Bank of Cyprus Holdings

Announcement

Group Financial Results for the six months ended 30 June 2023

Nicosia, 9 August 2023

Key Highlights for the six months ended 30 June 2023

Positive Economic outlook

- Strong economic growth; Cyprus GDP expanded by 3.4%[1] in 1Q2023, the second highest in the Eurozone; 2023 growth expected of c.2.8%[1]
- New lending stable at €1.1 bn, despite the rising interest rate environment
- Gross performing loan book flat qoq and yoy at €9.9 bn as ongoing repayments offset new lending

Strong profitability continuing to benefit from tailwinds

- NII of €358 mn up 146% yoy, underpinned by rising interest rates and continued low deposit pass-through
- Total operating expenses[2] down 2% yoy, reflecting efficiency actions taken in FY2022; cost to income ratio[2] reduced to 32%
- Profit after tax of €220 mn, of which €125 mn in 2Q2023 (vs €43 mn in 1H2022)
- ROTE of 24.0% vs 4.9% in 1H2022, supported by strong NII growth

Liquid and resilient balance sheet

- Asset quality in line with target; NPE ratio at 3.6% (0.8% on net basis) down 7 p.p. yoy
- Coverage increased to 78%; Cost of risk at 48 bps
- Sticky, retail funded deposit base at €19.2 bn, up 4% yoy and broadly flat qoq
- Highly liquid balance sheet with €9.1 bn placed at the ECB
- 2025 MREL requirement already achieved post successful issuance of €350 mn senior preferred notes in July 2023

Robust capital and shareholder focus

- Organic capital generation of c.220 bps[3] in 1H2023, of which c.120 bps[3] in 2Q2023
- CET1 ratio of 16.0%[4] and Total Capital ratio of 21.1%[4]
- Successful refinancing of €220 mn AT1 Capital Securities
- Payment of dividend in June 2023; payout ratio of 14% out of 2022 earnings[5]

Key takeaways from the Investor Update Event in June 2023

- ROTE raised to >17% for 2023 and >16% for 2025 (on an illustrative 15% CET1 ratio)
- Strong capital generation of c.200-250 bps per annum pre-distributions for 2023-2025
- Group's dividend policy reiterated; payout ratio expected to build prudently and progressively to 30-50% of adjusted recurring profitability[6]

1. In accordance with Ministry of Finance
2. Excluding special levy on deposits and other levies/contributions
3. Based on profit after tax
4. Includes reviewed profits for 1H2023 and is net of dividend accrual (refer to section B.2.1 'Capital Base'). Any recommendation for a dividend is subject to regulatory approval
5. On adjusted recurring profitability as reported in 2022 Financials
6. Profit after tax before non-recurring items (attributable to the owners of the Company) taking into consideration distributions under other equity instruments such as the annual AT1 coupon

*On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. Further information on IFRS 17 is provided under the sections "Commentary on Underlying Basis' and in the Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.

Group Chief Executive Statement

“In the first half of 2023 we delivered a strong financial and operational performance, on the back of continuing interest rate rises, improving efficiency and a broadly stable cost of risk, generating a profit after tax of €220 mn, equivalent to a ROTE of 24.0%. This performance demonstrates that we are well on track to achieve our 2023 targets presented during our inaugural investor update event in June 2023.

Total income amounted to €511 mn, of which €358 mn relates to net interest income, more than double last year’s level, a reflection of the higher interest rate environment supported by continued low deposit pass-through levels. Our tight cost management is proving successful despite persistent inflationary pressures with total operating expenses reduced by 2% yoy and our cost to income ratio (excluding levies and contributions) at 32%.

Our cost of risk remained broadly stable yoy at 48 bps, underpinned by a low NPE ratio of 3.6% and an improved level of coverage of 78% as at 30 June 2023.

We have a highly liquid balance sheet and are therefore benefitting significantly from higher rates; over one third of our assets are cash balances with central banks while our deposit base grew modestly by 4% yoy to €19.2 bn.

Despite uncertainty in the global and European economic outlook, the Cypriot economy remains robust with strong economic growth of 3.4% in 1Q2023, the second highest in the Eurozone. As the largest financial group in Cyprus, we continued to support the economy by extending €1.1 bn of new loans in 1H2023, while maintaining strict lending criteria. Our performing loan book remained broadly flat qoq and yoy at €9.9 bn, as ongoing repayments offset new lending.

Our capital position remains robust and comfortably in excess of our regulatory requirements, with approximately 220 bps of organically generated capital in 1H2023. We ended the first half with a CET1 ratio of 16.0% and a Total Capital ratio of 21.1%. Recently the Group made a successful return to capital markets with the refinancing of the €220 mn AT1 Capital securities in June 2023 and the issuance of €350 mn MREL-eligible senior preferred notes in July 2023. In this respect, the Group is now already in full compliance with its 2025 MREL requirements.

In June 2023, we made our first dividend payment for 12 years, marking the Group’s transformation into a strong, diversified, well-capitalised and sustainably profitable banking and financial services organisation. The Group’s strong financial performance is progressing well, in line with our targets, and lays the foundations for shareholder value creation and sustainable returns.”

Panicos Nicolaou

A. Group Financial Results – Statutory Basis

Interim Consolidated Income Statement for the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022 (restated)[1]
	€000	€000
Turnover	**646,203**	414,966
Interest income	**403,852**	181,470
Income similar to interest income	**22,172**	9,518
Interest expense	**(56,083)**	(37,514)
Expense similar to interest expense	**(11,599)**	(7,752)
Net interest income	**358,342**	145,722
Fee and commission income	**93,879**	98,086
Fee and commission expense	**(4,275)**	(4,447)
Net foreign exchange gains	**15,839**	11,898
Net gains/(losses) on financial instruments	**5,680**	(10,183)
Net gains on derecognition of financial assets measured at amortised cost	**5,861**	1,648
Net insurance finance income/(expense) and net reinsurance finance income/(expense)	**263**	2,653
Net insurance service result	**34,086**	31,268
Net reinsurance service result	**(9,788)**	(10,197)
Net gains/(losses) from revaluation and disposal of investment properties	**788**	(1,372)
Net gains on disposal of stock of property	**3,906**	8,242
Other income	**12,200**	8,927
Total operating income	**516,781**	282,245
Staff costs	**(93,043)**	(98,303)
Special levy on deposits and other levies/contributions	**(18,236)**	(16,507)
Provisions for pending litigations, claims, regulatory and other matters (net of reversals)	**(14,148)**	(594)
Other operating expenses	**(70,456)**	(75,824)
Operating profit before credit losses and impairment	**320,898**	91,017
Credit losses on financial assets	**(36,772)**	(24,826)
Impairment net of reversals on non-financial assets	**(23,206)**	(12,157)
Profit before tax	**260,920**	54,034
Income tax	**(39,768)**	(11,158)
Profit after tax for the period	**221,152**	42,876
Attributable to:		
Owners of the Company	**220,247**	42,214
Non-controlling interests	**905**	662
Profit for the period	**221,152**	42,876
Basic profit per share attributable to the owners of the Company (€ cent)	**49.4**	9.5
Diluted profit per share attributable to the owners of the Company (€ cent)	**49.3**	9.5

1. 2022 comparative information has been restated to reflect the impact of IFRS 17. Refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.

A. Group Financial Results – Statutory Basis (continued)

Interim Consolidated Balance Sheet as at 30 June 2023

	30 June 2023	31 December 2022 (restated)	1 January 2022 (restated)
Assets	**€000**	€000	€000
Cash and balances with central banks	**9,127,429**	9,567,258	9,230,883
Loans and advances to banks	**431,812**	204,811	291,632
Derivative financial assets	**49,302**	48,153	6,653
Investments at FVPL	**138,661**	190,209	199,194
Investments at FVOCI	**487,806**	467,375	748,695
Investments at amortised cost	**2,703,240**	2,046,119	1,191,274
Loans and advances to customers	**10,007,819**	9,953,252	9,836,405
Life insurance business assets attributable to policyholders	**587,882**	542,321	551,797
Prepayments, accrued income and other assets	**609,607**	609,054	583,777
Stock of property	**945,831**	1,041,032	1,111,604
Investment properties	**74,339**	85,099	117,745
Deferred tax assets	**227,953**	227,934	265,942
Property and equipment	**267,410**	253,378	252,130
Intangible assets	**47,546**	52,546	54,144
Non-current assets and disposal groups held for sale	**-**	-	358,951
Total assets	**25,706,637**	25,288,541	24,800,826
Liabilities			
Deposits by banks	**448,713**	507,658	457,039
Funding from central banks	**2,004,480**	1,976,674	2,969,600
Derivative financial liabilities	**18,391**	16,169	32,452
Customer deposits	**19,166,155**	18,998,319	17,530,883
Insurance liabilities	**631,917**	599,992	623,791
Accruals, deferred income, other liabilities and other provisions	**429,585**	379,182	356,697
Provisions for pending litigation, claims, regulatory and other matters	**128,267**	127,607	104,108
Debt securities in issue	**291,976**	297,636	302,555
Subordinated liabilities	**309,348**	302,104	340,220
Deferred tax liabilities	**34,618**	34,634	39,817
Total liabilities	**23,463,450**	23,239,975	22,757,162
Equity			
Share capital	**44,620**	44,620	44,620
Share premium	**594,358**	594,358	594,358
Revaluation and other reserves	**80,686**	76,939	99,541
Retained earnings	**1,264,795**	1,090,349	1,062,711
Equity attributable to the owners of the Company	**1,984,459**	1,806,266	1,801,230
Other equity instruments	**235,517**	220,000	220,000
Non-controlling interests	**23,211**	22,300	22,434
Total equity	**2,243,187**	2,048,566	2,043,664
Total liabilities and equity	**25,706,637**	25,288,541	24,800,826

[1] 2022 comparative information has been restated to reflect the impact of IFRS 17. Refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.

B. Group Financial Results – Underlying Basis

Interim Condensed Consolidated Income Statement

€ mn	1H2023	1H2022 IFRS 17[1]	2Q2023	1Q2023	qoq +%	yoy +%
Net interest income	358	145	196	162	21%	146%
Net fee and commission income	90	94	46	44	3%	-4%
Net foreign exchange gains and net gains/(losses) on financial instruments	21	3	8	13	-35%	-
Net insurance result	25	24	15	10	57%	4%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	5	7	3	2	99%	-32%
Other income	12	9	9	3	218%	37%
Total income	**511**	**282**	**277**	**234**	**19%**	**81%**
Staff costs	(93)	(95)	(47)	(46)	4%	-2%
Other operating expenses	(69)	(69)	(35)	(34)	1%	-1%
Special levy on deposits and other levies/contributions	(18)	(17)	(7)	(11)	-36%	10%
Total expenses	**(180)**	**(181)**	**(89)**	**(91)**	**-2%**	**-1%**
Operating profit	**331**	**101**	**188**	**143**	**32%**	**228%**
Loan credit losses	(24)	(23)	(13)	(11)	18%	6%
Impairments of other financial and non-financial assets	(30)	(13)	(19)	(11)	68%	128%
Provisions for pending litigations, regulatory and other matters (net of reversals)	(14)	(1)	(8)	(6)	24%	-
Total loan credit losses, impairments and provisions	**(68)**	**(37)**	**(40)**	**(28)**	**39%**	**86%**
Profit before tax and non-recurring items	**263**	**64**	**148**	**115**	**30%**	**-**
Tax	(40)	(11)	(22)	(18)	24%	256%
Profit attributable to non-controlling interests	(1)	(1)	0	(1)	-36%	37%
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**222**	**52**	**126**	**96**	**32%**	**-**
Advisory and other transformation costs – organic	(2)	(5)	(1)	(1)	11%	-57%
Profit after tax – organic (attributable to the owners of the Company)	**220**	**47**	**125**	**95**	**32%**	**-**
Provisions/net profit/(loss) relating to NPE sales	-	-	-	-	-	-
Restructuring and other costs relating to NPE sales	-	(1)	-	-	-	-100%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	-	(3)	-	-	-	-100%
Profit after tax (attributable to the owners of the Company)	**220**	**43**	**125**	**95**	**33%**	**-**

B. Group Financial Results – Underlying Basis (continued)

Interim Condensed Consolidated Income Statement – Key Performance Ratios

Key Performance Ratios	1H2023	1H2022 IFRS 17[1]	2Q2023	1Q2023	qoq±%	yoy±%
Net Interest Margin (annualised)	3.17%	1.32%	3.43%	2.91%	52 bps	185 bps
Cost to income ratio	35%	64%	32%	39%	-7 p.p.	-29 p.p.
Cost to income ratio excluding special levy on deposits and other levies/contributions	32%	58%	29%	34%	-5 p.p.	-26 p.p.
Operating profit return on average assets (annualised)	2.6%	0.8%	3.0%	2.3%	0.7 p.p.	1.8 p.p.
Basic earnings per share attributable to the owners of the Company (€ cent)[2]	49.4	9.5	28.2	21.2	7.0	39.9
Return on tangible equity (ROTE)	24.0%	4.9%	26.6%	21.3%	5.3 p.p.	19.1 p.p.

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. For further details, please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.
2. The diluted earnings per share attributable to the owners of the Company for 2Q2023 amounted to 49.3 cents
p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Commentary on Underlying Basis

The financial information presented in this Section provides an overview of the Group financial results for the six months ended 30 June 2023 on the 'underlying basis' which management believes best fits the true measurement of the performance and position of the Group, as this presents separately any non-recurring items and also includes certain reclassifications of items, other than non-recurring items, which are done for presentational purposes under the underlying basis for aligning their presentation with items of a similar nature.

Reconciliations between the statutory basis and the underlying basis to facilitate the comparability of the underlying basis to the statutory information, are included in Section B.1 'Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2023 between statutory and underlying basis' and in 'Alternative Performance Measures Disclosures' of the Interim Financial Report 2023.

Throughout this announcement, financial information in relation to FY2022 and quarterly 2022 financial information has been restated for the effects of transition to IFRS 17 which was adopted on 1 January 2023 and applied retrospectively. As a result, such 2022 financial information, ratios and metrics are presented on a restated basis unless otherwise stated. Further information on impact of IFRS 17 transition is provided below and in Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.

Throughout this announcement, **the capital ratios as at 31 December 2022 have been restated in order to take into consideration the 2022 dividend declaration**. This refers to the proposal by the Board of Directors to the shareholders of a final dividend in respect of the FY2022 earnings following the approval by the European Central Bank ('ECB'). The proposed final dividend was declared at the Annual General Meeting ('AGM') which was held on 26 May 2023. This dividend amounted to €22.3 mn in total and had a negative impact of 22 bps on the Group's CET1 ratio and Total Capital ratio as at 31 December 2022. As a result the 31 December 2022 capital ratios are presented as restated for the 2022 dividend unless otherwise stated. Further details are provided in Section 'B.2.1 Capital Base'.

Transition to IFRS 17

On 1 January 2023 the Group adopted IFRS 17 'Insurance Contracts' ('IFRS 17') which replaced IFRS 4 'Insurance contracts. IFRS 17 is an accounting standard that was implemented on 1 January 2023, with retrospective application and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued, investment contracts with discretionary participation features issued and reinsurance contracts held. In substance, IFRS 17 impacts the phasing of profit recognition for insurance contracts as profitability is spread over the lifetime of the contract compared to being recognised substantially up-front under IFRS 4. This new accounting standard **does not change the economics of the insurance contracts but decreases the volatility of the Group's insurance companies profitability.**

The Group's total equity as at 31 December 2022 as restated for IFRS 17 compared to IFRS 4, was reduced by overall €52 mn (predominantly relating to the life insurance business of the Group) from the below changes:

- The removal of the present value of in-force life insurance contracts ('PVIF') asset including the associated deferred tax liability, resulting in a reduction of €101 mn in the Group's total equity.

Commentary on Underlying Basis (continued)

Transition to IFRS 17 (continued)

- The remeasurement of insurance assets and liabilities (including the impact of the contractual service margin('CSM')) resulting in an increase in the Group's equity by €49 mn.

The estimated future profit of insurance contracts is included in the measurement of the insurance contract liabilities as the contractual service margin ('CSM') and this will be gradually recognised in revenue, as services are provided over the duration of the insurance contract. A contractual service margin liability of c.€42 mn was recognised as at 31 December 2022 (reflected in the impact from the remeasurement of insurance liabilities mentioned above).

With regards to the Group's income statement for the year ended 31 December 2022, as restated for IFRS 17, **the profit after tax (attributable to the owners of the Company) was reduced by €14 mn to €57 mn (vs €71 mn under IFRS 4) reflecting mainly**:

- Profit is deferred and held as CSM liability as mentioned above to be recognised in the income statement over the contract service period.
- The impact of assumption changes relating to the future service is also deferred through CSM liability and is recognised in the income statement over the contract service period.
- There is increased use of current market values in the measurement of insurance assets and liabilities (for unit-linked business) and market volatility on unit-linked business is deferred to the CSM, thereby reducing the volatility in the income statement.

The transition to IFRS 17 had no impact on the Group's regulatory capital. However, as a result of the benefit arising from the remeasurement of the insurance assets and liabilities, the life insurance subsidiary distributed €50 mn as dividend to the Bank in February 2023, which benefited Group regulatory capital by an equivalent amount on the same date, enhancing CET1 ratio by c.50 bps. Going forward, meaningful dividend generation from the insurance business is expected to continue.

B. Group Financial Results– Underlying Basis (continued)

Interim Condensed Consolidated Balance Sheet

€ mn	30.06.2023	31.12.2022 IFRS 17[1]	±%
Cash and balances with central banks	**9,127**	**9,567**	-5%
Loans and advances to banks	**432**	**205**	111%
Debt securities, treasury bills and equity investments	**3,330**	**2,704**	23%
Net loans and advances to customers	**10,008**	**9,953**	1%
Stock of property	**946**	**1,041**	-9%
Investment properties	**74**	**85**	-13%
Other assets	**1,790**	**1,734**	3%
Total assets	**25,707**	**25,289**	**2%**
Deposits by banks	**449**	**508**	-12%
Funding from central banks	**2,004**	**1,977**	1%
Customer deposits	**19,166**	**18,998**	1%
Debt securities in issue	**292**	**298**	-2%
Subordinated liabilities	**309**	**302**	2%
Other liabilities	**1,244**	**1,157**	7%
Total liabilities	**23,464**	**23,240**	**1%**
Shareholders' equity	**1,984**	**1,807**	**10%**
Other equity instruments	**236**	**220**	**7%**
Total equity excluding non-controlling interests	**2,220**	**2,027**	**10%**
Non-controlling interests	**23**	**22**	**4%**
Total equity	**2,243**	**2,049**	**10%**
Total liabilities and equity	**25,707**	**25,289**	**2%**

Key Balance Sheet figures and ratios	**30.06.2023**	**31.12.2022[1]**	**±**
Gross loans (€ mn)	**10,277**	**10,217**	1%
Allowance for expected loan credit losses (€ mn)	**288**	**282**	2%
Customer deposits (€ mn)	**19,166**	**18,998**	1%
Loans to deposits ratio (net)	**52%**	**52%**	-
NPE ratio	**3.6%**	**4.0%**	-40 bps
NPE coverage ratio	**78%**	**69%**	+9 p.p.
Leverage ratio	**8.5%**	**7.8%**	+70 bps
Capital ratios and risk weighted assets	**30.06.2023[3]**	**31.12.2022[2]**	**±**
Common Equity Tier 1 (CET1) ratio (transitional)	**16.0%**	**15.2%**	80 bps
Total capital ratio (transitional)	**21.1%**	**20.4%**	70 bps
Risk weighted assets (€ mn)	**10,257**	**10,114**	1%

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. Please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements 2023.
2. The capital ratios have been restated to take into consideration the dividend in respect of FY2022 earnings. For further details please refer to section B.2.1.
3. Includes reviewed profits for 1H2023 and is net of dividend accrual (refer to section B.2.1 'Capital Base'). Any recommendation for a dividend is subject to regulatory approval

p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 p.p.

B. Group Financial Results-Underlying Basis (continued)

B.1 Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2023 between statutory and underlying basis

€ million	Underlying basis	Other	Statutory basis
Net interest income	358	-	358
Net fee and commission income	90	-	90
Net foreign exchange gains and net gains on financial instruments	21	-	21
Net gains on derecognition of financial assets measured at amortised cost	-	6	6
Net insurance result*	25	-	25
Net gains from revaluation and disposal of investment properties and on disposal of stock of properties	5	-	5
Other income	12	-	12
Total income	**511**	**6**	**517**
Total expenses	**(180)**	**(16)**	**(196)**
Operating profit	**331**	**(10)**	**321**
Loan credit losses	(24)	24	-
Impairment of other financial and non-financial assets	(30)	30	-
Provisions for pending litigations, regulatory and other matters (net of reversals)	(14)	14	-
Credit losses on financial assets and impairment net of reversals of non-financial assets	-	(60)	(60)
Profit before tax and non-recurring items	**263**	**(2)**	**261**
Tax	(40)	-	(40)
Profit attributable to non-controlling interests	(1)	-	(1)
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**222**	**(2)**	**220**
Advisory and other transformation costs - organic	(2)	2	-
Profit after tax (attributable to the owners of the Company)	**220**	**-**	**220**

* Net insurance result per underlying basis comprises the aggregate of captions '*Net insurance finance income/(expense)* and *net reinsurance finance income/(expense)', 'Net insurance service result' and 'Net reinsurance service result'* per the statutory basis.

The reclassification differences between the statutory basis and the underlying basis are explained below:

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

- *'Net gains on derecognition of financial assets measured at amortised cost'* of approximately €6 mn under the statutory basis comprise net gains on derecognition of loans and advances to customers included in 'Loan credit losses' under the underlying basis as to align their presentation with the loan credit losses on loans and advances to customers.

- Provisions for pending litigations, regulatory and other matters amounting to €14 mn presented within '*Operating profit before credit losses and impairment*' under the statutory basis, are presented under the underlying basis in conjunction with loan credit losses and impairments.

- Advisory and other transformation costs of approximately €2 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 the transformation programme and other strategic projects of the Group.

B. Group Financial Results-Underlying Basis (continued)

B.1 Reconciliation of the Interim Condensed Consolidated Income Statement for the six months ended 30 June 2023 between statutory and underlying basis (continued)

- *'Credit losses on financial assets'* and *'Impairment net of reversals of non-financial assets'* under the statutory basis include: i) credit losses to cover credit risk on loans and advances to customers of €30 mn, which are included in 'Loan credit losses' under the underlying basis, and ii) credit losses of other financial assets of €7 mn and impairment net of reversals of non-financial assets of €23 mn, which are included in *'Impairment of other financial and non-financial assets'* under the underlying basis, as to be presented separately from loan credit losses.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis

B.2.1 Capital Base

Total equity excluding non-controlling interests totalled €2,220 mn as at 30 June 2023 compared to €2,119 mn as at 31 March 2023 and to €2,027 mn as at 31 December 2022. Shareholders' equity totalled to €1,984 mn as at 30 June 2023 compared to €1,899 mn as at 31 March 2023 and to €1,807 mn as at 31 December 2022.

The **Common Equity Tier 1 capital (CET1) ratio on a transitional basis** stood at 16.0% as at 30 June 2023, compared to 15.2% as at 31 March 2023 and to 15.2% as at 31 December 2022, as restated. Organic capital generation for 2Q2023 amounted to c.120 bps. During 2Q2023, CET1 ratio was positively affected mainly by pre-provision income and other movements and negatively affected by provisions and impairments as well as the AT1 distributions and refinancing costs and the increase in risk weighted assets. Throughout this announcement, the capital ratios as at 30 June 2023 include reviewed profits for the six months ended 30 June 2023 and an accrual for an estimated final dividend at a payout ratio of 30% of the Group's adjusted recurring profitability for the period, which represents the low-end range of the Group's approved dividend policy. As per the latest SREP decision, any dividend distribution is subject to regulatory approval. Such dividend accrual does not constitute a binding commitment for a dividend payment nor does it constitute a warranty or representation that such a payment will be made. Group adjusted recurring profitability is defined as the Group's profit after tax before non-recurring items (attributable to the owners of the Company) taking into account distributions under other equity instruments such as the annual AT1 coupon. For more details please refer to 'Resumption of dividends' further below in section B.2.1. For Capital Requirements Regulation (CRR) purposes, a payout ratio of 50% of the Group's adjusted recurring profitability for the period, the high-end of the payout range of the Group's approved dividend policy is prescribed, corresponding to a CET1 ratio of 15.6% as at 30 June 2023.

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 was phased-in gradually, with the impact being fully phased-in (100%) by 1 January 2023. The final phasing-in of the impact of the impairment amount from the initial application of IFRS 9 was c.65 bps on the CET1 ratio on 1 January 2023. In addition, a prudential charge in relation to the onsite inspection on the value of the Group's foreclosed assets is being deducted from own funds since June 2021, the impact of which is 17 bps on Group's CET1 ratio as at 30 June 2023.

The **Total Capital ratio** stood at 21.1% as at 30 June 2023, compared to 20.3% as at 31 March 2023 and to 20.4% as at 31 December 2022, as restated. As at 30 June 2023, Existing Capital Securities (for further details refer to "Other equity Instruments" section below in B.2.1) of a nominal amount of c.€8 mn are included in Total Capital, the impact of which is c.8 bps on the Total Capital ratio. For CRR purposes, a payout ratio of 50% of the Group's adjusted recurring profitability for the period, the high-end of the payout range of the Group's approved dividend policy is prescribed, corresponding to a Total Capital ratio of 20.7% as at 30 June 2023.

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

In the context of the annual SREP performed by the ECB in 2022 and based on the **final SREP decision** received in December 2022, effective from 1 January 2023, the Pillar II requirement has been revised to 3.08%, compared to the previous level of 3.26%. The Pillar II requirement includes a revised Pillar II requirement add-on of 0.33% relating to ECB's prudential provisioning expectations. When disregarding the Pillar II add-on relating to ECB's prudential provisioning expectations, the Pillar 2 requirement has been reduced from 3.00% to 2.75%.

The Group's minimum phased-in CET1 capital ratio requirement as at 30 June 2023 is set at **10.26%**, compared to the previous level of 10.10% in 2022, comprising a 4.50% Pillar I requirement, a 1.73% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of c.0.02%. The Group's minimum phased-in Total Capital ratio requirement is set at **15.10%,** compared to the previous level of 15.03% in 2022, 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 3.08% Pillar II requirement, the Capital Conservation Buffer of 2.50%, the O-SII Buffer of 1.50% and the CcyB of c.0.02%. The ECB has also maintained the non-public guidance for an additional Pillar II CET1 buffer (P2G) unchanged compared to the previous year.

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

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.

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

On 30 November 2022, the CBC, following the revised methodology described in its macroprudential policy, decided to increase the CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus of each licensed credit institution incorporated in Cyprus. The new rate of 0.50% must be observed as from 30 November 2023. Further, in June 2023, the CBC announced a further increase of 0.50% in the CcyB of the total risk exposure amounts in Cyprus of each licensed credit institution incorporated in Cyprus to be observed from June 2024, increasing the CcyB to 1% from June 2024.

The Group participated in the ECB Stress Test of 2023, the results of which were published by the ECB on 28 July 2023. For further information please refer to the 'Risk and Capital Management Report' of the 'Interim Financial Report 2023.

Resumption of dividend payments

Following the 2022 SREP decision, the equity dividend distribution prohibition was lifted for both the Company and the Bank, with any dividend distribution being subject to regulatory approval.

In April 2023, the Company obtained the approval of the European Central Bank to pay a dividend. Following this approval, the Board of Directors of the Company recommended to the shareholders a final dividend of €0.05 per ordinary share in respect of earnings for the year ended 31 December 2022 ('Dividend'). The proposed final dividend was declared at the Annual General Meeting ('AGM') which was held on 26 May 2023. This Dividend amounted to €22.3 mn in total and was equivalent to a payout ratio of 14% of the FY2022 Group's adjusted recurring profitability or 31% based on FY2022 profit after tax (as reported in the 2022 Annual Financial Report). The Dividend was paid in cash on 16 June 2023.

This Dividend resulted in a negative capital impact of 22 bps on the Group's CET1 ratio and Total Capital ratio as at 31 December 2022. Throughout this announcement, the capital ratios as at 31 December 2022 have been restated in order to take into consideration the dividend payment.

The resumption of dividend payments after 12 years underpins the Group's position as a strong and well-diversified organisation, capable of delivering sustainable shareholder returns.

Dividend policy

In April 2023 the Board of Directors approved the Group dividend policy. The Group aims to provide a sustainable return to shareholders. Dividend payments are expected to build prudently and progressively over time, towards a payout ratio in the range of 30-50% of the Group's adjusted recurring profitability. The dividend policy takes into consideration market conditions as well as the outcome of capital and liquidity planning.

Other equity instruments

At 30 June 2023, the Group's other equity instruments relate to Additional Tier 1 Capital Securities (the "AT1 securities") and amounted to €236 mn, up 7% on the prior quarter and prior year.

In June 2023, the Company successfully launched and priced an issue of €220 mn Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the 'New Capital Securities').

The New Capital Securities constitute unsecured and subordinated obligations of the Company, are perpetual and are issued at par. They carry an initial coupon of 11.875% per annum, payable semi-annually and resettable on 21 December 2028 and every 5 years thereafter. The Company will have the option to redeem the New Capital Securities from, and including, 21 June 2028 to, and including, 21 December 2028 and on each interest payment date thereafter, subject to applicable regulatory consents and the relevant conditions to redemption.

The issue was met with exceptional demand, attracting interest from c.240 institutional investors, with the final order book over 12 times over-subscribed and final pricing 62.5 bps tighter than the initial pricing indication. The pricing also reflects significant improvement in the credit spread to c.910 bps compared to c.1,260 bps for the previous AT1 issue in 2018 ('Existing Capital Securities').

The net proceeds of the issue of the New Capital Securities were on-lent by the Company to the Bank to be used for general corporate purposes. The on-loan qualifies as Additional Tier 1 capital for the Bank.

The issue of the New Capital Securities will maintain the Group's optimised capital structure and contributes to the Group's Total Capital Ratio by c.215 bps.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.1 Capital Base (continued)

Other equity instruments (continued)

At the same time, the Company invited the holders of its outstanding €220 mn Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities callable in December 2023 to tender their Existing Capital Securities at a purchase price of 103% of the principal amount. The Company received valid tenders of c.€204 mn in aggregate principal amount, or c.93% of the outstanding Existing Capital Securities, all of which were accepted by the Company.

As a result, a cost of c.€7 mn was recorded directly in the Company's equity in 2Q2023, forfeiting the relevant future coupon payments. Transaction costs of €3.5 mn in relation to the transactions were recorded directly in equity in June 2023. Existing Capital Securities of c.€16 mn in aggregate principal amount remain outstanding as at 30 June 2023. In July 2023, the Company purchased in the open market Existing Capital Securities of c.€7 mn further reducing the outstanding nominal amount of the Existing Capital Securities to c.€8 mn.

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 legislative amendments cover the utilisation of income tax losses transferred from Laiki Bank to the Bank in March 2013. The introduction of the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) IV in January 2014 and its subsequent phasing-in led to a more capital-intensive treatment of this DTA for the Bank. With this legislation, institutions are allowed to treat such DTAs as 'not relying on profitability', according to CRR/CRD IV and as a result not deducted from CET1, hence improving a credit institution's capital position.

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

In anticipation of modifications to the Law, the Group has since prior years acknowledged that such increased annual fee may be required to be recorded on an annual basis until expiration of such losses in 2028. The Group estimates that such fees could range up to c.€5 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.

B.2.2 Regulations and Directives

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

In October 2021, the European Commission adopted legislative proposals for further amendments to the 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. The European Council's proposal on CRR and CRD was published on 8 November 2022. During February 2023, the European Parliament's ECON Committee voted to adopt Parliament's proposed amendments to the Commission's proposal, and the 2021 Banking Package is currently in the final stage of the EU legislative process. It is expected that the 2021 Banking Package will enter into force on 1 January 2025; and certain measures are expected to be subject to transitional arrangements or to be phased in over time.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.2 Regulations and Directives (continued)

B.2.2.2 Bank Recovery and Resolution Directive (BRRD)

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

The Bank Recovery and Resolution Directive (BRRD) requires that from January 2016, EU member states shall apply the BRRD's provisions requiring EU credit institutions and certain investment firms to maintain a minimum requirement for own funds and eligible liabilities (MREL), subject to the provisions of the Commission Delegated Regulation (EU) 2016/1450. On 27 June 2019, as part of the reform package for strengthening the resilience and resolvability of European banks, the BRRD II came into effect and was required to be transposed into national law. BRRD II was transposed and implemented in Cyprus law in early May 2021. In addition, certain provisions on MREL have been introduced in CRR II which also came into force on 27 June 2019 as part of the reform package and took immediate effect.

In February 2023, 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 24.35% 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, the binding interim requirement of 1 January 2022 set at 14.94% of risk weighted assets and 5.91% of LRE must continue to be met. The own funds used by the Bank to meet the Combined Buffer Requirement (CBR) are not 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.

The MREL ratio as at 30 June 2023, calculated according to the SRB's eligibility criteria currently in effect and based on internal estimate, stood at 21.5% of risk weighted assets (RWA) and at 10.2% of LRE. The MREL ratio as at 30 June 2023 includes an amount of c.€8 mn that remained following the tender offer and open market purchases of the Existing Capital Securities, which have a call option in December 2023. The impact of this amount is contributing c.8 bps to the MREL ratio expressed as a percentage of RWA and c.3 bps to the MREL ratio expressed as a percentage of LRE. In July 2023 the Bank proceeded with an issue of €350 mn senior preferred notes (the 'Notes'). The Notes comply with the MREL criteria and are expected to contribute towards the Bank's MREL requirements. When accounting for the Notes, the Bank's MREL ratio improves to 24.9% of RWA and 11.4% of LRE. For further details, please refer to section B.2.3 'Debt Securities in Issue'. The MREL ratio expressed as a percentage of risk weighted assets does not include capital used to meet the CBR requirement, which stood at 4.02% on 30 June 2023 (compared to 3.77% as at 31 December 2022), expected to increase further on 30 November 2023 following increase in CcyB from 0.00% to 0.50% of the total risk exposure amounts in Cyprus and to 1% from June 2024 as announced by Central Bank of Cyprus.

Throughout this announcement, the MREL ratios as at 30 June 2023 include profits for the six months ended 30 June 2023 and an accrual for an estimated final dividend at a payout ratio of 30% of the Group's adjusted recurring profitability for the period, which represents the low-end range of the Group's approved dividend policy. For CRR purposes, a payout ratio of 50% of the Group's adjusted recurring profitability for the period, the high-end of the payout range of the Group's approved dividend policy is prescribed, corresponding to an MREL ratio expressed as a percentage of RWAs of 21.1% and MREL ratio expressed as a percentage of LRE of 10.1% as at 30 June 2023; pro forma for the Notes issuance, MREL ratio expressed as a percentage of RWAs stands at 24.5% and MREL ratio expressed as a percentage of LRE stands at 11.3%.

When accounting for the Notes issued in July 2023, the Bank meets the final MREL requirement currently set by the SRB well ahead the compliance date of 31 December 2025. Acknowledging that the MREL requirement (amount and date) is subject to annual review by the regulator, the Bank continues to evaluate opportunities to optimise the build-up of its MREL.

B.2.3 Funding and Liquidity

Funding

Funding from Central Banks

At 30 June 2023, the Bank's funding from central banks amounted to €2,004 mn, which relates to ECB funding, comprising solely of funding through the Targeted Longer-Term Refinancing Operations (TLTRO) III, compared to €1,988 mn at 31 March 2023 and to €1,977 mn at 31 December 2022.

The Bank borrowed an overall amount of €3 bn under TLTRO III by June 2021, despite its comfortable liquidity position, given the favourable borrowing terms, in combination with the relaxation of collateral requirements.

Funding (continued)

Funding from Central Banks (continued)

Following the changes in the terms of the TLTRO III announced by the ECB in October 2022, and given the Bank's strong liquidity position, the Bank proceeded with the repayment of €1 bn TLTRO III funding in December 2022. The maturity date of the Bank's funding of €1.7 bn under the seventh TLTRO III operation is in March 2024, whilst the €300 mn under the eighth TLTRO III operation is in June 2024.

Deposits

Customer deposits totalled €19,166 mn at 30 June 2023 (compared to €18,974 mn at 31 March 2023, to €18,998 mn at 31 December 2022 and to €18,450 mn at 30 June 2022) broadly flat in the second quarter and up 4% year on year. Customer deposits are mainly retail-funded and almost 60% of deposits are protected under the deposit guarantee scheme as at 30 June 2023.

The Bank's deposit market share in Cyprus reached 37.4% as at 30 June 2023, compared to 37.3% as at 31 March 2023 and to 37.2% as at 31 December 2022. Customer deposits accounted for 75% of total assets and 82% of total liabilities at 30 June 2023 (flat since 31 December 2022).

The net loans to deposits (L/D) ratio stood at 52% as at 30 June 2023 (compared to 53% as at 31 March 2023 and to 52% as at 31 December 2022 on the same basis), broadly flat in the second quarter.

Subordinated liabilities

At 30 June 2023, the carrying amount of the Group's subordinated liabilities (including accrued interest) amounted to €309 mn (compared to €307 mn at 31 March 2023 and to €302 mn at 31 December 2022) and relate to unsecured subordinated Tier 2 Capital Notes ('T2 Notes').

The 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 of the T2 Notes is 23 October 2031. The Company will have the option to redeem the T2 Notes early on any day during the six-month period from 23 April 2026 to 23 October 2026, subject to applicable regulatory approvals.

Debt securities in issue

At 30 June 2023, the carrying value of the Group's debt securities in issue (including accrued interest) amounted to €292 mn (compared to €300 mn at 31 March 2023 and to €298 mn at 31 December 2022) and relate to senior preferred notes.

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.

In July 2023, the Bank has successfully launched and priced an issuance of €350 mn of senior preferred notes (the "Notes"). The Notes were priced at par with a fixed coupon of 7.375% per annum, payable annually in arrear, until the Optional Redemption Date i.e. 25 July 2027. The maturity date of the Notes is 25 July 2028; however, the Bank may, at its discretion, redeem the Notes on the Optional Redemption Date subject to meeting certain conditions (including applicable regulatory consents) as specified in the Terms and Conditions. If the Notes are not redeemed by the Bank, the coupon payable from the Optional Redemption Date until the Maturity Date will convert from a fixed rate to a floating rate, and will be equal to 3-month Euribor + 409.5 bps, payable quarterly in arrear. The issuance was met with strong demand, attracting interest from more than 90 institutional investors, with a peak orderbook of €950 mn and final pricing 37.5 bps tighter than the initial pricing indication. The Notes comply with the criteria for the Minimum Requirement for Own Funds and Eligible Liabilities ("MREL") and contribute towards the Bank's MREL requirements.

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

Liquidity

At 30 June 2023, the Group Liquidity Coverage Ratio (LCR) stood at 316% (compared to 303% at 31 March 2023 and to 291% at 31 December 2022), well above the minimum regulatory requirement of 100%. The LCR surplus as at 30 June 2023 amounted to €7.7 bn (compared to €7.4 bn at 31 March 2023 and to €7.2 bn at 31 December 2022). The increase in liquidity surplus in 2Q2023 reflects primarily the increase in deposits. When disregarding the TLTRO III and including the €350 mn of the senior preferred notes issued on July 2023, the Group's liquidity position remains strong with an LCR of 270% and liquidity surplus of €6.1 bn.

At 30 June 2023, the Group Net Stable Funding Ratio (NSFR) stood at 165% (compared to 160% at 31 March 2023 and to 168% at 31 December 2022), well above the minimum regulatory requirement of 100%.

B.2.4 Loans

Group **gross loans** totalled €10,277 mn at 30 June 2023, compared to €10,278 mn at 31 March 2023 and to €10,217 mn at 31 December 2022, flat on the prior quarter as ongoing repayments offset new lending.

New lending granted in Cyprus reached €494 mn for 2Q2023 (compared to a seasonally strong new lending of €624 mn for 1Q2023 and to €444 mn for 4Q2022) down by 21% qoq. New lending in 2Q2023 comprised €212 mn of corporate loans, €184 mn of retail loans (of which €119 mn were housing loans), €48 mn of SME loans and €50 mn of shipping and international loans. During 1H2023, new lending remained strong at €1,118 mn, mainly driven by strong demand for business loans.

At 30 June 2023, the Group net loans and advances to customers totalled €10,008 mn (compared to €10,013 mn at 31 March 2023 and to €9,953 mn at 31 December 2022), up 1% since the beginning of the year.

The Bank is the largest credit provider in Cyprus with a market share of 42.4% at 30 June 2023, compared to 42.4% at 31 March 2023 and to 40.9% at 31 December 2022.

B.2.5 Loan portfolio quality

The Group has continued to make steady progress across all asset quality metrics. Today, the Group's priorities focus mainly on maintaining high quality new lending with strict underwriting standards and preventing asset quality deterioration following the ongoing macroeconomic uncertainty.

The loan credit losses for 2Q2023 totalled €13 mn, compared to €11 mn for 1Q2023. Further details regarding loan credit losses are provided in Section B.3.3 'Profit before tax and non-recurring items'.

The elevated inflation combined with the rising interest rate environment are expected to weigh on customer behaviour. Despite these persisting pressures there are no signs of asset quality deterioration to date. While defaults have been limited, the additional monitoring and provisioning for sectors and individuals vulnerable to the deteriorated macroeconomic environment remain in place to ensure that potential difficulties in the repayment ability are identified at an early stage, and appropriate solutions are provided to viable customers.

Non-performing exposures

Non-performing exposures (NPEs) as defined by the European Banking Authority (EBA) were reduced by €18 mn, or 5% in 2Q2023, compared to a net organic reduction of €22 mn in 1Q2023, to €371 mn at 30 June 2023 (compared to €389 mn at 31 March 2023 and €411 mn at 31 December 2022).

As a result, the NPEs account for 3.6% of gross loans as at 30 June 2023, compared to 3.8% at 31 March 2023 and to 4.0% at 31 December 2022.

The NPE coverage ratio stands at 78% at 30 June 2023, compared to 73% at 31 March 2023 and to 69% as at 31 December 2022. When taking into account tangible collateral at fair value, NPEs are fully covered.

Overall, since the peak in 2014, the stock of NPEs has been reduced by €14.6 bn or 98% to below €0.4 bn and the NPE ratio by 59 percentage points, from 63% to below 4%.

B.2. Balance Sheet Analysis (continued)

B.2.5 Loan portfolio quality (continued)

Mortgage-To-Rent Scheme ("MTR)

In July 2023, the Mortgage-to-Rent Scheme ('MTR') was approved by the Council of Ministers and aims for the reduction of NPEs backed by primary residence and simultaneously protect the primary residence of vulnerable borrowers. The eligible criteria include:

- Borrowers that were non-performing as at 31 December 2021 and remained non-performing as at 31 December 2022 with facilities backed by primary residence with open market value up to €250k;
- Borrowers that that had a fully completed application to Estia Scheme and were assessed as eligible but not viable with a primary residence of up to €350k Open Market Value; and
- all applicants that were approved under Estia Scheme but their inclusion was terminated.

The eligible applicants will be able to reside in their primary residence as tenants and are exempted from their mortgage loan, as the state will be covering fully the required rent on their behalf. The eligible applicants will be able to acquire the primary residence after 5 years at a favourable price, below the Open Market Value.

The scheme has not been launched yet; it is expected to act as another tool to address NPEs in the Retail sector.

B.2.6 Fixed income portfolio

Fixed income portfolio amounts to €3,178 mn as at 30 June 2023, compared to €2,747 mn as at 31 March 2023 and to €2,500 mn as at 31 December 2022, increased by 16% on the prior quarter. The quarterly increase reflects incremental new investments in the 2Q2023 ahead of expected maturities in 2H2023. The portfolio represents 13% of total assets (net of TLTRO III) and comprises €2,703 mn (85%) measured at amortised cost and €475 mn (15%) at fair value through other comprehensive income ('FVOCI').

The fixed income portfolio measured at amortised cost is held to maturity and therefore no fair value gains/losses are recognised in the Group's income statement or equity. This fixed income portfolio has high average rating at A1 or at Aa2 when Cyprus government bonds are excluded. The fair value of the amortised cost fixed income portfolio as at 30 June 2023 amounts to €2,619 mn, reflecting an unrealised fair value loss of €84 mn, equivalent to c.80 bps of CET1 ratio.

B.2.7 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 2019 amount to €0.8 bn and exceed properties on-boarded in the same period of €0.5 bn.

During the six months ended 30 June 2023, the Group completed disposals of €71 mn (compared to €87 mn in 1H2022), resulting in a profit on disposal of €4 mn for 1H2023 (compared to a profit of c.€8 mn for 1H2022). Asset disposals are across all property classes, with almost 45% by value in 1H2023 relating to land.

During the six months ended 30 June 2023, the Group executed sale-purchase agreements (SPAs) for disposals of 273 properties with contract value of €78 mn, compared to SPAs for disposals of 373 properties with contract value of c.€99 mn for 1H2022.

In addition, the Group had a strong pipeline of €66 mn by contract value as at 30 June 2023, of which €38 mn related to SPAs signed (compared to a pipeline of €81 mn as at 30 June 2022, of which €41 mn related to SPAs signed).

REMU on-boarded €6 mn of assets in 1H2023 (compared to additions of €26 mn in 1H2022), via the execution of debt for asset swaps and repossessed properties.

As at 30 June 2023, assets held by REMU had a carrying value of €1,010 mn, of which €974 mn are repossessed properties (comprising properties of €946 mn classified as 'Stock of property' and €64 mn as 'Investment properties'), compared to €1,116 mn as at 31 December 2022 (comprising properties of €1,041 mn classified as 'Stock of property' and €75 mn as 'Investment properties').

B. Group Financial Results – Underlying Basis (continued)

B.2. Balance Sheet Analysis (continued)

B.2.7 Real Estate Management Unit (REMU) (continued)

Assets held by REMU

Assets held by REMU (Group) € mn	1H2023	1H2022	2Q2023	1Q2023	qoq +%	yoy +%
Opening balance	**1,116**	1,215	1,050	1,116	-6%	-8%
On-boarded assets	**6**	26	4	2	85%	-78%
Sales	**(71)**	(87)	(30)	(41)	-26%	-19%
Net impairment loss	**(23)**	(8)	(15)	(8)	77%	181%
Transfer to/from own properties	**(18)**	-	1	(19)	-	-
Closing balance	**1,010**	1,146	1,010	1,050	-4%	-12%

Analysis by type and country 30 June 2023 (€ mn)	Cyprus	Greece	Total
Residential properties	**57**	**20**	**77**
Offices and other commercial properties	**142**	**14**	**156**
Manufacturing and industrial properties	**47**	**17**	**64**
Hotels	**22**	**0**	**22**
Land (fields and plots)	**462**	**4**	**466**
Golf courses and golf-related property	**225**	**0**	**225**
Total	**955**	**55**	**1,010**

31 December 2022 (€ mn)	Cyprus	Greece	Total
Residential properties	**69**	**21**	**90**
Offices and other commercial properties	**180**	**14**	**194**
Manufacturing and industrial properties	**48**	**19**	**67**
Hotels	**24**	**0**	**24**
Land (fields and plots)	**502**	**4**	**506**
Golf courses and golf-related property	**235**	**0**	**235**
Total	**1,058**	**58**	**1,116**

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis

B.3.1 Total income

€ mn	1H2023	1H2022 IFRS 17[1]	2Q2023	1Q2023	qoq ±%	yoy +%
Net interest income	**358**	**145**	**196**	**162**	**21%**	**146%**
Net fee and commission income	90	94	46	44	3%	-4%
Net foreign exchange gains and net gains/(losses) on financial instruments	21	3	8	13	-35%	-
Net insurance result	25	24	15	10	57%	4%
Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties	5	7	3	2	99%	-32%
Other income	12	9	9	3	218%	37%
Non-interest income	**153**	**137**	**81**	**72**	**14%**	**12%**
Total income	**511**	**282**	**277**	**234**	**19%**	**81%**
Net Interest Margin (annualised)	3.17%	1.32%	3.43%	2.91%	52 bps	185 bps
Average interest earning assets (€ mn)	22,781	22,235	22,903	22,638	1%	2%

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. For further details, please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.

p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Net interest income (NII) for 1H2023 amounted to €358 mn compared to €145 mn for 1H2022, up 146% yoy driven mainly by the repricing of loans and liquids to higher rates, the limited increase in funding costs and the increase of fixed income portfolio, notwithstanding the foregone NII on the NPE sale Helix 3 portfolio (c.€8 mn in 1H2022) and end of TLTRO favourable terms (c.€7 mn in 1H2022).

Net interest income (NII) for 2Q2023 amounted to €196 mn compared to €162 mn for 1Q2023, up 21% qoq, attributable to the rising interest rates and the continued low deposit pass-through.

Quarterly average interest earning assets (AIEA) for 1H2023 amounted to €22,781 mn, up 2% yoy driven by the increase in liquid assets mainly as a result of the increase in fixed income portfolio and deposits by c.€1.3 bn yoy and €0.7 bn yoy respectively, partly offset by the repayment of €1.0 bn TLTRO funding in December 2022. Quarterly average interest earning assets for 2Q2023 remained broadly flat on the prior quarter.

Net interest margin (NIM) for 1H2023 amounted to 3.17% (compared to 1.32% for 1H2022), up 185 bps yoy driven by interest rate rises and the increase in average interest earning assets. Net interest margin (NIM) for 2Q2023 stood at 3.43% (compared to 2.91% for 1Q2023) up 52 bps supported by interest rate rises.

Non-interest income for 1H2023 amounted to €153 mn (compared to €137 mn for 1H2022, up 12% yoy) comprising net fee and commission income of €90 mn, net foreign exchange gains and net gains/(losses) on financial instruments of €21 mn, net insurance result of €25 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 €12 mn. The yoy increase is mainly driven by higher net foreign exchange gains and net gains/(losses) on financial instruments.

Non-interest income for 2Q2023 amounted to €81 mn (compared to €72 mn for 1Q2023, up 14% qoq) comprising net fee and commission income of €46 mn, net foreign exchange gains and net gains/(losses) on financial instruments of €8 mn, net insurance result of €15 mn, net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties of €3 mn and other income of €9 mn. The qoq increase mainly relates to higher net insurance result as well as a non-recurring insurance receivable of c.€5 mn included in other income.

Net fee and commission income for 1H2023 amounted to €90 mn (compared to €94 mn for 1H2022, down 4% yoy); when disregarding the impact of the liquidity fees and NPE sale-related servicing fee, net fee and commission income was up 8% yoy, reflecting the introduction of a revised price list in February 2022 and higher net credit card commissions.

Net fee and commission income for 2Q2023 amounted to €46 mn, up 3% qoq mainly due to higher net credit card commissions driven by higher volume of transactions.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.1 Total income (continued)

Net foreign exchange gains and net gains/(losses) on financial instruments of €21 mn for 1H2023 (comprising net foreign exchange gains of €16 mn and net gains on financial instruments of €5 mn), compared to €3 mn for 1H2022, reflecting higher foreign exchange income through FX swaps and higher net gains on financial instruments.

Net foreign exchange gains and net gains/(losses) on financial instruments amounted to €8 mn for 2Q2023, compared to €13 mn for 1Q2023, down 35% qoq, due to higher net revaluation gains on financial instruments in the previous quarter**.** Net foreign exchange gains and net gains/(losses) on financial instruments are considered volatile profit contributors.

Net insurance result amounted to €25 mn for 1H2023, compared to €24 mn for 1H2022, up 4% yoy.

Net insurance result amounted to €15 mn for 2Q2023, compared to €10 mn for 1Q2023, up 57% qoq. The quarterly increase is attributed to the improved experience variance (life insurance) and lower claims.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 1H2023 amounted to €5 mn (comprising net gains on disposal of stock of properties of €4 mn, and net gains from revaluation of investment properties of €1 mn), compared to €7 mn for 1H2022. REMU profit remains volatile.

Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties for 2Q2023 amounted to €3 mn (comprising net gains on disposal of stock of properties of €2 mn, and net gains from revaluation of investment properties of €1 mn), compared to €2 mn for 1Q2023.

Total income amounted to €511 mn for 1H2023 (compared to €282 mn for 1H2022, up 81% yoy), and to €277 mn for 2Q2023 (compared to €234 mn for 1Q2023, up 19% qoq), mainly driven by strong growth in net interest income, as explained above.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses

€ mn	1H2023	1H2022 IFRS 17[1]	2Q2023	1Q2023	qoq ±%	yoy +%
Staff costs	(93)	(95)	(47)	(46)	4%	-2%
Other operating expenses	(69)	(69)	(35)	(34)	1%	-1%
Total operating expenses	**(162)**	**(164)**	**(82)**	**(80)**	**3%**	**-2%**
Special levy on deposits and other levies/contributions	(18)	(17)	(7)	(11)	-36%	10%
Total expenses	**(180)**	**(181)**	**(89)**	**(91)**	**-2%**	**-1%**
Cost to income ratio	35%	64%	32%	39%	-7 p.p.	-29 p.p.
Cost to income ratio excluding special levy on deposits and other levies/contributions	32%	58%	29%	34%	-5 p.p.	-26 p.p.

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. For further details, please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Total expenses for 1H2023 were €180 mn (compared to €181 mn for 1H2022, down 1% yoy), 52% of which related to staff costs (€93 mn), 38% to other operating expenses (€69 mn) and 10% to special levy on deposits and other levies/contributions (€18 mn). The yoy decrease mainly relates to the reduction in staff costs. Total expenses for 2Q2023 were €89 mn (compared to €91 mn for 1Q2023, down 2% qoq), mainly driven by the 36% decrease in special levy on deposits and other levies/contributions.

Total operating expenses amounted to €162 mn for 1H2023 (compared to €164 mn for 1H2022, down 2% yoy), as benefits from FY2022 efficiency actions continue to partly offset wage and inflationary pressures. Total operating expenses amounted to €82 mn for 2Q2023 (compared to €80 mn for 1Q2023, up 3% qoq).

Staff costs for 1H2023 were €93 mn (compared to €95 mn for 1H2022, down by 2% yoy) reflecting the savings of the Voluntary Staff Exit Plan (VEP) that took place in 3Q2022, partially offset by inflationary pressures and the accrual of termination benefits cost of c.€3 mn. In addition, staff costs for 1H2023 include c.€3.8 mn staff cost rewards (variable pay), namely the Short-Term Incentive Plan and the Long-Term Incentive Plan. The Short-Term Incentive Plan involves variable remuneration to selected employees and will be driven by both, delivery of the Group's strategy as well as individual performance. Staff costs for 2Q2023 were €47 mn, up 4% qoq attributed mainly to the accrued staff termination benefits cost.

During December 2022 the Group has granted to eligible employees share awards under a long-term incentive plan ("2022 LTIP" or the "2022 Plan"). The 2022 Plan involves the granting of share awards and is driven by scorecard achievement, with measures and targets set to align pay outcomes with the delivery of the Group's strategy. The employees eligible for the 2022 LTIP are the members of the Extended EXCO. The 2022 LTIP stipulates that performance will be measured over a 3 year period and financial and non-financial objectives to be achieved (driven by both delivery of the Group's strategy as well as individual performance). At the end of the performance period, the performance outcome will be used to assess the percentage of the awards that will vest.

These shares will then normally vest in six tranches, with the first tranche vesting after the end of the performance period and the last tranche vesting on the fifth anniversary of the first vesting date.

In July 2022 the Group completed a VEP which led to the reduction of the Group's full-time employees by 16%, at a total cost of €101 mn, recorded in the consolidated income statement in 3Q2022. The gross annual savings were estimated at c.€37 mn or 19% of staff costs with a payback period of 2.7 years. The estimated savings of the VEP are expected to be partially offset by the renewal of the collective agreement in 2023.

As at 30 June 2023, the Group employed 2,902 persons compared to 2,883 persons as at 31 March 2023 and to 2,889 persons as at 31 December 2022.

Other operating expenses for 2Q2023 amounted to €35 mn, broadly flat qoq and totaled €69 mn for 1H2023, broadly flat yoy.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.2 Total expenses (continued)

Special levy on deposits and other levies/contributions for 1H2023 amounted to €18 mn compared to €17 mn for 1H2022, up 10% yoy, driven mainly by the increase of deposits of €0.7 bn yoy. Special levy on deposits and other levies/contributions for 2Q2023 amounted to €7 mn down by 36% qoq, due to the €4 mn contribution of the Bank to the Deposit Guarantee Fund (DGF) relating to 1H2023 which was recorded in 1Q2023 (in line with IFRSs).

The **cost to income ratio excluding special levy on deposits and other levies/contributions** for 1H2023 was 32% compared to 58% for 1H2022, down 26 p.p. yoy. The cost to income ratio excluding special levy on deposits and other levies/contributions for 2Q2023 was 29% compared to 34% for 1Q2023, down 5 p.p. qoq. The qoq and yoy decrease is driven mainly by the higher total income.

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

B.3.3 Profit before tax and non-recurring items

€ mn	1H2023	1H2022 IFRS 17[1]	2Q2023	1Q2023	qoq±%	yoy +%
Operating profit	**331**	**101**	**188**	**143**	**32%**	**228%**
Loan credit losses	(24)	(23)	(13)	(11)	18%	6%
Impairments of other financial and non-financial assets	(30)	(13)	(19)	(11)	68%	128%
Provisions for pending litigations, regulatory and other matters (net of reversals)	(14)	(1)	(8)	(6)	24%	-
Total loan credit losses, impairments and provisions	**(68)**	**(37)**	**(40)**	**(28)**	**39%**	**86%**
Profit before tax and non-recurring items	**263**	**64**	**148**	**115**	**30%**	**-**
Cost of risk	**0.48%**	**0.43%**	**0.51%**	**0.44%**	**7 bps**	**5 bps**

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. For further details, please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

Operating profit for 1H2023 amounted to €331 mn, compared to €101 mn for 1H2022 (up 228% yoy). Operating profit for 2Q2023 amounted to €188 mn, compared to €143 mn for 1Q2023 (up 32% qoq). The qoq and yoy increase is driven mainly by the significant increase in net interest income.

Loan credit losses for 1H2023 were €24 mn, compared to €23 mn for 1H2022 (up 6% yoy). Loan credit losses for 2Q2023 were €13 mn, compared to €11 mn for 1Q2023.

Cost of risk for 1H2023 was 48 bps, compared to a cost of risk of 43 bps for 1H2022 (up 5 bps). **Cost of risk** for 2Q2023 was 51 bps, compared to a cost of risk of 44 bps for 1Q2023, up 7 bps and includes 26 bps (c.€ 7mn) management overlays on Stage 1 and Stage 2 exposures to capture conservative assumptions as well as 17 bps (c.€4 mn) one-off charge to a specific customer group in Stage 3.

At 30 June 2023, the allowance for expected loan credit losses, including residual fair value adjustment on initial recognition and credit losses on off-balance sheet exposures (please refer to Section F. 'Definitions and Explanations' for definition) totalled €288 mn (compared to €282 mn at 31 March 2023 and to €282 mn at 31 December 2022) and accounted for 2.8% of gross loans (compared to 2.7% of gross loans for 31 March 2023 and to 2.8% of gross loans for 31 December 2022).

Impairments of other financial and non-financial assets for 1H2023 amounted to €30 mn, compared to €13 mn for 1H2022, up 128% yoy, driven mainly by higher impairments on specific, large, illiquid REMU stock properties. Impairments of other financial and non-financial assets for 2Q2023 amounted to €19 mn compared to €11 mn for 1Q2023, up 68% qoq.

Provisions for pending litigations, regulatory and other matters (net of reversals) for 1H2023 amounted to €14 mn, compared to €1 mn for 1H2022. The yoy increase is driven by the revised approach on pending litigation fees and provisions relating to other matters in relation to the run-down and disposal of legacy and non-core operations of the Group. Provisions for pending litigations, regulatory and other matters (net of reversals) for 2Q2023 amounted to €8 mn compared to €6 mn for 1Q2023.

Profit before tax and non-recurring items for 1H2023 totalled €263 mn, compared to €64 mn for 1H2022. Profit before tax and non-recurring items for 2Q2023 amounted to €148 mn compared to €115 mn for 1Q2023 (up 30% qoq).

B. Group Financial Results – Underlying Basis (continued)

B.3. Income Statement Analysis (continued)

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

€ mn	1H2023	1H2022 IFRS 17[1]	2Q2023	1Q2023	qoq +%	yoy +%
Profit before tax and non-recurring items	**263**	**64**	**148**	**115**	**30%**	**-**
Tax	(40)	(11)	(22)	(18)	24%	256%
Profit attributable to non-controlling interests	(1)	(1)	0	(1)	-36%	37%
Profit after tax and before non-recurring items (attributable to the owners of the Company)	**222**	**52**	**126**	**96**	**32%**	**-**
Advisory and other transformation costs – organic	(2)	(5)	(1)	(1)	11%	-57%
Profit after tax – organic (attributable to the owners of the Company)	**220**	**47**	**125**	**95**	**32%**	**-**
Provisions/net profit/(loss) relating to NPE sales	-	0	-	-	-	-
Restructuring and other costs relating to NPE sales	-	(1)	-	-	-	-100%
Restructuring costs – Voluntary Staff Exit Plan (VEP)	-	(3)	-	-	-	-100%
Profit after tax (attributable to the owners of the Company)	**220**	**43**	**125**	**95**	**33%**	**-**

1. On 1 January 2023, the Group adopted IFRS 17 'Insurance contracts which replaced IFRS 4 'Insurance contracts'. 2022 comparative information presented throughout are on a restated basis unless otherwise stated. For further details, please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023. p.p. = percentage points, bps = basis points, 100 basis points (bps) = 1 percentage point

The **tax charge** for 2Q2023 is €22 mn compared to €18 mn for 1Q2023, and totalled to €40 mn for 1H2023, compared to €11 mn for 1H2022.

Profit after tax and before non-recurring items (attributable to the owners of the Company) for 1H2023 is €222 mn, compared to €52 mn for 1H2022. Profit after tax and before non-recurring items (attributable to the owners of the Company) for 2Q2023 is €126 mn, compared to €96 mn for 1Q2023.

Advisory and other transformation costs – organic for 1H2023 are €2 mn, compared to €5 mn for 1H2022, down 57% yoy. Advisory and other transformation costs – organic for 2Q2023 are €1 mn, broadly flat qoq.

Profit after tax arising from the organic operations (attributable to the owners of the Company) for 1H2023 amounted to €220 mn, compared to €47 mn for 1H2022. Profit after tax arising from the organic operations (attributable to the owners of the Company) amounted to €125 mn for 2Q2023, compared to €95 mn for 1Q2023 (up 32% qoq).

Following completion of Helix 3 project, there are no amounts recognised for **provisions/net profit/(loss) relating to NPE sales** for 1H2023.

Restructuring and other costs relating to NPE sales for 1H2023 was nil compared to €1 mn for 1H2022 (relating to the agreements for the sale of portfolios of NPEs). Restructuring and other costs relating to NPE sales for 2Q2023 was nil, flat qoq.

Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) of €3 mn in 1H2022 related to a Voluntary Staff Exit Plan (VEP), through one of the Group's subsidiaries of which a small number of its employees were approved to leave.

Profit after tax attributable to the owners of the Company for 1H2023 amounts to €220 mn, corresponding to a ROTE of 24.0%, compared to €43 mn for 1H2022, corresponding to a ROTE of 4.9%. Profit after tax attributable to the owners of the Company for 2Q2023 amounts to €125 mn, compared to €95 mn for 1Q2023 (up 33% qoq). ROTE stands at 26.6% for 2Q2023, compared to 21.3% for 1Q2023.

C. Operating Environment

The Cyprus economy recovered strongly from the Covid-induced recession of 2020 and succeeded in improving its credit and macroeconomic profile significantly in the period that followed. The general government budget returned to a surplus position and the public debt dropped sharply relative to GDP in 2021-2022. In the banking sector banks restructured their balance sheets and reduced their non-performing exposures significantly, while at the same time increasing their capital buffers and raising their profitability. The growth outlook remains positive over the medium term supported by Next Generation EU funds.

First quarter growth for 2023, was 3.4% according to the Cyprus Statistical Service, which was largely as expected. For the year the growth forecast is around 2.8% according to the Ministry of Finance, and the economy is thus expected to weaken somewhat in the second half of the year. This follows strong growth of 6.6% and 5.6% respectively in 2021-2022 driven by a strong recovery in tourism toward pre pandemic levels, and also strong growth in other services sectors.

Employment growth remained strong in 2021-2022 averaging 1.2% and 2.8% respectively following a 1% drop in 2020. Productivity growth was particularly strong in the period immediately after the Covid recession and started to slow in more recent quarters. In the first quarter 2023, the volume of employment increased by 2.1% and the unemployment rate dropped to 6.7% seasonally adjusted, from 7.1% in the fourth quarter 2022.

Inflation measured by the Harmonised Index of Consumer Prices, was 8.1% in 2022 compared with 8.4% in the Euro area. Inflation peaked in July 2022 at 10.6% and has been decelerating since, reaching 3.6% in May 2023, 2.8% in June 2023 and 2.4% in July 2023 (estimate). This was driven by the non-core components of energy and food, while core inflation, defined as total index less energy and food, was stickier and was 4% in June 2023. In the first half of 2023, total harmonised inflation was 4.9% and consisted of 4.6 percentage points of core inflation.

Harmonised inflation is expected to moderate further but only gradually. Without energy prices spiking unexpectedly, headline inflation is projected at 3.2% in 2023 in Cyprus and 2.5% in 2024 according to the Ministry of Finance (Strategic Framework for Fiscal Policy 2024-2026).

Tourist activity continued to rebound in the first half of the year after a strong performance in 2022. Arrivals increased by 32% in January-June 2023, from a year earlier, and corresponded to 99% of arrivals in the same period of 2019. Likewise, receipts increased by 34% in January-May 2023, from the same period a year earlier and exceeded receipts from the same period in 2019 by 12%.

Private consumption remains strong and retail sales picked up in the first four months of 2023 up by 8% year on year excluding vehicles. This was driven by all retail categories particularly food and beverages, non-food products, textiles and clothing, and computers and telecommunications equipment.

Public finances continued to improve following significant advances in 2021-2022. The budget deficit narrowed to 2.0% of GDP in 2021, from a deficit of 5.8% of GDP in 2020 and turned into a surplus of 2.1% of GDP in 2022. Gross debt dropped from 101.2% of GDP in 2021 to 86.5% in 2022. In the first quarter of 2023, gross debt to GDP dropped further to 84.0%. In the first quarter of the year the budget surplus increased to €329 million from €240 million in the first quarter of 2022. This was driven by considerable increases in direct and indirect tax revenue and in social contributions which were influenced by the inflation driven increases in the respective tax bases.

Interest payments declined to 1.5% of GDP in 2022 or 3.6% of general government revenue indicating that debt affordability remains favourable. Debt affordability will remain favourable in the medium term as the government still refinances maturing debt at lower cost while the cash buffer allows the government a high degree of flexibility with regards to funding.

In the banking sector, pure new business lending which excludes renegotiated amounts, slowed in January-April 2023, compared to the same period of last year but picked up in May. In total for the period, January-May 2023, pure new loans were marginally higher than pure new loans in the same period of last year, with a difference in their composition. This year there were more new loans extended to non-financial companies, in comparison, and less mortgage lending, primarily due to higher interest rates.

Banks managed to weather the pandemic crisis well, with their liquidity and capital buffers intact. Non-performing exposures (NPEs) continued their declining trend following the sale of packages by the two largest banks. Total NPEs at the end of April 2023, were €2.2 bn or 9% of gross loans. Respectively, the NPE ratio in the non-financial companies' segment was 7.7% and that of households was 11.6%. About 44.8% of total NPEs are restructured facilities and the coverage ratio was 54.2%.

Private indebtedness measured by loans to residents on bank balance sheets, excluding the government, dropped to €20.9 bn at the end of June 2023, or about 77% of GDP. In comparison, private indebtedness peaked at the end of December 2012, amounted to €53 bn or about three times GDP.

The federal reserve in the United States and the European Central Bank, in their July 2023 meetings, raised their policy rates by 25 bps. The federal reserve started hiking in March 2022 and the ECB followed in July 2022. The federal funds rate now stands at 5.25-5.5% target range, and the ECB's Minimum Refinance Operations rate stands at 4.25%.

C. Operating environment (continued)

Cyprus' current account deficit narrowed from 10.1% of GDP in 2020 to 6.8% in 2021 before deteriorating to 8.8% of GDP in 2022. The current account deficit will narrow modestly according to the IMF, in 2023-2024, to 7.8% and 7.7% of GDP respectively. The current account deficit will remain higher than pre-pandemic levels in the medium term, partly due to strong import growth linked to higher energy prices and EU investment plans, which will weigh on the trade balance. The size of the country's deficits is partly structural, a consequence of special purpose vehicles domiciled in Cyprus.

The outlook remains positive. The government debt ratio will continue to decline while debt affordability metrics will remain strong. Growth in the recent period has been broadly based and Cyprus' economic resilience has been stronger than expected vis-à-vis the exogenous shocks of Russia's invasion of Ukraine and also the pandemic. Solid medium-term GDP growth prospects are supported by the European Union's Next Generation EU package of grants and loans.

Sovereign ratings

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

Fitch Ratings has affirmed Cyprus' Long-Term Foreign-Currency Issuer Default Rating at 'BBB' with a Stable Outlook, in June 2023, following its upgrade last March. The affirmation reflects the improvement in public finances and the government indebtedness as well as strong growth in GDP, the resiliency of the Cypriot economy to external shocks and the improvement in the Banking sector in asset quality.

In March 2023, **DBRS Morningstar** confirmed the Republic of Cyprus' Long-Term Foreign and Local Currency – Issuer Ratings at BBB (low) and maintained the trend Stable. The affirmation is supported by a stable political environment, the government's sound fiscal and economic policies, and the favourable government debt profile. The stable outlook balances recent favourable fiscal dynamics against downside risks for the economic outlook.

In September 2022, **S&P Global Ratings** upgraded Cyprus' investment grade rating of BBB and has changed the outlook from positive to stable. The upgrade reflects the resiliency of the Cypriot economy to recent external shock (including the COVID-19 pandemic). The stable outlook balances risks from the crisis in Ukraine and the economy's diversified structure and the expectation that the government's fiscal position will continue to improve. The credit rating was later reviewed and affirmed in March 2023.

In August 2022, **Moody's Investors Service** affirmed the Government of Cyprus' long-term issuer and senior unsecured ratings to Ba1 and changed the outlook from stable to positive. The ratings and positive outlook were affirmed again in credit opinion updates published in April 2023 and June 2023. The key drivers reflecting the affirmation are the strong reduction in Cyprus' public debt ratio in 2022, stronger-than expected economic resilience to Russia's invasion of Ukraine and the COVID-19 pandemic as well the ongoing strengthening of the banking sector. In a credit assessment that was published in December 2022, and updated in June 2023, Moody's investors service affirmed a new Cyprus' credit profile.

D. Strategy and Outlook

The vision of the Group is to create a lifelong partnership with its customers, guiding and supporting them in an evolving world.

The strategic pillars of the Group are:

- **Grow revenues in a more capital efficient way;** by enhancing revenue generation via growth in high quality new lending, diversification to less capital intensive banking and other financial services (such as insurance and the digital economy) as well as prudent management of the Group's liquidity
- **Achieve a lean operating model;** by ongoing focus on efficiency through further automations facilitated by digitisation
- **Maintain robust asset quality;** by maintaining high quality new lending via strict underwriting criteria, normalising cost of risk and reducing other impairments
- **Enhance organisational resilience and ESG (Environmental, Social and Governance) agenda;** by leading the transition of Cyprus to a sustainable future and building a forward-looking organisation embracing ESG in all aspects.

The Group's transformation into a strong, diversified, well-capitalised and sustainably profitable banking and financial services organisation lay the foundations to create the conditions for higher returns. Capitalising on this transformation, the Group has revised its financial targets during the Investor Update Event in June 2023 and raised its Return on Tangible Equity (ROTE) guidance for 2023 and 2024 to over 17% and over 14% respectively, from over 13% per annum (as previously announced on 20 February 2023). The key driver of the upgrade is the revised expectation for net interest income, primarily to reflect higher rates for longer.

The structure of the Group's balance sheet is very liquid with almost half of its assets held as cash balances with central banks and fixed income portfolio, demonstrating that it is well-positioned to benefit from rising interest rates. Factoring in the expectations for the evolution of interest rates at the time (with the ECB deposit facility rate averaging 3% for 2023 and 3.1% for 2024), the net interest income guidance was upgraded and is expected to exceed €650 mn for 2023 and to fall modestly to over €625 mn for 2024. For 2025 net interest income is expected to be lower than 2024 reflecting a lower projected ECB deposit facility rate of 2.5%. These net interest income targets incorporate assumptions of:

- gradual increase in time and notice deposit pass-through to c.50% by June 2024 (previously assumed by December 2023)
- gradual change in deposit mix towards time and notice deposits to c.50% by December 2024 (previously assumed by December 2023) and;
- higher wholesale funding costs.

The Group is expected to continue to gradually deploy excess liquidity to further expand the fixed income portfolio. Over the recent quarters the Group has increased its fixed income portfolio reflecting the improved market conditions, whilst maintaining a low risk, diversified, highly rated portfolio. Going forward, it is expected to prudently grow the fixed income portfolio to reach c.15% of the Group's total assets (net of TLTRO III) in order to be broadly in line with the average of EU peers (excluding Greek banks).

Separately, the Group continues to focus on improving revenues through multiple less capital-intensive initiatives, with a focus on net fee and commission income, insurance and non-banking activities, enhancing the Group's diversified business model further. Non-interest income is an important contributor to the Group's profitability and historically covered on average around 80% of its total operating expenses. In 2023 net fee and commission income is negatively affected by the termination of liquidity fees in December 2022 and an NPE sale-related servicing fee in mid-February 2023. Adjusting for these items, net fee and commission income is expected to rise by c.3% per annum for 2022-2024, broadly in line with projected economic growth, driven by cross-selling and growth in capital-light sales.

The Group's insurance companies, EuroLife Ltd (Eurolife) and Genikes Insurance of Cyprus Ltd (GI) are respectively leading players in the life and general insurance business in Cyprus, and have been providing a recurring and improving income, further diversifying the Group's income streams. In the life insurance business, further growth is expected to be driven through the pursuit of new market segments, cross-selling opportunities in the occupational pensions market and other appealing products and widening the customer base by leveraging on its bancassurance model and strengthening further its agency force. In the general insurance business, further growth is expected by growing the bancassurance potential leveraging on the Bank's strong market share, promoting and enhancing the digital sales through the Bank's mobile application, exploiting synergies with the life insurance agency force and pursuing profitable segments and products. In this respect, regular income for the life insurance business is expected to rise by c.6% per annum for 2022-2025 whilst premium income for the non-life insurance business is expected to rise by over 8% per annum for the same period.

D. Strategy and Outlook (continued)

Finally, there is additional revenue upside coming from the Digital Economy Platform (Jinius) which aims to generate new revenue sources over the medium term, leveraging on the Bank's market position, knowledge and digital infrastructure.

The significant improvement in the Group's revenues (driven primarily from the expansion of net interest income) will effectively lead to an improvement in the Group's operating efficiency. The cost to income ratio excluding special levy on deposits or other levies/contributions is expected to remain below 40% for 2023 and then to increase modestly to c.40% for 2024, despite inflationary pressures. There is some upward pressure on costs from investments in transformation and digitisation as well as inflationary pressure on staff costs arising from the renewal of the collective agreement and variable remuneration to selected employees driven by the delivery of the Group's strategy and individual performance.

In terms of asset quality, the cost of risk target of 50-80 bps for 2023 is reiterated to weather the ongoing macroeconomic and geopolitical uncertainties, and then to normalise to c.40-50 bps over the medium-term. Additionally, the NPE ratio is expected to remain below 4% for 2023 and 2024 and to fall modestly to below 3% for 2025. To achieve this, the Group aims to maintain high quality of new lending with strict underwriting standards and to prevent asset quality deterioration. Currently, there are no signs of asset quality deterioration.

Since 2019, the Real Estate Management Unit (REMU) stock has been consistently reducing, with properties sold exceeding the book value of properties acquired, while inflows remain substantially reduced following balance sheet de-risking. Going forward, REMU sales are expected to continue at a similar pace, with expected inflows to remain at low levels. Therefore, REMU portfolio is expected to halve to €0.5 bn by 2025.

Overall, these returns are expected to increase the Group's equity base, corresponding to strong organic capital generation of between 200 and 250 bps per annum (pre distributions) for 2023-2025, facilitating strong capital ratios and healthy capital buffers. In summary, the Group expects to deliver a ROTE of over 17% for 2023 and over 14% for 2024 (which corresponds to a ROTE of over 17% based on 15% CET1 ratio). For 2025, the Group expects to generate a ROTE of over 13% which is equivalent to over 16% based on a 15% CET1 ratio, reflecting lower interest rate assumptions. By 31 December 2025, the Group expects its CET1 ratio to stand at c.19%, after deducting projected dividends (which remain subject to regulatory approval) per its dividend distribution policy.

The Group's aim to provide sustainable shareholder returns is reiterated. Dividend payments are expected to build prudently and progressively over time, towards a payout ratio in the range of 30-50% of the Group's adjusted recurring profitability.

E. Business Overview

Credit ratings

The Group's financial performance is highly correlated to the economic and operating conditions in Cyprus. In May 2023 **Moody's Investors Service** upgraded the Bank's long-term deposit rating to Ba1 from Ba2, maintaining the positive outlook. The main drivers for this upgrade are the continued strengthening of the Bank's asset quality and its improving profitability prospects that continue to reduce risks to its capital. In April 2023, **S&P Global Ratings** affirmed the long-term issuer credit rating of the Bank at BB- and revised the outlook to positive from stable. The revised outlook reflects the likelihood of further progress in Cyprus' operating environment, in particular materially easing funding risks. In December 2022, **Fitch Ratings** upgraded the Bank's long-term issuer default rating to B+ from B-, whilst maintaining the positive outlook. The two-notch upgrade reflects improved Bank's asset quality, supported by the completion of Project Helix 3 together with the organic reduction of impaired assets. The upgrade is also underpinned by Fitch's view of the resilience of the Cypriot economy, even in light of growing economic uncertainties.

Financial performance

The Group is a leading, financial and technology hub in Cyprus. In 2022 the Group completed its transformation into a diversified and well-capitalised organisation with sustainably profitable banking and other financial services. This was marked by the resumption of dividend payments after 12 years, a significant milestone, as it represents a new chapter for the Group.

In April 2023, the Company obtained the approval of the European Central Bank to pay a dividend out of FY2022 profitability. Following this approval, the Board of Directors of the Company recommended to the shareholders for approval at the AGM a final Dividend of €0.05 per ordinary share in respect of earnings for the year ended 31 December 2022. This proposed Dividend was declared at the AGM on 26 May 2023, amounted to €22.3 mn in total and was equivalent to a payout ratio of 14% of the FY2022 adjusted recurring profitability or 31% based on FY2022 profit after tax (as reported in 2022 Annual Financial Report). The dividend was paid in cash on 16 June 2023.

Additionally, the Board of Directors approved the Group's dividend policy. The Group aims to provide a sustainable return to shareholders. Dividend payments are expected to build prudently and progressively over time, towards a payout ratio in the range of 30-50% of the Group's profitability after tax, before non-recurring items, adjusted for AT1 distributions (referred to as "adjusted recurring profitability"). The dividend policy takes into consideration market conditions as well as the outcome of capital and liquidity planning.

During the quarter ended 30 June 2023, the Group's financial performance was strong, with well-diversified revenues and disciplined cost containment, despite inflationary pressures. Overall, the Group generated a ROTE of 26.6% compared to 21.3% in the previous quarter, underpinned mainly by the interest rate rises and simultaneously a well-managed deposit pass-through.

On 8 June 2023, the Company presented and discussed an update of the Group's outlook at the Investor Update event in London. During the Investor Update event, the Company has presented its updated 2023 and 2024 financial targets and raised its ROTE guidance to over 17% and over 14% respectively, from over 13% per annum (as previously announced on 20 February 2023). The key driver of the upgrade is the revised expectation for net interest income, primarily to reflect higher rates for longer. In a normalised interest rate environment, the Company expects to generate ROTE of over 13% by 2025. These returns expect to increase the Group's equity base, corresponding to a strong organic capital generation of c.200-250 bps per annum (pre distributions) for 2023-2025. By 31 December 2025, the Group expects its CET1 ratio to stand at c.19%, after deducting projected dividend distributions, per its dividend distribution policy. Finally, the Group's dividend policy has been reiterated. Therefore, dividend payments are expected to build prudently and progressively over time, towards a payout ratio in the range of 30-50% of the Group's adjusted recurring profitability.

Favourable interest rate environment

The structure of the Group's balance sheet is geared towards higher interest rates. As at 30 June 2023, cash balances with ECB (excluding TLTRO III of c.€2.0 bn) amounted to c.€7.1 bn, reflecting immediate benefit from interest rate rises. The repricing of the reference rates gradually benefits the interest income on loans, as over 95% of the Group's loan portfolio is variable rate as at 30 June 2023. The net interest income for 1H2023 stood at €358 mn, more than double compared to 1H2022. This increase is underpinned by faster and steeper than expected interest rate rises as well as a resilient low deposit pass-through.

In July 2023, ECB set the remuneration of minimum reserves (MRR) at 0%. The impact on foregone NII is c.€7 mn p.a. at an annual depo rate of 3.75%.

Growing revenues in a more capital efficient way

The Group remains focused on growing revenues in a more capital efficient way. The Group aims to continue 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. Business Overview (continued)

Growing revenues in a more capital efficient way (continued)

The Group has continued to provide high quality new lending in 1H2023 via prudent underwriting standards. Growth in new lending in Cyprus has been focused on selected industries in line with the Bank's target risk profile.

During 1H2023, new lending remained strong at €1,118 mn, mainly driven by strong demand for business loans. Gross performing loan book remained broadly flat yoy to €9.9 bn, as ongoing repayments offset new lending. Performing loan book is expected to remain broadly flat in 2023.

Fixed income portfolio amounts to €3,178 mn as at 30 June 2023, compared to €2,747 mn as at 31 March 2023 and to €2,500 mn as at 31 December 2022, increased by 16% on the prior quarter. The quarterly increase reflects incremental new investments in 2Q2023 ahead of expected maturities in 2H2023. The portfolio represents 13% of total assets (excluding TLTRO III) and comprises €2,703 mn (85%) measured at amortised cost and €475 mn (15%) at fair value through other comprehensive income ('FVOCI').

The fixed income portfolio measured at amortised cost is held to maturity and therefore no fair value gains/losses are recognised in the Group's income statement or equity. This fixed income portfolio has high average rating at A1 or at Aa2 when Cyprus government bonds are excluded. The fair value of the amortised cost fixed income portfolio as at 30 June 2023 amounts to €2,619 mn, reflecting an unrealised fair value loss of €84 mn, equivalent to c.80 bps of CET1 ratio.

Separately, the Group focuses to continue improving 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. During the first six months of 2023, non-interest income (excluding the non-recurring insurance receivable of c.€5 mn) amounted to €148 mn, remaining an important contributor to the Group's profitability, and contributing to c.90% of the Group's total operating expenses. Going forward, non-interest income is expected to continue covering c.80% of the Group's total operating expenses.

In 2023, net fee and commission income is negatively affected by the termination of liquidity fees in December 2022 and an NPE sale-related servicing fee in mid-February 2023. As a result, net fee and commission income was reduced by 4% yoy in the first half 2023 to €90 mn.

Net fee and commission income is enhanced by transaction fees from the Group's subsidiary, **JCC Payment Systems Ltd** (JCC), a leading player in the card processing business and payment solutions, 75% owned by the Bank. JCC's net fee and commission income contributed 9% of total non-interest income and amounted to €14 mn in 1H2023, up 11% yoy, backed by strong transaction volume.

The Group's **insurance companies,** EuroLife and GI are respectively leading players in the life and general insurance business in Cyprus, and have been providing recurring and improving income, further diversifying the Group's income streams. The net insurance result for 1H2023 contributed 16% of non-interest income and amounted to €25 mn, up 4% yoy; insurance companies remain valuable and sustainable contributors to the Group's profitability. On 1 January 2023, the Group adopted IFRS 17, retrospectively, which impacts the profit recognition for insurance contracts by phasing of profit over their lifetime compared to recognising profit substantially up-front under IFRS 4. The new accounting standard does not change the economics of the insurance business and decreases the volatility of the Group's insurance companies profitability. For further details please refer to Note 3.3.1 of the Consolidated Condensed Interim Financial Statements in the Interim Financial Report 2023.

Finally, the Group through the **Digital Economy Platform (Jinius)** ('the Platform') aims to support the national digital economy by optimising processes in a cost-efficient way, allow the Bank to strengthen its client relationships, create cross-selling opportunities as well as to generate new revenue sources over the medium term, leveraging on the Bank's market position, knowledge and digital infrastructure. The first Business-to-Business services are already in use by clients and include electronic invoicing, remittance management, tenders management and ecosystem management. The next key milestone is the launch of the first Business-to-Consumer service, a product marketplace, driving opportunities in lifestyle banking and beyond. Currently, over 1,600 companies are registered in the platform.

Lean operating model

Striving for a **lean operating model** is a key strategic pillar for the Group in order to deliver shareholder value, without constraining funding its digital transformation and investing in the business.

The efficiency actions of the Group in 2022 to maintain operating expenses under control in an inflationary environment included further branch footprint optimisation and substantial streamline of workforce. In July 2022, the Group successfully completed a Voluntary Staff Exit Plan (VEP) through which 16% of the Group's full-time employees were approved to leave at a total cost of €101 mn. Following the completion of the VEP, the gross annual savings were estimated at c.€37 mn or 19% of staff costs with a payback period of 2.7 years.

Lean operating model (continued)

Additionally, in January 2022, one of the Bank's subsidiaries completed a small-scale targeted VEP, through which a small number of full-time employees were approved to leave at a total cost of €3 mn. In relation to branch restructuring, during 2022 the Group reduced the number of branches by 20 to 60, a reduction of 25%. As a result, the Group's total operating expenses for 1H2023 were reduced by 2% on prior year, reflecting the benefits from the efficiency actions in an inflationary environment. The cost to income ratio excluding special levy on deposits and other levies/contributions for 1H2023 was reduced further to 32%, 26 p.p. down compared to 1H2022, driven mainly by the higher total income. In 2H2023, some upward pressure on total operating expenses is expected, reflecting the increased cost of living adjustment (COLA) in staff costs and the launch of a reward programme through 'Antamivi Reward scheme' to the Group's performing borrowers, with an expected impact of c.€4 mn in other operating expenses.

During December 2022 the Group has granted to eligible employees share awards under a long-term incentive plan ("2022 LTIP" or the "2022 Plan"). The 2022 Plan involves the granting of share awards and is driven by scorecard achievement, with measures and targets set to align pay outcomes with the delivery of the Group's strategy. The employees eligible for the 2022 LTIP are the members of the Extended EXCO. The 2022 LTIP stipulates that performance will be measured over a 3 year period and financial and non-financial objectives to be achieved (driven by both delivery of the Group's strategy as well as individual performance). At the end of the performance period, the performance outcome will be used to assess the percentage of the awards that will vest.

These shares will then normally vest in six tranches, with the first tranche vesting after the end of the performance period and the last tranche vesting on the fifth anniversary of the first vesting date.

In addition, staff costs for 1H2023 include c.€3.5 mn staff cost rewards, namely the Short-term Incentive Plan. The Short-term Incentive Plan involves variable remuneration to selected employees and will be driven by both, delivery of the Group's strategy as well as individual performance.

Transformation plan

The Group's focus continues on deepening the relationship with its customers as a customer centric organisation. **A transformation plan is already in progress and aims to enable the shift to modern banking by digitally transforming customer service, as well as internal operations**. The holistic transformation aims to (i) shift to a more customer-centric operating model by defining customer segment strategies, (ii) redefine distribution model across existing and new channels, (iii) digitally transform the way the Group serves its customers and operates internally, and (iv) improve employee engagement through a robust set of organisational health initiatives.

Digital transformation

The Bank's digital transformation continues to focus on developing digital services and products that improve the customer experience, streamlining internal processes, and introducing new ways for improving the workplace environment.

During 2Q2023, the Bank continued to enrich and improve its digital portfolio with new innovative services to its customers. QuickHub, the Bank's new, digital branch has been introduced at the beginning of May 2023, offering all products and services that are digitally available to customers at the tap of a button. Additionally, customers are now able to manage their Fixed Deposit accounts through digital channels by providing instructions for maturity. These include options such as changing the duration of their fixed deposit, increasing or decreasing capital and closing the account. Moreover, the customer experience during digital onboarding has been improved by providing the NFC technology during the ID verification process through passport.

The adoption of digital products and services continued to grow and gained momentum in the second quarter of 2023. As at the end of June 2023, 95.0% of the number of transactions involving deposits, cash withdrawals and internal/external transfers were performed through digital channels (up by 11.2 p.p. from 83.8% in June 2020). In addition, 83.2% of individual customers were digitally engaged (up by 10.8 p.p. from 72.4% in June 2020), choosing digital channels over branches to perform their transactions. As at the end of June 2023, active mobile banking users and active QuickPay users have grown by 15.0% and 25.1% respectively over the last 12 months. The highest number of QuickPay users to date was recorded in June 2023 with 186 thousand active users. Likewise, the highest number of QuickPay payments (in 2023) was recorded in June 2023 with 602 thousand transactions (up 32% yoy).

Digital offerings via digital channels continued to enhance Group's sales further in the second quarter of 2023. During 2Q2023, new lending via Quickloans reached €26 mn (compared to new lending of €18 mn for 1Q2023) up by 45% qoq and totalled €44 mn for 1H2023. Digital deposits have also shown an increase of 33% yoy, reaching €221 mn at 30 June 2023. 1H2023 digital insurance sales, with two new products in mobile app (Motor & Home Insurance), have more than doubled compared to FY2022 sales (€159k in 1H2023 compared to €68k in FY2022).

E. Business Overview (continued)

Asset quality

Balance sheet de-risking was largely completed in 2022, marked by the completion of Project Helix 3 in November 2022 which refers to the sale of non-performing exposures with gross book value of c.€550 mn as at the date of completion. Project Helix 3 represented a further milestone in the delivery of one of the Group's strategic priorities of improving asset quality through the reduction of NPEs and delivering NPE ratio below 5%. As at 30 June 2023, the Group's NPE ratio stood at 3.6%.

The Group's priorities remain intact, maintaining high quality new lending with strict underwriting standards and preventing asset quality deterioration in this uncertain outlook.

Capital market presence

In June 2023, the Company successfully launched and priced an issue of €220 mn Fixed Rate Reset Perpetual Additional Tier 1 Capital Securities (the 'New Capital Securities').

The issue was met with exceptional demand, attracting interest from c.240 institutional investors, with the final order book over 12 times over-subscribed and final pricing 62.5 bps tighter than the initial pricing indication. This also reflects significant improvement in the credit spread to c.910 bps compared to c.1,260 bps for the previous AT1 issue in 2018 ('Existing Capital Securities').

In July 2023, the Bank has successfully launched and priced an issuance of €350 mn of senior preferred notes (the "Notes"). The Notes were priced at par with a fixed coupon of 7.375% per annum, payable annually in arrear, until the Optional Redemption Date i.e. 25 July 2027. The issuance was met with strong demand, attracting interest from more than 90 institutional investors, with a peak orderbook of €950 mn and final pricing 37.5 bps than the initial pricing indication.

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

Climate change and transition to a sustainable economy is one of the greatest challenges. As part of its vision to be the leading financial hub in Cyprus, the Group is determined to **lead the transition of Cyprus to a sustainable future**. The Group continuously evolves towards its ESG agenda and continues to progress towards building a forward-looking organisation embracing ESG in all aspects of business as usual. In 2022, the Company received a rating of AA (on a scale of AAA-CCC) in the MSCI ESG Ratings assessment.

The ESG strategy formulated in 2021 is continuously expanding. The Group is maintaining its leading role in the Social and Governance pillars and focus on increasing the Group's positive impacts on the Environment by transforming not only its own operations, but also the operations of its customers.

The Group has committed to the following primary ESG targets, which reflect the pivotal role of ESG in the Group's 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

For the Group to articulate the delivery of its primary ESG targets and address regulatory expectations, a comprehensive ESG working plan has been established in 2022. The ESG working plan is closely monitored by the Sustainability Committee, the Executive Committee and the Board of Directors at frequent intervals.

Environmental Pillar

The Group has estimated the Scope 1 and Scope 2 greenhouse gas ('GHG') emissions of 2021 relating to own operations in order to set the baseline for carbon neutrality target. The Bank being the main contributor of GHG emissions of the Group, designed in 2022 the strategy to meet the carbon neutrality target by 2030 and progress towards Net Zero target of 2050. For the Group to become carbon neutral by 2030, Scope 1 and Scope 2 emissions should be reduced by 42% by 2030. The Bank plans to invest in energy efficient installations and actions as well as replace fuel intensive machineries and vehicles from 2023 to 2025, which would lead to c.5-10% reduction in Scope 1 and Scope 2 emissions by 2025 compared to 2021. The Bank expects that the Scope 2 emissions will be reduced further when the energy market in Cyprus shifts further towards renewable energy. The Bank achieved a reduction of 5% in Scope 1 - Mobile Combustion GHG emissions and 16% in Scope 2 – Purchased electricity GHG emissions in 1H2023 compared to 1H2022 due to new solar panels connected to energy network in 2022 and early 2023 as well as buildings abandonment as part of the digitalization journey. The Bank achieved an increase by 50% in renewable energy production, from 79,424 Kwh to 119,499 Kwh, in 1H2023 compared to 1H2022.

E. Business Overview (continued)

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

The Bank is the first bank in Cyprus to join the Partnership for Carbon Accounting Financials (PCAF) in October 2022 and is following the recommended methodology for the estimation of the Financed Scope 3 emissions. The Group has estimated Financed Scope 3 GHG emissions relating to the loan portfolio based on PCAF standard and proxies. Following the estimation of Financed Scope 3 GHG emissions derived from its loan portfolio and in conjunction with the materiality assessment's results on climate and environmental risks the Bank will be able to identify the carbon-concentrated areas so as to take the necessary actions to minimise the environmental and climate impact associated with its loan portfolio by offering targeted climate friendly products and engaging with its customers. In 2023, following the identification of carbon-concentrated sectors and asset classes, the Group is in the process to set decarbonisation targets aligned with 1.5C climate scenario (Science based targets) which will assist in the formulation of the Group's strategy going forward.

The Bank in 2022 launched a low emission vehicle loan product (either hybrid or electric) and is working to expand its range of environmentally friendly products further in 2023. The gross amount of environmentally friendly loans as at 30 June 2023 was €21.2 mn compared to €20.9 mn as at 31 December 2022.

Moreover, the Bank is making substantial progress in further integrating climate risk considerations into its risk management approach, as it tries to integrate climate related risk into its risk culture. The Bank, within the context of underwriting processes, is currently in the process of incorporating the assessment of ESG and climate matters and amending its Policies and Procedures in such a way that potential impact from ESG and climate is reflected in the fundamental elements of the creditworthiness assessment. The Bank designed ESG questionnaires for key selected sectors which will then be leveraged for deriving an ESG classification. In addition, the Bank is in the process to enhance its risk quantification methodology to assess how the portfolio is affected by Climate and Environmental (C&E) risks and will be incorporating the above elements into the stress testing infrastructure.

During 2023, in order to enhance the awareness and skillset towards the ESG, the Group performed trainings to the Board of Directors and Senior Management. In addition, the internal communication channels are enhanced by establishing an ESG internal portal and launching Green@work which provides tips on energy efficiency actions at work. Early in 2023 the Bank launched a campaign on new Visa Debit cards produced from recyclable plastic extracted from the ocean. The campaign aims to inform the public on the level of water contamination from plastic and the impact on life below water.

Social Pillar

At the centre of the Group'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, which was developed in 2020, the contribution of the Bank of Cyprus Cultural Centre in promoting the cultural heritage of the island, and the Work of IDEA Innovation Centre. The Cultural Centre undertook a number of innovative projects such as 'AISTHISEIS' - Multi sensory museum experience for people with disabilities as well as the ReInHerit program facilitating innovation and research cooperation between European museums and heritage continuing also into 2023, with 16,542 people participating in events at the Cultural Foundation between January to June 2023. The IDEA Innovation Centre, invested c.€4 mn in start-up business creation since its incorporation, supported creation of 89 new companies to date, and provided support to 210+ entrepreneurs through its Startup program since incorporation. Staff have continued to engage in voluntary initiatives to support charities, foundations, people in need and initiatives to protect the environment.

The Group has continued to upgrade its staff's skillset by providing training and development opportunities to all staff and capitalising on modern delivery methods. In 2023, the Bank's employees attended 31,012 hours of trainings. In addition, in 2023 the Group launched the BoC Academy to offer up-skilling short courses for employees. Moreover, the Group continues its emphasis on staff wellness into 2023 by offering webinars, team building activities and family events with sole purpose to enhance mental, physical, financial and social health.

Governance Pillar

The Group 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 in compliance with 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 Group 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 Group 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 Group's ESG Governance structure continues to evolve, so as to better address the Group's evolving ESG needs. The Group's regulatory compliance continues to be an undisputed priority.

E. Business Overview (continued)

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

The Board composition of the Company and the Bank is diverse, with 44% of the Board members being female as at 30 June 2023. The Board displays a strong skillset stemming from broad international experience. Moreover, the Group aspires to achieve a representation of at least 30% women in Group's management bodies (Defined as the EXCO and the Extended EXCO) by 2030. As at 30 June 2023, there is a 27% representation of women in Group's management bodies and a 40% representation of women at key positions below the Extended EXCO level (defined as positions between Assistant Manager and Manager).

Ukrainian crisis

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

Direct impact

The Group does not have any banking operations in Russia or Ukraine, following the sale of its operations in Ukraine in 2014 and in Russia in 2015. The Group has run down its legacy net exposure to less than €1 mn as at 30 June 2023 in Russia through write-offs and provisions.

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

The Group has limited direct exposure with loans related to Russia and Belarus, representing 0.3% of total assets or <1% of net loans as at 30 June 2023. The net book value of these loans stood at €81 mn as at 30 June 2023, of which €74 mn are performing, whilst the remaining were classified as NPEs well before the current crisis. The portfolio is granular and secured mainly by real estate properties in Cyprus.

Customer deposits related to Russian and Belarusian customers account for only 4% of total customer deposits as at 30 June 2023. This exposure is not material, given the Group's strong liquidity position. The Group operates with a significant surplus liquidity of €7.7 bn (LCR ratio of 316%) as at 30 June 2023.

Since 2014 the Bank, has engaged in a very demanding and rigorous anti-financial crime remediation programme. It fully adheres to all relevant UN, EU, USA and UK sanction frameworks and has implemented additional measures to monitor a complicated sanctions environment including systemic enhancements, specialised training and revision of risk appetite. As a result, the Bank has effectively terminated the relationship with professional intermediaries introducing customers to the Bank. Additionally, c.25,900 customer relationships were terminated and c.12,000 potential new customer relationships were suspended solely on compliance reasons (eg: KYC, or AML) in the years 2015-2022.

Indirect impact

Although the Group's direct exposure to Russia or Belarus is limited, the crisis in Ukraine had a negative impact on the Cypriot economy, mainly arising from the tourism and professional services sectors, increasing energy prices fuelling inflation and disruptions to global supply chains. During the first six months of 2023 the performance of the tourism sector was strong and represented 99% of 2019 respective levels, despite the sizeable loss of tourist arrivals from Russia and Ukraine. To date, tourist activity is recovering to pre-pandemic levels. The Group continues to monitor exposures in sectors likely impacted by the prolonged geopolitical uncertainty and persistent inflationary pressures and remains in close contact with customers to offer solutions as necessary.

Cyprus has no energy dependence on Russia as it imports oil from Greece, Italy and the Netherlands; however it is indirectly affected by pricing pressures in the international energy markets. The focus on renewables increases, and a steady increase in contribution from renewables is noted.

Overall, the Group has limited impact from its direct exposure, while any indirect impact depends on the duration and severity of the crisis and its impact on the Cypriot economy.

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

F. Definitions and Explanations

Adjusted recurring profitability	The Group's profit after tax before non-recurring items (attributable to the owners of the Company) taking into account distributions under other equity instruments such as the annual AT1 coupon.
Advisory and other transformation costs	Comprise mainly of fees of external advisors in relation to: (i) the transformation program and other strategic projects of the Group and (ii) customer loan restructuring activities, where applicable.
Allowance for expected loan credit losses (previously 'Accumulated provisions')	Comprises (i) allowance for expected credit losses (ECL) on loans and advances to customers (including allowance for expected credit losses on loans and advances to customers held for sale where applicable), (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 where applicable), (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 after tax per share (attributable to the owners of the Company)	Basic earnings after tax per share (attributable to the owners of the Company) is the Profit/(loss) after tax (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)	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 01 August 2023.
Digital transactions ratio	This is the ratio of the number of digital transactions performed by individuals and legal entity customers to the total number of transactions. Transactions include deposits, withdrawals, internal and external transfers. Digital channels include mobile, browser and ATMs.
Digitally engaged customers ratio	This is the ratio of digitally engaged individual customers to the total number of individual customers. Digitally engaged customers are the individuals who use the digital channels of the Bank (mobile banking app, browser and ATMs) to perform banking transactions, as well as digital enablers such as a bank-issued card to perform online card purchases, based on an internally developed scorecard.
Diluted earnings per share	Diluted earnings per share is the Profit/(loss) after tax (attributable to the owners of the Company) divided by the weighted average number of ordinary shares in issue adjusted for the ordinary shares that may arise in respect of share awards granted to executive directors and senior management of the Group under the Long-Term Incentive Plan (2022 LTIP).
ECB	European Central Bank

F. Definitions and Explanations (continued)

Green Asset ratio	The proportion of the share of a credit institution's assets financing and invested in EU Taxonomy-aligned economic activities as a share of total covered assets.
Green Mortgage ratio	The proportion of the share of a credit institution's assets financing EU Taxonomy-aligned mortgages (acquisition, construction or renovation of buildings) as a share of total mortgages assets.
Gross loans	Gross loans comprise: (i) gross loans and advances to customers measured at amortised cost before the residual fair value adjustment on initial recognition (including loans and advances to customers classified as non-current assets held for sale where applicable) and (ii) loans and advances to customers classified and measured at FVPL adjusted for the aggregate fair value adjustment. Gross loans are reported before the residual fair value adjustment on initial recognition relating mainly to loans acquired from Laiki Bank (calculated as the difference between the outstanding contractual amount and the fair value of loans acquired) amounting to €72 mn as at 30 June 2023 (compared to €78 mn as at 31 March 2023 and to €86 mn as at 31 December 2022). 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 €207 mn as at 30 June 2023 (compared to €208 mn as at 31 March 2023 and to €211 mn as at 31 December 2022).
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 to total assets as presented on the balance sheet. Tangible total equity comprises of equity attributable to the owners of the Company and Other equity instruments 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 relating to loans and advances to customers 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 of Gross loans (as defined), 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 42.4% as at 30 June 2023 compared to 42.4% as at 31 March 2023 and to 40.9% as at 31 December 2022. The Bank's deposit market share in Cyprus reached 37.4% in 30 June 2023 compared to 37.3% as at 31 March 2023 and to 37.2% as at 31 December 2022.
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 Interest Margin	Net interest margin is calculated as the net interest income (annualised) divided by the 'quarterly average interest earning assets' (as defined).

F. Definitions and Explanations (continued)

Net loans and advances to customers	Net loans and advances to customers comprise gross loans (as defined) net of allowance for expected loan credit losses (as defined, but excluding allowance for expected credit losses on off-balance sheet exposures disclosed on the balance sheet within other liabilities).
Net loans to deposits ratio	Net loans to deposits ratio is calculated as gross loans (as defined) net of allowance for expected loan credit losses (as defined) divided by customer deposits.
Net performing loan book	Net performing loan book is the total net loans and advances to customers (as defined) excluding net loans included in the legacy exposures (as defined).
Net Stable Funding Ratio (NSFR)	The NSFR is calculated as the amount of "available stable funding" (ASF) relative to the amount of "required stable funding" (RSF). The regulatory limit, enforced in June 2021, has been set at 100% as per the CRR II.
Net zero emissions	The reduction of greenhouse gas emissions to net zero through a combination of reduction activities and offsetting investments
New lending	New lending includes the disbursed amounts of the new and existing non-revolving facilities (excluding forborne or re-negotiated accounts) as well as the average year-to-date change (if positive) of the current accounts and overdraft facilities between the balance at the beginning of the period and the end of the period. Recoveries are excluded from this calculation since their overdraft movement relates mostly to accrued interest and not to new lending.
Non-interest income	Non-interest income comprises Net fee and commission income, Net foreign exchange gains/(losses) and net gains/(losses) on financial instruments and (excluding net gains on loans and advances to customers at FVPL), Net insurance result, Net gains/(losses) from revaluation and disposal of investment properties and on disposal of stock of properties, and Other income.
Non-performing exposures (NPEs)	As per the European Banking Authorities (EBA) standards and European Central Bank's (ECB) Guidance to Banks on Non-Performing Loans (which was published in March 2017), non-performing exposures (NPEs) are defined as those exposures that satisfy one of the following conditions: (i) The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due. (ii) Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, diminished financial obligation and obligor bankruptcy. (iii) Material exposures as set by the CBC, which are more than 90 days past due. (iv) Performing forborne exposures under probation for which additional forbearance measures are extended. (v) Performing forborne exposures previously classified as NPEs that present more than 30 days past due within the probation period. From 1 January 2021 two regulatory guidelines came into force that affect NPE classification and Days-Past-Due calculation. More specifically, these are the RTS on the Materiality Threshold of Credit Obligations Past-Due (EBA/RTS/2016/06), and the Guideline on the Application of the Definition of Default under article 178 (EBA/RTS/2016/07). The Days-Past-Due (DPD) counter begins counting DPD as soon as the arrears or excesses of an exposure reach the materiality threshold (rather than as of the first day of presenting any amount of arrears or excesses). Similarly, the counter will be set to zero when the arrears or excesses drop below the materiality threshold. Payments towards the exposure that do not reduce the arrears/excesses below the materiality threshold, will not impact the counter. For retail debtors, when a specific part of the exposures of a customer that fulfils the NPE criteria set out above is greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non performing; otherwise only the specific part of the exposure is classified as non performing. For non retail debtors, when an exposure fulfils the NPE criteria set out above, then the total customer exposure is classified as non performing.

F. Definitions and Explanations (continued)

	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%. The NPEs are reported before the deduction of allowance for expected loan credit losses (as defined).
Non-recurring items	Non-recurring items as presented in the 'Unaudited Interim Condensed Consolidated Income Statement – Underlying basis' relate to 'Advisory and other transformation costs - organic'. 2022 Non-recurring items relate to: (i) Advisory and Other transformation costs - ongoing (ii) Provisions/net loss relating to NPE sales, (iii) Restructuring and other costs relating to NPE sales, and (iv) Restructuring costs – Voluntary Staff Exit Plan (VEP).
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).
Operating profit	Operating profit comprises profit before loan credit losses (as defined), impairments of other financial and non-financial assets, provisions for pending litigations, regulatory and other matters (net of reversals), tax, profit 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 after tax and before non-recurring items (attributable to the owners of the Company)	This refers to the profit 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 transformation costs – organic').
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 €551 mn, as well as real estate properties with book value of c.€88 mn as at 30 September 2022. Project Helix 3 was completed in November 2022.

F. Definitions and Explanations (continued)

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. Project Sinope was completed in August 2022.
Quarterly average interest earning assets	This relates to the average of 'interest earning assets' as at the beginning and end of the relevant quarter. Average interest earning assets exclude interest earning assets of any discontinued operations at each quarter end, if applicable. Interest earning assets include: cash and balances with central banks (including cash and balances with central banks classified as non-current assets held for sale), plus loans and advances to banks, plus net loans and advances to customers (including loans and advances to customers classified as non-current assets held for sale), plus 'deferred consideration receivable' included within 'other assets', plus investments (excluding equities and mutual funds).
Qoq	Quarter on quarter change
Return on Tangible equity (ROTE)	Return on Tangible Equity (ROTE) is calculated as Profit/(loss) after tax (attributable to the owners of the Company) (as defined) (annualised - (based on year - to - date days)), divided by the quarterly average of Shareholders' equity minus intangible assets at each quarter end.
Shareholders' equity	Shareholders' equity comprise total equity adjusted for non-controlling interest and other equity instruments.
Special levy on deposits and other levies/contributions	Relates to the special levy on deposits of credit institutions in Cyprus, contributions to the Single Resolution Fund (SRF), contributions to the Deposit Guarantee Fund (DGF), as well as the DTC levy, where applicable.
Time deposit pass-through	Calculated as a percentage of the cost (interest expense) of Time and Notice deposits over the average 6-month Euribor rate of the period.
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 transformation costs-organic', (ii) restructuring and other costs relating to NPE sales, or (iii) restructuring costs relating to the Voluntary Staff Exit Plan, where applicable. (i) 'Advisory and other transformation costs-organic' amounted to €1 mn for 2Q2023 (compared to €1 mn for 1Q2023 and to €1 mn for 4Q2022), (ii) Restructuring costs relating to NPE sales for 2Q2023 amounted to a gain of €0.2 mn (compared to a loss of €0.2 mn for 1Q2023 and to a loss of €0.3 mn for 4Q2022), and (iii) Restructuring costs relating to the Voluntary Staff Exit Plan (VEP) for 2Q2023 was nil (compared to nil for 1Q2023 and 4Q2022).
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 comprise loan credit losses (as defined), plus impairments of other financial and non-financial assets, plus provisions for pending litigations, regulatory and other matters (net of reversals).
Underlying basis	This refers to the statutory basis after being adjusted for reclassification of 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 recovery. Partial write-offs, including non-contractual write-offs, may occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers and are part of the terms of the agreement and subject to satisfactory performance.
Yoy	Year on year change

Basis of Presentation

This announcement covers the results of Bank of Cyprus Holdings Public Limited Company, "BOC Holdings" or "the Company", its subsidiary Bank of Cyprus Public Company Limited, the "Bank" or "BOC PCL", and together with the Bank's subsidiaries, the "Group", for the six months ended 30 June 2023.

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

Financial information presented in this announcement is being published for the purposes of providing an overview of the Group financial results for the six months ended 30 June 2023.

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 2022, upon which the auditors have given an unqualified opinion, were published on 31 March 2023 and are expected to be delivered to the Registrar of Companies of Ireland within 56 days of 30 September 2023. The Board of Directors approved the Group statutory financial statements for the six months ended 30 June 2023 on 8 August 2023.

Statutory basis: Statutory information is set out on pages 4-5. However, a number of factors have had a significant effect on the comparability of the Group's financial position and performance. Accordingly, the results are also presented on an underlying basis.

Underlying basis: The financial information presented under the underlying basis provides an overview of the Group financial results for the six months ended 30 June 2023, 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 pages 7-8. The statutory results are adjusted for certain items (as described on pages 10-11) to allow a comparison of the Group's underlying financial position and performance, as set out on pages 6 and 9.

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

The Consolidated Condensed Interim Financial Statements for the six months ended 30 June 2023 have not been audited by the Group's external auditors. The Group's external auditors have conducted a review of the Consolidated Condensed Interim Financial Statements in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity (UK & Ireland)'.

The Interim Financial Report 2023 is available at the Bank of Cyprus Holdings Public Limited Company Office (51, Stassinos Street, Ayia Paraskevi, P.O. Box 24884, 1398, Nicosia, Cyprus) and on the Group's website www.bankofcyprus.com Group/Investor Relations/Financial Results).

This announcement and the presentation for the Group Financial Results for the six months ended 30 June 2023 have been posted on the Group's website www.bankofcyprus.com (Group/Investor Relations/Financial Results).

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

The Group Financial Results for the quarter ended 30 June 2023 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. The Russian invasion of Ukraine has led to heightened volatility across global markets and to the coordinated implementation of sanctions on Russia, Russian entities and nationals. The Russian invasion of Ukraine has caused significant population displacement, and as the conflict continues, the disruption will likely increase. The scale of the conflict and the extent of sanctions, as well as the uncertainty as to how the situation will develop, may have significant adverse effects on the market and macroeconomic conditions, including in ways that cannot be anticipated. This creates significantly greater uncertainty about forward-looking statements. Should any one or more of these or other factors materialise, or should any underlying assumptions prove to be incorrect, the actual results or events could differ materially from those currently being anticipated as reflected in such forward-looking statements. The forward-looking statements made in this document are only applicable as at the date of publication of this document. Except as required by any applicable law or regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this document to reflect any change in the Group's expectations or any change in events, conditions or circumstances on which any statement is based. Changes in our reporting frameworks and accounting standards, including the recently announced reporting changes and the implementation of IFRS 17 'Insurance Contracts', which may have a material impact on the way we prepare our financial statements and (with respect to IFRS 17) may negatively affect the profitability of Group's insurance business

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The Bank of Cyprus Group is the leading banking and financial services group in Cyprus, providing a wide range of financial products and services which include retail and commercial banking, finance, factoring, investment banking, brokerage, fund management, private banking, life and general insurance. At 30 June 2023, the Bank of Cyprus Group operated through a total of 64 branches in Cyprus, of which 4 operated as cash offices. The Bank of Cyprus Group employed 2,902 staff worldwide. At 30 June 2023, the Group's Total Assets amounted to €25.7 bn and Total Equity was €2.2 bn. The Bank of Cyprus Group comprises Bank of Cyprus Holdings Public Limited Company, its subsidiary Bank of Cyprus Public Company Limited and its subsidiaries.