020 had been positively impacted by lockdowns). Net insurance income of €18 mn in 4Q2021, compared to €12 mn in 3Q2021, up by 60% qoq, resulting from higher claims in the previous quarter, seasonality and valuation assumptions.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for FY2021 amounted to €13 mn (comprising net gains on disposal of stock of properties of €13 mn, net gains on disposal of investment properties of €1 mn and net losses from revaluation of investment properties of €1 mn), compared to €7 mn in FY2020 which had been impacted by the lockdown measures.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 4Q2021 amounted to €5 mn (relating mainly to a profit on disposal of stock of properties of €4 mn), compared to €2 mn in 3Q2021 (relating mainly to a profit on disposal of stock of properties of €2 mn). REMU profit remains volatile.

Total income for FY2021 amounted to €581 mn, compared to €567 mn for FY2020 (up 2% yoy). Total income for 4Q2021 amounted to €154 mn, compared to €139 mn for 3Q2021 (up by 11% qoq) following increase in non-interest income as explained above.

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

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	FY2021	FY2020 ¹	4Q2021	3Q2021	2Q2021	1Q2021	qoq ±% (4Q vs 3Q)	yoy ±% (FY)
Staff costs	(202)	(195)	(50)	(51)	(51)	(50)	-	4%
Other operating expenses	(145)	(145)	(37)	(38)	(38)	(32)	-3%	-1%
Total operating expenses	(347)	(340)	(87)	(89)	(89)	(82)	-1%	2%
Special levy on deposits and other levies/contributions	(36)	(33)	(12)	(9)	(6)	(9)	26%	8%
Total expenses	(383)	(373)	(99)	(98)	(95)	(91)	1%	2%
Cost to income ratio ²	66%	66%	65%	71%	62%	67%	-6 p.p.	-
Cost to income ratio excluding special levy on deposits and other levies/contributions ²	60%	60%	57%	64%	58%	60%	-7 p.p.	-

1. Represented for the DTC levy of €3 mn in FY2020 which is now included in "Special levy on deposits and other levies/contributions" in line with current year presentation.
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 FY2021 were €383 mn (compared to €373 mn for FY2020, up by 2% yoy), 53% of which related to staff costs (€202 mn), 38% to other operating expenses (€145 mn) and 9% (€36 mn) to special levy on deposits and other levies/contributions. Total expenses for 4Q2021 were €99 mn compared to €98 mn for 3Q2021, up by 1% qoq. The yoy increase of 2% is driven by the 4% yoy increase in staff costs. The qoq increase of 1% is driven by the 26% qoq increase in special levy on deposits and other levies/contributions. Further details are provided below.

Total operating expenses for FY2021 were €347 mn, compared to €340 mn for FY2020 (up by 2% yoy). Total operating expenses for 4Q2021 were €87 mn, compared to €89 mn for 3Q2021 (down by 1% qoq).

Staff costs for FY2021 were €202 mn (compared to €195 mn for FY2020) up by 4% yoy in line with the renewal of the collective agreement for 2021 (see below). Staff costs for 4Q2021 were €50 mn (compared to €51 mn for 3Q2021) broadly flat qoq.

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.

The Group employed 3,407 persons as at 31 December 2021, compared to 3,558 as at 30 September 2021 and 3,573 as at 31 December 2020. At the end of 3Q2021, 96 persons relating to Project Helix 2 were transferred to the buyer upon full migration. In December 2021, the Group completed a small-scale targeted voluntary staff exit plan (VEP), through which 100 of the Group's full-time employees were approved to leave at a total cost of €16 mn, recorded in the consolidated income statement in 4Q2021 as a non-recurring item in the underlying basis (compared to a total cost of €6 mn for a targeted voluntary staff exit plan completed in December 2020). Following the completion of the VEP in December 2021, the gross annual savings are estimated at c.3% of staff costs.

Other operating expenses for FY2021 were €145 mn, down 1% yoy. Other operating expenses for 4Q2021 were €37 mn, compared to €38 mn for 3Q2021 (down by 3% qoq).

Special levy on deposits and other levies/contributions for FY2021 amounted to €36 mn, compared to €33 mn for FY2020 (up by 8% yoy). Special levy on deposits and other levies/contributions for 4Q2021 amounted to €12 mn (compared to €9 mn for 3Q2021), up by 26% qoq, owing to the net impact of a levy in the form of an annual guarantee fee relating to the expected revised Income Tax legislation of €5.3 mn recorded in 4Q2021 (see Section B.2.1 'Capital Base') and the contribution of the Bank to the Deposit Guarantee Fund (DGF) of €3 mn which relates to 2H2021 and was recorded in 3Q2021, in line with IFRSs.

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

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses (continued)

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

The **cost to income ratio excluding special levy on deposits and other levies/contributions** for FY2021 was 60%, flat yoy. The cost to income ratio excluding special levy on deposits and other levies/contributions for 4Q2021 was 57%, compared to 64% for 3Q2021, with the reduction of 7 p.p. qoq driven by the increase in total income.

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

B.3. Income Statement Analysis (continued)

B.3.3 Profit/(loss) before tax and non-recurring items

€ mn	FY2021	FY2020 ¹	4Q2021	3Q2021	2Q2021	1Q2021	qoq ±% (4Q vs 3Q)	yoy ±% (FY)
Operating profit	198	194	55	41	57	45	33%	2%
Loan credit losses	(66)	(149)	(9)	(22)	(15)	(20)	-55%	-55%
Impairments of other financial and non-financial assets	(36)	(42)	(23)	(2)	(6)	(5)	-	-15%
Net reversals/(provisions) for litigation, claims, regulatory and other matters	2	(7)	8	(2)	(3)	(1)	-	-
Total loan credit losses, impairments and provisions	(100)	(198)	(24)	(26)	(24)	(26)	-7%	-50%
Profit/(loss) before tax and non-recurring items	98	(4)	31	15	33	19	96%	-
Cost of risk ²	0.57%	1.18%	0.35%	0.78%	0.52%	0.66%	-43 bps	-61 bps

1. Represented for the DTC levy of €3 mn in FY2020 which is now included in "Special levy on deposits and other levies/contributions" in line with current year presentation.
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 for FY2021 was €198 mn, compared to €194 mn for FY2020 (up by 2% yoy). Operating profit for 4Q2021 was €55 mn, compared to €41 mn for 3Q2021 (up by 33% qoq), driven by an increase in total income qoq.

Loan credit losses for FY2021 totalled €66 mn, compared to €149 mn for FY2020 (down by 55% yoy). Loan credit losses for 4Q2021 totalled €9 mn, compared to €22 mn for 3Q2021 (down by 55% qoq).

The annualised loan credit losses charge (**cost of risk**) for FY2021 accounted for 0.57% of gross loans and includes a net reversal of loan impairments relating to COVID-19 of 4 bps (compared to an annualised loan credit losses charge of 1.18% for FY2020, of which 43 bps reflect loan impairments relating to COVID-19). Cost of risk for 4Q2021 amounted to 35 bps (€9 mn), without any charge or reversal of loan impairments relating to COVID-19 overlays, compared to a cost of risk of 78 bps (€22 mn) for 3Q2021, which included a reversal of loan impairments relating to COVID-19 of 62 bps (€17 mn) as a result of stronger than expected economic performance and partly offsetting the impact of model recalibration to address the new default definition, and updated default/curing experience. Further details are provided in Section B.2.5 'Loan portfolio quality'.

Cost of risk for 4Q2021 amounting to 35 bps (€9 mn), includes a reversal of 46 bps (€12 mn) from Stages 1 and 2 mainly due to improved cash collections and updated financial information.

At 31 December 2021, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures totalled €792 mn (compared to €849 mn at 30 September 2021 and €1,902 mn at 31 December 2020) and accounted for 7.3% of gross loans including portfolios held for sale (compared to 7.8% and 15.5% of gross loans including portfolios held for sale at 30 September 2021 and at 31 December 2020 respectively).

Impairments of other financial and non-financial assets for FY2021 amounted to €36 mn, compared to €42 mn for FY2020 (down by 15% yoy), driven by lower revaluation losses on properties yoy. Impairments of other financial and non-financial assets for 4Q2021 amounted to €23 mn (compared to €2 mn for 3Q2021), driven by impairments of non-financial assets of €20 mn relating mainly to specific, large, illiquid REMU assets.

Reversals net of provisions for litigation, claims, regulatory and other matters for FY2021 amounted to €2 mn, compared to provisions of €7 mn for FY2020. Reversals net of provisions for litigation, claims, regulatory and other matters for 4Q2021 amounted to €8 mn, mainly resulting from revised estimates for cases and matters provided for (compared to provisions of €2 mn for 3Q2021).

Profit before tax and non-recurring items for FY2021 totalled €98 mn, compared to a loss of €4 mn for FY2020. Profit before tax and non-recurring items for 4Q2021 totalled €31 mn, compared to €15 mn for 3Q2021 (up by 96% qoq).

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

B.3. Income Statement Analysis (continued)

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

€ mn	FY2021	FY2020 ¹	4Q2021	3Q2021	2Q2021	1Q2021	qoq ±% (4Q vs 3Q)	yoy ±% (FY)
Profit/(loss) before tax and non-recurring items	98	(4)	31	15	33	19	96%	-
Tax	(5)	(8)	(2)	(2)	1	(2)	2%	-46%
(Profit)/loss attributable to non-controlling interests	(2)	3	(2)	(0)	(0)	(0)	-	-
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	91	(9)	27	13	34	17	101%	-
Advisory and other restructuring costs – organic	(22)	(10)	(3)	(1)	(15)	(3)	-	-
Profit/(loss) after tax – organic (attributable to the owners of the Company)	69	(19)	24	12	19	14	96%	-
Provisions/net (loss)/profit relating to NPE sales ²	(7)	(120)	(1)	10	(14)	(2)	-	-93%
Restructuring and other costs relating to NPE sales ²	(16)	(26)	3	(3)	(12)	(4)	-	-38%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	(16)	(6)	(16)	-	-	-	-	-
Profit/(loss) after tax (attributable to the owners of the Company)	30	(171)	10	19	(7)	8	-46%	-

1. Represented for the DTC levy of €3 mn in FY2020 which is now included in "Special levy on deposits and other levies/contributions" in line with current year presentation.

2. 'Provisions/net (loss)/profit relating to NPE sales' refer to the net (loss)/profit 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 see below. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

The **tax charge** for FY2021 is €5 mn, compared to €8 mn for FY2020. The tax charge for 4Q2021 is €2 mn, flat qoq.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for FY2021 was €91 mn, compared to a loss of €9 mn for FY2020. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 4Q2021 was €27 mn, compared to €13 mn for 3Q2021. 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 5.5% for FY2021 and 6.6% for 4Q2021.

Advisory and other restructuring costs - organic for FY2021 amounted to €22 mn (compared to €10 mn for FY2020), mainly driven by an amount of €12 mn which related to the cost of the tender offer for the 'Old T2 Notes', thereby forfeiting the relevant obligation for future coupon payments. Advisory and other restructuring costs - organic for 4Q2021 amounted to €3 mn, compared to €1 mn for 3Q2021.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for FY2021 amounted to €69 mn, compared to a loss of €19 mn for FY2020. Profit after tax arising from the organic operations (attributable to the owners of the Company) for 4Q2021 amounted to €24 mn, compared to €12 mn for 3Q2021.

Provisions/net loss relating to NPE sales for FY2021 was €7 mn (compared to €120 mn for FY2020). Provisions/net loss relating to NPE sales for 4Q2021 was €1 mn relating to Helix 3 (compared to a net profit for 3Q2021 of €10 mn).

Restructuring and other costs relating to NPE sales for FY2021 was €16 mn (compared to €26 mn for FY2020). Restructuring and other costs relating to NPE sales for 4Q2021 was a credit of €3 mn relating to the agreements for the sale of portfolios of NPEs (compared to costs of €3 mn for 3Q2021).

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

B.3. Income Statement Analysis (continued)

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

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) amounted to €16 mn for the 4Q2021 and the FY2021 (compared to €6 mn for FY2020). For further details please refer to Section B.3.2 'Total expenses'.

Profit after tax attributable to the owners of the Company for FY2021 was €30 mn (compared to a loss of €171 mn for FY2020). Profit after tax attributable to the owners of the Company for 4Q2021 was €10 mn (compared to €19 mn for 3Q2021).

C. Operating Environment

Economic activity recovered strongly in 2021, driven by domestic demand in 1H2021 and by external demand in 2H2021 reflecting a strong recovery in tourist activity in the period. Government support to businesses and households remained substantial in the year but the budget deficit narrowed substantially driven by increased revenues. Inflation accelerated in 2H2021 and unemployment remained largely unchanged from the previous year. Over the medium term, prospects remain positive aided also by the Recovery and Resilience Fund of Next Generation EU.

The Next Generation EU is a significant initiative. Its purpose is ultimately about the future, to help fund the key investments that will be needed for the green and digital transitions, and so enhance the potential and economic resilience of member states. Structural reform is an integral part of this process, and ultimately a critical factor that will determine the effectiveness of the investments.

Cyprus received €157 mn in EU recovery fund pre-financing in September 2021 (13% of the total allocated amount), following the approval of its national recovery plan in July 2021. The bulk of the funds will be released in 2022-2024 depending on the strict implementation of reform priorities agreed with the EU. These include, increasing the efficiency of public and local administrations; improving the government of state-owned enterprises; reducing further the levels of non-performing loans in the banking sector; improving the efficiency of the judicial system; and accelerating anti-corruption reforms.

The COVID-19 pandemic had a significant impact on the economy with real GDP dropping by 5.2% in 2020 compared with an average drop of 6.5% in the Eurozone. The recovery in 2021 was relatively strong with real GDP rising by 5.5% according to the Cyprus Statistical Service, fully recovering the lost output from the previous year. Tourist arrivals recovered strongly in the year, particularly in the second half. On average for 2021, tourist arrivals were c.50% of 2019 levels, but reached c.70% of 2019 levels in the second half. Real GDP is expected to expand by 4.1% in 2022 according to the winter forecasts of the European Commission.

The unemployment rate has been declining since its peak in 2014, to 7.7% in 2020 and to 7.8% in the first three quarters of 2021. The labour market is gradually tightening because employment volumes are rising faster than increases in the labour force. On the supply side of the labour market, the labour force is constrained by slowing population growth, skill mismatches especially after the pandemic crisis, and low participation rates in segments of the population. The unemployment rate is expected to decline further in 2022 to 7.1% (European Commission).

Consumer prices accelerated from the second quarter onwards, and more steeply in the second half of the year. In total for 2021, consumer prices increased by 2.4% and by 4.4% in the second half alone. Cyprus's consumer price inflation has followed a similar trend to that in the euro area. The acceleration largely reflects higher global prices for energy and transport goods, which were driven by recovering aggregate demand against supply-chain bottlenecks. There were also structural factors at play. The end of the temporary VAT reduction in January 2021 resulted in stronger price growth in a year-on-year comparison from July 2021. Inflation is expected to remain elevated in the first half of 2022, owing primarily to high energy prices and supply chain disruptions, and to moderate in the second half of the year.

The current account deficit deteriorated in 2020-2021 due to the loss of revenues from export services, mainly tourism. The current account deficit was 10.1% of GDP in 2020 and it is estimated at 9.1% of GDP in 2021 (European Commission). The current account will improve gradually in the medium term as services earnings recover, offsetting stronger domestic demand, and as EU recovery funds are credited in the secondary income account. The size of Cyprus' current account deficit reflects special-purpose vehicles domiciled in Cyprus through which foreign enterprises register ships in Cyprus which adds to fixed investment and imports.

Cyprus is an exports oriented, services-based economy, driven by tourism, shipping and professional and financial services. Total services account for more than 80% of total gross value added. The primary and secondary sectors are relatively small. This means that Cyprus is also a large importer of goods, relative to the size of the economy and tends to have large trade deficits which are offset by large services surpluses in the current account.

In the banking sector there has been significant progress since the 2013 financial crisis. Banks have reduced their foreign exposure; the regulatory framework and prudential oversight have been strengthened; a new legal framework for foreclosures and insolvencies has been implemented. Non-performing exposures have been reduced from €28.4 bn in 2014 to €4.3 bn as at the end of October 2021. The ratio of non-performing exposures to gross loans dropped from 47.8% to 15.2% in the same period and the coverage ratio of provisions to non-performing exposures increased slightly to 50.6%. The ratio of non-performing exposures still remains elevated when compared with an EU average of just over 2%. Total loans to the private sector also declined steeply in the same period. Loans to residents excluding the government, dropped to €23.3 bn at the end of December 2021, including the non-performing loans, which is c.100% of GDP in 2021.

C. Operating Environment (continued)

Cyprus public finances deteriorated sharply in 2020 as a result of the recession and the fiscal measures that were implemented to support the economy against COVID-19. The budget deteriorated from a surplus of 1.3% of GDP in 2019 to a deficit of 5.7% of GDP in 2020. Public finances strengthened in 2021 despite substantial government support measures. This was driven primarily by sharp increases in tax revenues and social security contributions in the second and third quarters. Expenditures rose at a much slower pace in the period following sharp increases the year before. The budget deficit is estimated to have narrowed significantly in 2021. General government debt remained unchanged on an end-period basis from December 2020 to November 2021 at €24.9 bn. The debt-to-GDP ratio declined from 115.3% to 108.8% in the same period. The budget deficit will diminish gradually in the medium term and return to a surplus. The continuation of economic recovery and sustained low debt servicing costs, along with fiscal consolidation, will be driving the gradual reduction of debt in the medium term.

The monetary policy of the European Central Bank is expected to remain highly accommodative in 2022. The deposit rate remains unchanged at -0.5% and monetary policy is conducted through quantitative easing. The ECB is running two purchase programmes, the assets purchase programme which is open ended and runs at €20 bn a month, and the pandemic emergency purchase programme with a maximum size of €1.85 trillion. The ECB announced that the pandemic emergency purchase programme will be discontinued in the second quarter of 2022 and the size of the asset purchase programme will double to €40 bn and reduce in the third and fourth quarters. Long term interest rates remain near their long-term lows. The ECB is expected to continue to play a prominent role in bond markets and borrowing costs for businesses and households are expected to remain favourable.

Economic policy in 2021 focussed on stabilising the economy after the fallout from the COVID-19 pandemic. From 2022, the focus of economic policy will be on fiscal consolidation and debt reduction on the one hand, and full and efficient utilisation of EU recovery funds including the structural reforms that are required for their disbursement.

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 European Central Bank (ECB) ensure favourable funding costs for Cyprus and ample liquidity in the sovereign bond market.

In July 2021, **Moody's Investors Service** upgraded the Government of Cyprus' long-term issuer and senior unsecured ratings to Ba1 from Ba2 (since July 2018) and changed the outlook from positive to stable. The primary driver for the upgrade was the material improvement in the underlying credit strength of the domestic banking system, which also reduces the risks of a systemic banking crisis.

S&P Global Ratings maintains its investment grade rating of BBB- since September 2018 and upgraded its outlook to positive from stable in its September 2021 review. 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.

Fitch Ratings maintains a Long-Term Issuer Default rating of investment grade at BBB- since November 2018 and a stable outlook, last affirmed in September 2021. Its outlook was upgraded to positive in October 2019 and revised to stable in April 2020, reflecting the significant impact the global COVID-19 pandemic might have on the Cyprus economy and fiscal position.

In October 2021, **DBRS Morningstar** confirmed Cyprus' Long-Term Foreign and Local Currency Issuer Ratings at BBB (low) and upgraded its outlook from stable to positive trend. This reflects the expectation that Cyprus's public debt ratio will most likely return to its pre-pandemic downward path starting from 2021, supported by a solid economic growth and fiscal repair. In a November 2021 commentary DBRS Morningstar anticipates that Cyprus's favourable medium term growth prospects will facilitate the repair of its public accounts and the further cleaning up of its banking system.

D. Business Overview

Credit ratings

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In February 2022, **Standard and Poor's** affirmed their long-term issuer credit rating on the Bank of B+, maintaining the positive outlook. 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 in 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 in 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**. It has delivered significant progress against its strategy announced in November 2020 and this, together with the solid growth outlook for the Cyprus economy, has allowed the Group to update its medium term strategic targets with an increased focus on **creating shareholder value**. **The Group now increases its medium term return on tangible equity (ROTE) target to over 10%, providing the foundations for a return of dividend distributions, subject to performance and relevant approvals.**

The Bank's medium term strategic priorities are clear, with a renewed focus on **growing revenues in a more capital efficient way**, whilst striving for a **leaner operating model**. In addition, the Group continues to focus on **further strengthening its asset quality, whilst maintaining a good capital position**, in order to continue to play a vital role in supporting the recovery of the Cypriot economy. Moreover, 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. Delivery on the Bank's medium term strategic priorities is enabled by the Group's **transformation plan**.

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 accelerated de-risking of the balance sheet and the less favourable terms of the TLTRO borrowing post June 2022 is expected to increase pressure on net interest income (NII) in the near term. This is expected to gradually recover from 2023 onwards as loan expansion and margin stabilisation more than offset the foregone NII.

Separately, the Group aims to increase revenues 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.

Gradual recovery of NII

Over the medium term, the Group aims to improve its NII through the growth of its net performing book by c.6% per annum and margin stabilisation, with an expected contribution to return on tangible equity (ROTE) in FY2025 of an increase of c.1%.

The Group has continued to provide high quality new loans 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 the year ended 31 December 2021, new lending amounted to €1.8 bn, increased by 33% on the prior year and recovering towards pre-pandemic levels (at c.90% of FY2019 levels). Demand for new loans is picking up, driven mainly by corporate (up by 34% yoy for FY2021 and up by c.24% yoy for 4Q2021), as economic activity continues to improve. At the same time, the demand for retail housing loans remained strong, supported by the Government interest rate subsidy scheme (expired on 31 December 2021). New housing loans of c.€355 mn were approved by the Bank under the Scheme. 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.

Over the medium term, **high quality new lending is expected to reach c.€9 bn**, as economic growth is expected to continue by an annual average rate of at least 3% in 2022-2025. Significant deleveraging of the Cyprus economy of the past seven years is coming to an end. The Group aims to benefit from its strong market position; to help deploy the Cyprus Recovery and Resilience Fund; to grow shipping and international corporate lending with prudence; and to explore market opportunities in trades of performing loans in Cyprus. At the same time, it aims to support its customers in the transition to a sustainable future through, for example, the provision of environmentally friendly products.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Growing revenues in a more capital efficient way (continued)

Gradual recovery of NII (continued)

The growth of net interest income over the medium term is expected to be further supported by **margin stabilisation**. The Group uses conservative interest rate assumptions in its business plan and is well positioned for rising rates given high levels of liquidity. It also applies conservative assumptions for fixed income investments. It has factored in the increased funding cost resulting from further MREL issuances and the expectation that the favourable TLTRO borrowing terms will not be extended post June 2022.

Non-NII: growth in a more capital efficient way

Over the medium term, the Group aims to increase revenues other than net interest income, 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, with an expected contribution to return on tangible equity (ROTE) in FY2025 of an increase of c.1.5%-2.0%.

In FY2021, **net fee and commission income** amounted to €172 mn, increased by 19% on the prior year and exceeded pre-pandemic levels in 2019. The increase reflects higher volume of transactions, as well as the extension of liquidity fees to a broader group of corporate clients and the introduction of a revised price list for charges and fees, both implemented as of 1 February 2021.

Over the medium term, **net fee and commission income from banking activities** is expected to increase at a rate of 4% per annum, supported by price adjustments and increased activity as the economy recovers. Liquidity fees are expected to be applied to an amended universe of deposits, whilst the Bank will pursue to convert deposits to products with a higher return for customers mainly through its Wealth services.

In addition, the Group aims to increase the **average product holding** per retail customer over the medium term through further cross-selling of cards, digital loans, wealth and insurance products, to the under-penetrated customer base via re-designing the operational model, client segmentation and catering to different customer niches.

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 FY2021 contributed to 21% of non-interest income and amounted to €61 mn, up 9% yoy, mainly due to higher gross written premiums, partly offset by the net impact from the changes in the discount rate in the life insurance business and by higher costs and claims in the general insurance business (as claims in FY2020 had been positively impacted by lockdowns). Specifically, Eurolife increased its total regular income by 8% yoy, whilst GIC increased its gross written premiums by 8% yoy.

Furthermore, there are initiatives underway to enhance revenues from the insurance business in the medium term. The Group currently has sustainable healthy profitability from its insurance business and it is aiming for further growth leveraging on the Bank's strong market share. The impact of IFRS 17 as of 1 January 2023 remains uncertain, but it is not expected to significantly impact the return on tangible equity in the medium term.

In the **life insurance business**, further growth is expected to be driven through the pursuit of new market segments with higher margin potential (such as business insurance, or income protection), exploring opportunities in the occupational pensions market and the launch of new products and investment funds. At the same time, Eurolife Ltd is expected to widen its target market leveraging on its revamped bancassurance model. Internally, Eurolife Ltd aims to strengthen its agency force organically and improve productivity through digitisation and campaigns. Leveraging on the Group's digital capabilities, the customer experience is expected to be upgraded via enhanced self-service capabilities, such as the myeurolife portal.

In the **general insurance business**, further growth is expected through widening the target market leveraging on the revamped bancassurance model, exploiting synergies with the life insurance agency force and focusing on profitable business segments (such as fire and liability). GIC also aims to strengthen its penetration in the profitable motor sector. Centralisation and automation of the claims handling process, as well as further digital growth will be enabled by further digitisation.

Finally, the Group aims to introduce the **Digital Economy Platform** 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 to drive opportunities in lifestyle banking and beyond.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Non-NII: growth in a more capital efficient way (continued)

This 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. Management also expects that **restructuring costs will be effectively eliminated** as balance sheet de-risking is largely complete. These actions are expected to **contribute an increase of c.2.5%-3.0% to return on tangible equity (ROTE) in FY2025**. The Group focuses on continuing to deliver on the cost agenda, as well as improving operating efficiency, whilst funding its digital transformation and investing in the business.

The **digital transformation** of the Group that started in 2017 has begun to deliver an improved customer experience, whilst the branch footprint rationalisation to date, has further improved the Bank's operating model. The branch network is now less than half the size it was in 2013.

Management remains focused on **further improvement in efficiency over the medium term**, through for example further branch footprint optimisation and further exit solutions to release full time employees.

It is expected that total operating expenses will remain below €350 mn in FY2025, despite inflationary pressures, whilst continuing to fund digitisation and further investing in the business. The **cost to income ratio** is expected to rise in 2022 as revenues remain under pressure and operating expenses increase due to higher IT/digitisation investment costs, **before improving to 50%-55% by FY2025**.

Transformation plan

The Group continues to work towards becoming a more customer centric organisation. **A transformation plan is in progress to enable modern banking by digitally transforming customer service, as well as internal operations**. The transformation plan will enable delivery on the Group's strategic pillars, with key shifts focusing on a leaner and more efficient operating model, profitability and optimisation of the client service and distribution models with an emphasis on the customer. For further details on examples of the transformation that is expected to be achieved please refer to slide 35 of the presentation for the Preliminary Group Financial Results for the year ended 31 December 2021.

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.

In 4Q2021, the Bank continued to invest in its digital products, further strengthening its competitive advantage. Among new digital capabilities, a new service was added in the Bank's digital portfolio, that allows online identity verification for legal entity-related individuals to assist the process of onboarding those entities in the Bank. The whole activity can be now completed more efficiently by the customers and the IBU (International Banking Unit) staff without the need for unnecessary interactions. Furthermore, the Bank invested in the enhancement of the usage and transaction security through the introduction of a new user verification and transaction monitoring mechanisms in its mobile app and web channels.

The adoption of digital products and services continued to grow and gained momentum in the fourth quarter of 2021 and in January 2022. As at the end of January 2022, 89.4% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by c.23.0 p.p. from 66.4% in September 2017 when the digital transformation programme was initiated). In addition, 78.8% of individual customers were digitally engaged (up by 18.6 p.p. from 60.2% in September 2017), choosing digital channels over branches to perform their transactions. As at the end of January 2022, active mobile banking users and active QuickPay users have grown by 20% and 43% respectively in the last 12 months. The highest number of QuickPay users to date was recorded in January 2022 with 131 thousand active users. Likewise, the highest number of QuickPay payments was recorded in December 2021 with 395 thousand transactions.

Moreover, significant changes are being implemented to enable a more modern and efficient workplace. New technologies and tools have been introduced that will significantly improve employee collaboration and knowledge sharing across the organisation. Next steps include the transition to the new renewed Internet Banking platform, while soon customers will be able to easily have an overall view of their finances. At the same time, new tools such as defining and managing budgets and opening of new lending products entirely through the Group's digital channels will soon be available to customers.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

Strengthening asset quality

Ensuring the Bank's loan portfolio quality remains healthy is a priority for the Group. Whilst maintaining high quality new lending, the Bank aims to complete legacy de-risking, normalise cost of risk and reduce (other) impairments, whilst managing post-pandemic NPE inflows. Collectively these de-risking actions are expected to **contribute an increase of c.2.5%-3.0% to return on tangible equity (ROTE) in FY2025.**

During 2021, the Group completed Project Helix 2 and agreed on Project Helix 3. Overall in 2021, and including organic NPE reductions of c.€400 mn, the Group reduced its NPEs by 75% and its NPE ratio to 7.5%, on a pro forma basis. For further information please refer to Section B.2.5 'Loan portfolio quality'.

The Group has early achieved its previous 2022 target for a single digit NPE ratio and has updated its strategic target of achieving an NPE ratio of c.5% by the end of 2022 and of less than 3% by the end of 2025. At the same time, the Group will continue to closely monitor the performance of loans under expired payment deferrals and a year after deferral expiry, the performance is better than initially expected.

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 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

Environment

An ESG roadmap has been established to seize new opportunities, reduce risk and comply with regulatory requirements and market expectations.

To ensure delivery on its ambition, the Bank is in the process of formulating a long-term working plan that covers areas such as decarbonisation of the Bank's own operations and portfolio, risk identification and impact assessment, and streamlining of the Bank's policies with the ESG strategy. More specifically, the decarbonisation initiative has commenced in 2022. As a first step the Bank will calculate its own carbon footprint and formulate a decarbonisation plan to become carbon neutral by 2030. A road map with specific carbon reduction targets and KPIs will be established that will enable the Bank to achieve its decarbonisation goals.

Work is already underway on data requirements and policy updates. The Bank is in the process of identifying its ESG data needs and their availability based on upcoming regulatory requirements, as well as its ESG strategic goals, with the objective to address these needs in due time. Work has also been initiated and will continue into 2022, to determine the climate related and environmental risks the Bank is exposed to, so that these can be integrated into the existing risk taxonomy and risk registry of the Bank and inform its various business processes. Finally, several policies have been updated, and this effort will continue in the coming years, as it will be conducive in streamlining operations and culture with the Bank's ESG ambition.

D. Business Overview (continued)

Strategic priorities for the medium term (continued)

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

Environment (continued)

At the same time, the Bank will intensify its support to its clients and communities in becoming increasingly sustainable and will respond to the heightened importance the Bank's investors and shareholders attach to ESG matters. The Bank has the commitment, the scale and the reach to deliver the desired change across Cyprus in the coming years. Environmentally friendly products have been launched, and the Bank will continue to enrich its products and services in line with its ESG Strategy and the Recovery and Resilience Plan for Cyprus.

Social Pillar

At the centre of the Bank's leading social role lie its investments in the Bank of Cyprus Oncology Centre (with an overall investment of c.€70 mn since 1998, whilst 60% of diagnosed cancer cases in Cyprus are being treated at the Centre), the work of SupportCY Network developed in 2020 and expanded further in 2021, the contribution of the Bank of Cyprus Cultural Centre in promoting the cultural heritage of the island, and the education of over 30 entrepreneurs and financial support of €60.000 provided via the IDEA Innovation Centre in 2021. Staff have continued to engage in voluntary initiatives to support charities, foundations and people in need.

The Bank's staff members remain a key factor in achieving its objectives. In order to maintain its high-performance culture, the Bank has continued to upgrade its staff's skill set by providing training and development opportunities to all staff, and capitalising on modern delivery methods. In 2021, the Bank continued to place special emphasis on staff wellness offering seminars on Healthy Eating, Mental Health in the workplace and Financial Planning to 630 employees, through its 'Well at Work program'.

The Group's commitment in safeguarding gender equality in the workplace has been translated into policies and practices over the years. In 2021, the Group received a Certificate by the Ministry of Labour, Welfare and Social Insurance for applying good practices for gender equality in the working environment.

Governance Pillar

The Bank continues to operate successfully within a complex regulatory framework of a holding company which is registered in Ireland, listed on two Stock Exchanges and run by a number of rules and regulations. Its governance and management structures enable it to achieve present and future economic prosperity, environmental integrity and social equity across its value chain. The Bank operates within a framework of prudent and effective controls, which enable risk assessment and risk management based on the relevant policies under the leadership of the Board of Directors.

The Bank has set up a robust Governance Structure to oversee its ESG agenda.

Progress on the implementation and evolution of the Group's ESG strategy is monitored by the Sustainability Committee and the Board of Directors. The Sustainability Committee is a dedicated executive committee set up in early 2021 to oversee the ESG agenda of the Group, review the evolution of the Group's ESG strategy, monitor the development and implementation of the Group's ESG objectives and the embedding of ESG priorities in the Group's business targets. The Bank's regulatory compliance continues to be an undisputed priority.

The Board composition of the Company and the Bank is diverse, with one third of the Board members being female as at 31 December 2021. 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 31 December 2021, there is a 24% 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 A).

COVID-19 impact

The Group continues to closely monitor developments in, and the effects of COVID-19 on both the global and Cypriot economy. Strong recovery in economic activity marked the second half of the year, against the backdrop of increasing vaccination coverage across Cyprus and relaxation of restrictions. At the same time, the Group has continued its focus on providing support to its customers, staff and community. The Group will continue to monitor the situation for any changes that may arise from the uncertainty on the macroeconomic outlook, impacted by the additional progress in vaccinations and medication, degree of recurrence of the disease due to virus mutations, and the persistent positive effect of fiscal and monetary policy.

D. Business Overview (continued)

COVID-19 impact (continued)

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

In accordance with the Pandemic Plan, the Group adopted a set of measures, which are still in place according to the current pandemic status, to ensure minimum disruption to its operations. The Pandemic Incident Management Team and the Crisis Management Committee continue to closely monitor the dynamic COVID-19 pandemic developments and status. The Group replaced face-to-face meetings with telecommunications, adjusting the customary etiquette of personal contact, including those with customers. Staff of critical functions have been split into separate locations. In addition, to ensure continuity of business, a number of employees have been working from home and the remote access capability has been upgraded significantly, whilst at the same time maintaining relevant control procedures to ensure authorisation in line with the Group's governance structure. Additionally, the Group follows strict rules of hygiene, increased intensity of cleaning and disinfection of spaces, and other measures to protect the health and safety of staff and customers.

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

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

As part of the measures to support borrowers affected by COVID-19 and the wider Cypriot economy, the Cyprus Parliament voted for the suspension of loan repayments for interest and principal (loan moratorium) for the period to the end of the year 2020, for all eligible borrowers with no arrears for more than 30 days as at the end of February 2020. The payment holiday for all these loans expired on 31 December 2020. Further details are provided in Section B.2.5 'Loan portfolio quality'.

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, whilst managing post pandemic NPE inflows
- **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 FY2021 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)	<ul style="list-style-type: none"> • Liquidity fees to a broader group of corporate clients was introduced as of 1 February 2021 • New price list for charges and fees was implemented as of 1 February 2021 • <i>For further information, please refer to Section D. 'Business Overview'</i> 	<ul style="list-style-type: none"> • Grow net performing book by c.6% p.a. and extend new lending by c.€9 bn 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 • 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	<ul style="list-style-type: none"> • Completion of a small-scale targeted voluntary staff exit plan (VEP) in December 2021, through which 100 of the Group's full-time employees were approved to leave at a total cost of €16 mn; gross annual savings estimated at c.3% of staff costs • Renewal of collective agreement for 2021-2022 with an expected increase in staff costs for 2021 and 2022 by 3-4% per annum, in line with the impact of renewals in previous years. • Further developments in the Transformation Plan and the digitisation of the Bank • <i>For further information, please refer to Section D. 'Business Overview'</i> 	<ul style="list-style-type: none"> • Offer exit solutions to release full time employees • Achieve further branch footprint rationalisation • Effectively eliminate restructuring costs as de-risking is largely complete • Enhance procurement control • Contain total operating expenses to less than €350 mn in FY2025, despite inflationary pressures, whilst funding digitisation and further investment in the business

E. Strategy and Outlook (continued)

KEY STRATEGIC PILLARS	ACTION TAKEN IN FY2021 and to date	PLAN OF ACTION
Strengthening asset quality	<ul style="list-style-type: none"> • Completion of Project Helix 2 (sale of NPE portfolios with gross book value of €1.3 bn) in June 2021 • Agreement for the sale of NPE portfolio with gross book value of €0.6 bn in Project Helix 3. • On a pro forma basis, in 2021 the NPE stock reduced by €2.3 bn to €0.8 bn, and the NPE ratio to 7.5%, including Helix 3, Helix 2 and organic reductions. • Single digit NPE ratio (pro forma for HFS) achieved earlier than initially anticipated • <i>For further information, please refer to Section B.2.5 'Loan portfolio quality' and Section D. 'Business Overview'</i> 	<ul style="list-style-type: none"> • The Group is on track to achieve an updated strategic target of 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	<ul style="list-style-type: none"> • The Bank reached agreement with the Cyprus Union of Bank Employees for the renewal of the collective agreement in respect of 2021 and 2022. The agreement relates 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. • First ESG strategy approved at Board level • <i>For further information, please refer to Section D. 'Business Overview'</i> • <i>Please refer to slide 28 of the FY2021 Preliminary Group Financial Results Presentation</i> 	<ul style="list-style-type: none"> • 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

The Group has delivered significant progress against its strategy communicated in November 2020, setting the path to normalising the balance sheet and achieving adequate sustainable returns. The single digit NPE ratio has been reached a year ahead of plan, whilst strengthening capital well above regulatory requirements. The post-moratoria performance has exceeded expectations, allowing for a swifter normalisation in cost of risk.

This delivery, together with the solid growth outlook for the Cyprus economy, has allowed the Group to update its business plan and upgrade its medium term strategic targets with an increased focus on **creating shareholder value**.

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.

E. Strategy and Outlook (continued)

The Group focuses on continuing to deliver on the cost agenda, as well as improving operating efficiency, despite inflationary pressures, whilst funding its digital transformation and further investing in the business. The cost to income ratio is expected to rise in 2022 as revenues remain under pressure and operating expenses increase due to higher IT/digitisation investment costs, before improving to 50%-55% by FY2025.

As the balance sheet de-risking is largely complete, the Group's priorities include maintaining high quality new lending and normalising the cost of risk and other impairments, whilst managing the post-pandemic NPE inflows.

Sustainability will continue to be embedded in the Group's culture, as the Bank aims to lead the transition to a sustainable future. The Bank has the commitment, the scale and the reach to deliver the desired change across Cyprus in the coming years.

The Group has a clear strategy in place, leveraging on its strong customer base, its renewed customer trust, its market leadership position, and further developing digital knowledge and infrastructure, with a clear focus on creating shareholder value. The Group now increases its medium term return on tangible equity (ROTE) target to over 10%, providing the foundations for a return of dividend distributions, subject to performance and relevant approvals.

The Group's updated medium term strategic targets are set out below

Key Metrics		2021	2023	Updated Medium Term Strategic Targets 2025
Profitability	Return on Tangible Equity (ROTE) ¹	1.8%	Mid-single digit On trajectory to consider dividend distribution⁴	>10%
	Cost to income ratio ²	60%		50%-55%
Asset Quality	NPE ratio	7.5% ³	<5%	<3%
	Cost of risk	57 bps		40-50 bps
Capital	CET1 ratio	15.8% ³ transitional (14.3% ³ FL)	Supported by CET1 ratio of 13.5%-14.5%	
<ol style="list-style-type: none"> 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. Pro forma for HFS 4. Subject to performance and relevant approvals 				

Maintaining a strong capital base has been a key priority for management over the past few years and this remains equally important for the Group going forward. The Group currently maintains a robust capital position; as at 31 December 2021, the Group's pro forma capital ratios were 15.8% for the CET1 ratio on a transitional basis and 14.3% on a fully loaded basis. The Group considers that a CET1 ratio of 13.5%-14.5% would be appropriate for a normalised Bank of Cyprus Group. The Group's organic capital generation is to be supported by the improving Return on Tangible Equity (ROTE). Going forward, capital will be deployed for organic growth of the loan book, investment in the business, against regulatory impacts and one-off cost optimisation charges.

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.
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 15 February 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. Digital transactions have been adjusted to include Payroll & Group Transfers performed through 1Bank at transaction level. Historical values have been adjusted accordingly for this change.
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. Digital engagement has been adjusted to include Standing Orders & Group Transfers performed through 1Bank at transaction level. Historical values have been adjusted accordingly for this change.
ECB	European Central Bank

F. Definitions & Explanations (continued)

Gross loans	<p>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</p> <p>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 €178 mn at 31 December 2021 (compared to €181 mn at 30 September 2021 and €230 mn at 31 December 2020).</p> <p>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 €336 mn at 31 December 2021 (compared to €334 mn at 30 September 2021 and €326 mn at 31 December 2020).</p>
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 38.8% at 31 December 2021, compared to 39.1% at 30 September 2021 and 30 June 2021, 42.4% at 31 March 2021 and 41.9% at 31 December 2020. The decrease in 2Q2021 is mainly due to the completion of Project Helix 2.
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.

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. The NSFR weights under CRR II do not have material deviations from those under Basel III guidelines which the Group followed prior to CRR II enforcement.
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 forbore 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 instrument transactions and disposal/dissolution of subsidiaries and associates (excluding net gains on loans and advances to customers at FVPL), Insurance income net of claims and commissions, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.
Non-performing exposures (NPEs)	<p>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:</p> <ul style="list-style-type: none">(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 Central Bank of Cyprus (CBC), which are more than 90 days past due.(iv) Performing forbore exposures under probation for which additional forbearance measures are extended.(v) Performing forbore 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 Additional Risk and Capital Management Disclosures of the Interim Financial Report 2021.

F. Definitions & Explanations (continued)

Non-recurring items	Non-recurring items as presented in the 'Unaudited 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)/profit relating to NPE sales, and (iii) Restructuring and other costs relating to NPE sales.
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	The operating profit comprises profit before Total loan credit losses, impairments and provisions (as defined), tax, (profit)/loss attributable to non-controlling interests and non-recurring items (as defined).
Operating profit return on average assets	Operating profit return on average assets is calculated as the annualised operating profit (as defined) divided by the quarterly average of total assets for the relevant period. Average total assets exclude total assets of discontinued operations at each quarter end, if applicable.
Phased-in Capital Conservation Buffer (CCB)	In accordance with the legislation in Cyprus which has been set for all credit institutions, the applicable rate of the CCB is 1.25% for 2017, 1.875% for 2018 and 2.5% for 2019 (fully phased-in).
Profit/(loss) after tax and before non-recurring items (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined).
Profit/(loss) after tax – organic (attributable to the owners of the Company)	This refers to the profit or loss after tax (attributable to the owners of the Company), excluding any 'non-recurring items' (as defined, except for the 'advisory and other restructuring costs – organic').
Pro forma for HFS (held for sale)	References to pro forma figures and ratios as at 31 December 2021 refer to Project Helix 3 and Project Sinope. They are based on 31 December 2021 underlying basis figures and assume their completion, currently expected to occur in 1H2022, which remain subject to customary regulatory and other approvals. References to pro forma figures and ratios as at 31 December 2020 refer to Project Helix 2, which was completed in June 2021.
Project Helix	Project Helix refers to the sale of a portfolio of loans with a gross book value of €2.8 bn completed in June 2019.
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
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.
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', or (ii) restructuring costs relating to NPE sales. (i) 'Advisory and other restructuring costs-organic' amounted to €3 mn for 4Q2021 (compared to €1 mn for 3Q2021, €15 mn for 2Q2021, €3 mn for 1Q2021 and €1 mn for 4Q2020), (ii) Restructuring costs relating to NPE sales for 4Q2021 amounted to €0.2 mn (compared to €3 mn for 3Q2021, €6 mn for 2Q2021, €4 mn for 1Q2021 and c.€1.5 mn for 4Q2020).
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 net reversals/(provisions) for litigation, claims, regulatory and other matters.
Underlying basis	This refers to the statutory basis after being adjusted for certain items as explained in the Basis of Presentation.
Write offs	Loans together with the associated loan credit losses are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, “BOC Holdings” or “the Company”, its subsidiary Bank of Cyprus Public Company Limited, the “Bank” or “BOC PCL”, and together with the Bank’s subsidiaries, the “Group”, for the year ended 31 December 2021.

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

Financial information presented in this announcement is being published for the purposes of providing an overview of the preliminary Group financial results for the year ended 31 December 2021. The financial information in this announcement is not audited and does not constitute statutory financial statements of BOC Holdings within the meaning of section 340 of the Companies Act 2014. The Group statutory financial statements for the year ended 31 December 2021 are expected to be delivered to the Registrar of Companies of Ireland within 56 days of 30 September 2022 (as at the date of this report, such statutory financial statements have not been reported on by independent auditors of BOC Holdings). The Board of Directors approved this financial information on 18 February 2022. BOC Holdings’ most recent statutory financial statements for the purposes of Chapter 4 of Part 6 of the Companies Act 2014 of Ireland for the year ended 31 December 2020, upon which the auditors have given an unqualified audit report, were published on 30 March 2021 and have been annexed to the annual return and delivered to the Registrar of Companies of Ireland.

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

Underlying basis: The financial information presented under the underlying basis provides an overview of the preliminary Group financial results for the year ended 31 December 2021, 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 11. The statutory results are adjusted for certain items (as described on pages 10-11) to allow a comparison of the Group’s underlying financial position and performance, as set out on pages 7-9.

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

This announcement and the presentation for the Preliminary Group Financial Results for the year ended 31 December 2021 have been posted on the Group’s website www.bankofcyprus.com (Investor Relations/Financial Results).

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

The Preliminary Group Financial Results for the year ended 31 December 2021 are presented in Euro (€) and all amounts are rounded as indicated. A comma is used to separate thousands and a dot is used to separate decimals.

Forward Looking Statements

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

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 31 December 2021, the Bank of Cyprus Group operated through a total of 90 branches in Cyprus, of which 10 operated as cash offices. Bank of Cyprus also has representative offices in Russia, Ukraine and China. At 31 December 2021, the Group's Total Assets amounted to €25.0 bn and Total Equity was €2.1 bn. The Bank of Cyprus Group employed 3,407 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.